Baptist Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended August 31, 2024 and 2023, and Independent Auditor’s Report

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Baptist Healthcare System, Inc. and Affiliates ("Baptist"), which comprise the consolidated balance sheets as of August 31, 2024 and 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Baptist as of August 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Baptist 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 from 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 Baptist'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 from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 Baptist'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 Baptist's ability to continue as a going concern for a reasonable period of time.

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

Deloitte & Touche LLP

December 11, 2024

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2024 AND 2023
(Amounts in thousands)

	2024	2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 132,764	$ 68,499
Investments	193,635	269,923
Patient accounts receivable, net	499,980	468,377
Inventories	101,152	89,048
Estimated third-party settlement receivable	192,217	181,110
Prepaids and other	97,001	88,656
Total current assets	1,216,749	1,165,613
ASSETS LIMITED AS TO USE OR RESTRICTED	2,106,559	1,823,332
PROPERTY AND EQUIPMENT—Net	2,010,094	1,768,239
OTHER ASSETS	269,192	253,391
TOTAL ASSETS	$5,602,594	$5,010,575
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 209,281	$ 203,040
Accrued expenses	221,844	234,299
Accrued interest payable	3,588	3,610
Estimated third-party settlement payable	48,506	32,503
Current installments of long-term debt	3,748	5,974
Current portion for medical malpractice and workers' compensation	23,500	21,000
Current portion for operating lease liabilities	19,082	21,054
Line of credit and commercial paper	249,785	199,933
Other	74,611	59,292
Total current liabilities	853,945	780,705
LONG-TERM DEBT	1,305,512	1,309,792
LONG-TERM PORTION FOR OPERATING LEASE LIABILITIES	123,174	105,990
OTHER LIABILITIES	263,654	274,161
Total liabilities	2,546,285	2,470,648
NET ASSETS:		
Without donor restrictions:		
Baptist net assets without donor restrictions	2,970,472	2,468,935
Noncontrolling interest in subsidiaries	10,183	3,903
Total net assets without donor restrictions	2,980,655	2,472,838
With donor restrictions	75,654	67,089
Total net assets	3,056,309	2,539,927
TOTAL LIABILITIES AND NET ASSETS	$5,602,594	$5,010,575

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED AUGUST 31, 2024 AND 2023
(In thousands)

	2024	2023
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	$ 4,459,464	$ 3,921,501
Other	385,889	307,682
Net assets released from restrictions used for operations	2,534	1,499
Total revenues, gains, and other support	4,847,887	4,230,682
EXPENSES:		
Salaries and benefits	2,464,250	2,329,444
Supplies	1,161,940	1,019,265
Purchased services	427,079	373,940
Utilities	38,273	41,061
Administration and other	155,721	142,434
Depreciation and amortization	166,080	154,475
Provider tax and assessment fees	170,734	125,354
Interest	53,142	45,861
Total expenses	4,637,219	4,231,834
OPERATING INCOME (LOSS)	210,668	(1,152)
OTHER INCOME (EXPENSE):		
Investment return	277,867	122,455
Net benefit cost other than service cost	(2,915)	(4,044)
Other income	19,396	1,740
Total other income	294,348	120,151
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES BEFORE PROVISION FOR INCOME TAX	505,016	118,999
PROVISION FOR INCOME TAX	539	789
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	504,477	118,210
(EXCESS) DEFICIENCY OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(7,516)	965
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES ATTRIBUTABLE TO BAPTIST—Net of noncontrolling interest	$ 496,961	$ 119,175

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2024 AND 2023
(In thousands)

	2024	2023
NET ASSETS WITHOUT RESTRICTIONS ATTRIBUTABLE TO BAPTIST:		
Excess of revenues, gains, and other support over expenses attributable to Baptist—net of noncontrolling interest	$ 496,961	$ 119,175
Net change in defined benefit pension related items	(849)	1,026
Net change in post-retirement benefit plan related items	(682)	3,689
Net assets released from restrictions used for capital	7,512	6,249
Other	(1,405)	(533)
Increase in net assets without donor restrictions attributable to Baptist	501,537	129,606
NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO NONCONTROLLING INTEREST:		
Excess (deficiency) of revenues over expenses	7,516	(965)
Contributions from noncontrolling interest	123	245
Distributions to noncontrolling interest	(1,359)	(1,574)
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interest	6,280	(2,294)
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	507,817	127,312
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, interest income, and other	14,567	16,276
Net assets released from restrictions used for capital	(7,512)	(6,249)
Net assets released from restrictions used for operations	(2,534)	(1,499)
Change in beneficial interest in perpetual trust	4,044	2,455
Increase in net assets with donor restrictions	8,565	10,983
CHANGE IN NET ASSETS	516,382	138,295
NET ASSETS—Beginning of year	2,539,927	2,401,632
NET ASSETS—End of year	$3,056,309	$2,539,927

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2024 AND 2023
(In thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 516,382	$ 138,295
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	166,080	154,475
Net realized and unrealized gains on investments and assets limited as to use or restricted	(225,571)	(83,256)
Restricted contributions	(14,567)	(16,276)
(Gain) loss on sale or disposition of property and equipment	(3,627)	3,175
Gain on earnings from equity method investments	(3,294)	(4,839)
Net assets released from restriction for capital	(7,512)	(6,249)
Net change in defined benefit pension related items	849	(1,026)
Net change in post-retirement benefit plan related items	682	(3,689)
Change in beneficial interest in perpetual trust	(4,044)	(2,455)
Other	(4,964)	2,451
Changes in:		
Patient accounts receivable—net	(31,603)	76,596
Inventories and prepaids and other	(25,890)	12,556
Other assets	14,111	21,521
Accounts payable, accrued expenses, and accrued interest payable	(22,651)	(26,107)
Estimated third-party payer settlements	4,896	(123,623)
Operating lease liabilities	(22,354)	(22,309)
Other current liabilities	13,067	(19,173)
Other liabilities	3,108	(8,203)
Net cash provided by operating activities	353,098	91,864
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,574,556)	(2,624,099)
Proceeds from disposition of investments	3,597,066	2,586,915
Purchases of property and equipment	(359,498)	(332,872)
Proceeds from sale of property and equipment	15,694	286
Acquisitions—net of cash acquired	(12,284)	-
Contribution to joint venture	-	(2,500)
Net cash used in investing activities	(333,578)	(372,270)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from commercial paper	49,852	49,933
Line of credit borrowings	100,000	150,000
Line of credit payments	(100,000)	-
Principal payments on long-term debt	(5,974)	(5,601)
Finance lease and notes payable payments	(19,976)	(12,986)
Restricted contributions	14,567	16,276
Net assets released from restriction for capital	7,512	6,249
Contributions from noncontrolling interest	123	245
Distributions to noncontrolling interest	(1,359)	(1,574)
Net cash provided by financing activities	44,745	202,542
DECREASE IN CASH AND CASH EQUIVALENTS	64,265	(77,864)
CASH AND CASH EQUIVALENTS—Beginning of year	68,499	146,363
CASH AND CASH EQUIVALENTS—End of year	$ 132,764	$ 68,499

1. DESCRIPTION OF MISSION, VISION AND ORGANIZATION

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

Organization—Baptist is a nonprofit, tax-exempt organization that owns and operates seven hospitals in the Commonwealth of Kentucky and one in the state of Indiana, along with the entities described below.

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

Baptist Health Assurance Group, Ltd. (BHAG) was formed in August 2022 as an offshore captive insurance company. Concurrent with the formation of BHAG, all self-insured liabilities and trusteed assets related to medical malpractice and workers compensation were transferred to BHAG. Baptist is the sole member of BHAG.

As of August 31, 2024, Baptist owns 59% of Baptist Physicians' Surgery Center, a for-profit limited liability corporation, 93% of Baptist Health Surgery Center, LLC, 51% of Cumberland Valley Surgery Center, LLC, 51% of Baptist Health Intuitive of Kentucky and Southern Indiana, LLC, and 100% of Baptist Health Surgery Center Breckenridge, LLC. The results of these entities are consolidated as Baptist has control. Baptist has an ownership interest in CHC Community Care LLC, a Delaware for-profit limited liability company that is the sole member which operates an accredited long-term acute care hospital located within a Baptist Health hospital: ContinueCare Hospital at Baptist Health Corbin; and ContinueCare Hospital at Baptist Health Paducah.

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

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

Purchase Health Partners, Inc. is a Kentucky not for profit membership corporation that provides credentialing services in Massac County Illinois and Western Kentucky. Baptist is the sole member of Purchase Health Partners, Inc.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business Combinations—Baptist accounts for business combinations using the acquisition method of accounting in accordance with Business Combinations (“ASC Topic 805”). The acquisition method requires an allocation of the purchase price to assets acquired and liabilities assumed based on estimated fair values. The judgements made in the context of the purchase price allocation can materially impact Baptist’s future results of operations. Accordingly, for all significant acquisitions, Baptist obtains assistance from third-party valuation specialists. The valuations, calculated from estimates, are based on information available at the acquisition date. Transaction related costs, including advisory, legal, accounting, valuation and other costs, are expensed in the periods in which the costs are incurred and were not significant for the years ended August 31, 2024 and 2023.

During the year ended August 31, 2024, the Baptist entered into two agreements with physician practices to acquire 100% of the issued and outstanding equity interests of such practices. The aggregate purchase price paid was $12,284, and consisted solely of acquired tangible and intangible assets whose fair value amounted to $12,284.

Cash Equivalents—Baptist considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At August 31, 2024 and 2023, cash equivalents consisted primarily of money market accounts. Cash and cash equivalent balances may exceed limits insured by the FDIC from time to time.

Noncontrolling Interest—Noncontrolling interest represents the portion of the following entities that Baptist does not own: Baptist Physicians’ Surgery Center, Baptist Health Surgery Center, LLC, Cumberland Valley Surgery Center, LLC, and Baptist Health Intuitive of Kentucky and Southern Indiana, LLC. Gains and (losses) attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

Investments and Investment Return—Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value in the consolidated balance sheets. Certain commingled funds, and investments in limited liability companies, and limited partnerships are valued at net asset value of the underlying assets as a practical expedient to estimate fair market value. Investments in equity investees in which Baptist has a significant influence but does not control the investee are reported on the equity method of accounting.

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

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

Inventories—Inventories are stated at the lower of cost or net realizable value. Inventories are principally measured by the weighted average cost method.

Assets Limited as to Use or Restricted—Assets limited as to use or restricted are recorded at fair value and include: (1) assets set aside by the board or management at their discretion for capital improvements or other purposes, (2) assets set aside by the board for endowment over which the board retains control and may, at its discretion, subsequently use for other purposes, (3) assets held by trustee related to bond indenture, (4) assets held by trustee for donor restricted funds, and (5) assets held by trustee in perpetual trust.

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

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

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

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

Assets Held for Sale—Baptist classifies assets as held for sale when a plan for disposal is developed and approved, the asset is available for immediate sale, an active program to locate a buyer at a price reasonable in relation to current fair value is initiated, and transfer of the asset is expected to be completed within one year. We cease the depreciation and amortization of the assets when all of these criteria have been met and reflect balances within other assets on our consolidated balance sheets. We had assets classified as held for sale amounting to $69 and $31,007 as of August 31, 2024 and 2023, respectively.

Long-Lived Asset Impairment—Baptist evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Fair value is determined utilizing market data such as estimated sales price or other income approaches. Baptist recognized impairment losses of $753 and $426 during the years ended August 31, 2024 and 2023, respectively.

Goodwill—The following represents the amount of goodwill, including changes in carrying value for the years ending August 31, 2024 and 2023, included in other assets in the consolidated balance sheets:

	2024	2023
Balance—beginning of year	$ 22,212	$ 25,998
Acquisitions of businesses	11,429	-
Amortization	(4,915)	(3,786)
Balance—end of year	$ 28,726	$ 22,212

Baptist amortizes goodwill on a straight-line basis over 10 years. Baptist made a policy election to test for impairment of goodwill at the entity level. Such testing would only occur if an event occurs or circumstances change indicating the fair value of the entity or reporting unit may be below its carrying amount.

The future amortization of goodwill at August 31, 2024, is as follows:

	Amount
2025	$ 4,054
2026	4,054
2027	4,033
2028	3,990
2029	3,193
Thereafter	9,402
Total	$ 28,726

During 2024 and 2023, Baptist determined that there were no triggering events requiring impairment testing, and as a result, no impairment was recorded.

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

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

Other Revenue—Other operating revenue includes retail and specialty pharmacy revenue, cafeteria revenue, rental revenue, grant revenue, Federal Emergency Management Agency (FEMA) disaster relief funds, certain contributions released from restriction, and other non-patient care revenue.

Baptist recognized $23,882 and $2,005 in FEMA disaster relief funds related to claims for the years ended August 31, 2024 and 2023, respectively. Additional FEMA claims are under development and in various stages of review with FEMA.

Provider Tax and Assessment Fees—The following programs are subject to periodic re-authorization or approval and are not guaranteed to continue.

Kentucky:

Since July 1993, Kentucky has imposed various taxes on health care providers to help fund the state of Kentucky's portion of the Medicaid program. The law imposes a tax of 2.5% on the gross receipts of hospitals and 2% on nursing facility services, intermediate care facility services, services for the mentally handicapped, home health care services and health maintenance organization. Hospital provider taxes were capped in 2008 by Kentucky statute at the level paid in state fiscal year 2005–2006. Baptist recognized an expense for such provider taxes of approximately $25,529 and $25,637 in 2024 and 2023, respectively. No assurance can be given that the Kentucky General Assembly will not remove the cap on hospital provider taxes.

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

The HRIP is largely funded by CMS with a portion funded by participating hospitals through an additional provider tax. The provider tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report.

In October 2020, the Kentucky Cabinet for Health and Family Services filed an amendment to the plan proposing to change the UPL gap calculation based on the variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 90% of the statewide Average Commercial Rate (ACR). The CMS approved this Hospital Rate Improvement Program (HRIP) on January 14, 2021 retroactive to July 1, 2020. In December 2021, CMS approved extensions to the program retroactive to July 1, 2021 and extending through December 31, 2024.

The ACR HRIP is available to all non-university hospitals in Kentucky and will be paid for all inpatient acute care services provided to patients covered by Medicaid managed care contracts, administered through Medicaid Managed Care Organizations (MCOs). The ACR HRIP will pay a fixed add-on amount for each Medicaid managed care inpatient discharge and applies to inpatient discharges during the state fiscal year 2021 (July 1, 2020–June 30, 2021) and extended from July 1, 2021 through December 31, 2024.

In March 2023, Kentucky passed House Bill 75, which supports Kentucky hospitals by boosting Medicaid payment rates for outpatient procedures performed in hospitals. The measure requires the state's Department for Medicaid Services to assess outpatient services and provide additional payments to hospitals to reduce payment gaps between Medicaid reimbursements and what could be paid by private health insurance. The measure also allows Medicaid to create a hospital rate increase program for individuals enrolled in its fee-for-service program to pay up to the upper payment limit of the federal Medicare program. The legislation was retroactive to January 1, 2023 and covers through December 31, 2024. In addition to the provider tax, the participating hospitals also fund the administration fees to cover the additional processing and accounting costs. The tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report. Baptist recognized Medicaid ACR HRIP provider tax of $115,955 and $73,308, administration fees of $4,286 and $3,057 and received payments of $428,648 and $309,915 in 2024 and 2023, respectively. The Medicaid ACR HRIP payments are included in net patient service revenue in the consolidated statements of operations and Medicaid ACR taxes are included in provider taxes and assessment fees in the consolidated statements of operations.

Indiana:

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017 and subsequently extended through June 30, 2025. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state in the same year. Baptist Health Floyd recognized payments totaling $63,247 and $66,808, and assessments of $29,250 and $26,410 during 2024 and 2023, respectively. HAF payments to Baptist Health Floyd are included in net patient service revenue in the consolidated statements of operations and HAF assessments from Baptist Health Floyd are included in provider taxes and assessment fees in the consolidated statements of operations.

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

Donor restricted stipulations that limit the use of contributions are initially reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of changes in net assets as net assets released from restriction.

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

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

Baptist's federal net operating losses carry forward was $44,683 as of August 31, 2024. A full valuation allowance was recorded related to the federal net operating loss carry forwards that were not considered realizable in future periods. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of them will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

Baptist evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain position may be recognized when it is more likely than not that the position will be sustained upon examination, include resolution of any related appeals or litigation processes, based on the technical merit of the position. Baptist has determined that it has no uncertain tax positions that are required to be recorded as of August 31, 2024. Tax years that are open include the years from 2019 to 2022.

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

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

Self-Insurance—Baptist is self-insured for certain costs related to employee health, and through its wholly owned captive for medical malpractice and workers' compensation programs. Costs resulting from noninsured losses are charged to income when incurred. Baptist purchases insurance that limits

its exposure for individual claims. See Note 14 for additional information related to medical malpractice and workers' compensation programs. At August 31, 2024 and 2023, Baptist had $20,627 and $15,695 in self-insured employee health reserves recorded in the consolidated balance sheets in accrued expenses.

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

3. INVESTMENT IN JOINT VENTURES

Effective October 11, 2023, Baptist entered into a joint venture with Encompass Health Louisville Holdings, LLC, ("Encompass") and Baptist contributed assets with a fair value of $8,500 and cash of $40 as of August 31, 2024 (with an additional required cash contributions amounting to $9,420 made in September 2024), in exchange for a 40% ownership interest in Encompass Health Louisville Holdings, LLC.

Baptist has joint venture equity interests of: a 50% interest in Baptist Health Deaconess, LLC; a 50.23% interest in Baptist East /Milestone, LLC; a 50% interest in Northgate Medical Imaging, LLC; a 50% interest in Mercy Regional Emergency Medical System, LLC; a 35% interest in Medical Associates of Middletown, LLC; and a 40% interest in Encompass Health Louisville Holdings, LLC. These joint venture investments are accounted for using the equity method of accounting (collectively, the "Joint Ventures").

The following is a summary of the financial position and results of operations of the Joint Ventures as of and for the years ended August 31, 2024 and 2023:

	2024	**2023**
Assets	$ 192,051	$ 132,624
Liabilities	92,727	58,690
Member's equity	99,325	73,934
Total revenue	337,579	355,015
Net income	5,096	9,427

Equity earnings income/(loss) are included in other income in the Consolidated Statement of Operations for the years ended August 31, 2024 and 2023 were $3,294 and $4,839, respectively.

4. NET PATIENT SERVICE REVENUE

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

Reported costs and/or services provided under certain arrangements are subject to retroactive adjustment due to review and audits. These adjustments are considered variable compensation and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Baptist's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of net patient service revenue recognized will not occur when the uncertainty associated with the retroactive adjustments become known or as years are settled or are no longer subject to reviews or audits. There were no significant changes in estimated settlements with Medicare, Medicaid and commercial payors during the year ended August 31, 2024. Baptist recorded an increase in net patient service revenue of $27,695 during the year ended August 31, 2023 as a result of changes in estimated settlements with Medicare, Medicaid and other commercial payors. Baptist received and recorded a 340b settlement of $73,928 included in net patient service revenue in the accompanying statement of operations during the year ended August 31, 2024.

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

Because all of its performance obligations relate to contracts with a duration of less than one year, Baptist has elected to apply the optional exemption provided in FASB ASC 606, *Revenue from Contracts with Customers*, section 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

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

Baptist determines its estimate of implicit price concessions based on its historical collection experience with classes of patients.

There were no significant changes in estimated concession allowances for 2024. During the year ended August 31, 2023, because of identified commercial payor overpayments and re-adjudication of previously closed claims, Baptist decreased net patient service revenue by $100,727 related to changes in estimated concession allowances.

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

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

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

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

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

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

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

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

Charity Care—Baptist offers financial assistance programs to patients who are unable to pay the portion of their bill for which they are financially responsible and records a provision for charity in the period of service based on a patient’s ability to pay. Baptist also provides discounts from established rates to all uninsured patients. Baptist provides medically necessary services to all patients regardless of ability to pay. In accordance with Baptist's policy, a patient is classified as a charity patient based on income eligibility criteria as established by the Federal Poverty Guidelines. Revenue for services to patients who meet Baptist's guidelines for charity care are not reflected in the accompanying consolidated financial statements. Because Baptist does not pursue collection of charity or uninsured discounts, such amounts are not reported as revenue. The cost of charity care is determined using patient level cost accounting information applied to those patients who received charity care. Total unreimbursed costs of charity and discounts to the uninsured were approximately $86,038 and $48,532 for the years ended August 31, 2024 and 2023, respectively.

The composition of net patient care service revenue by payer for the years ended August 31, 2024 and 2023 is as follows:

	2024		2023	
	Amount	%	Amount	%
Patient service revenue:				
Medicare	$ 1,532,298	34 %	$ 1,410,265	36 %
Medicaid	959,134	22	772,923	20
Other third-party payers	1,793,559	40	1,598,115	41
Patients	174,473	4	140,198	3
Total net patient service revenue by payer	$ 4,459,464	100 %	$ 3,921,501	100 %

5. FUNCTIONAL EXPENSES

Baptist provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Approximately 84% of Baptist's expenses relate to health care services and 16% of Baptist's expenses relate to support services expenses for both years ended August 31, 2024 and 2023. Functional expenses consist of the following for the years ended August 31, 2024 and 2023:

	Health Care Services				Support Services		
Year Ended August 31, 2024	Hospitals	Physician Practices	Value Based	Other	General and Administrative	Fundraising	Total
Expenses:							
Salaries and benefits	$1,224,009	$793,528	$4,227	$45,132	$392,582	$4,772	$2,464,250
Supplies	1,071,660	48,485	9	22,307	19,317	162	1,161,940
Purchased services	279,505	13,644	121	7,903	125,506	400	427,079
Utilities	28,779	2,710	17	461	6,306	-	38,273
Interest	4,724	-	-	98	48,320	-	53,142
Depreciation and amortization	118,525	7,185	-	4,126	36,244	-	166,080
Administration and other	36,062	26,685	1,768	3,390	84,283	3,533	155,721
Provider tax	170,377	-	-	357	-	-	170,734
Total operating expenses	$2,933,641	$892,237	$6,142	$83,774	$712,558	$8,867	$4,637,219

Year Ended August 31, 2023	Hospitals	Health Care Services Physician Practices	Value Based	Other	Support Services General and Administrative	Fundraising	Total
Expenses:							
Salaries and benefits	$1,169,946	$724,679	$5,315	$45,584	$379,057	$4,863	$2,329,444
Supplies	932,664	45,580	15	20,038	20,824	144	1,019,265
Purchased services	243,230	12,591	177	6,583	110,933	426	373,940
Utilities	28,565	4,259	23	687	7,512	15	41,061
Interest	2,804	-	-	66	42,991	-	45,861
Depreciation and amortization	107,795	6,002	-	2,775	37,903	-	154,475
Administration and other	28,653	25,922	851	4,525	79,718	2,765	142,434
Provider tax	124,911	-	-	443	-	-	125,354
Total operating expenses	$2,638,568	$819,033	$6,381	$80,701	$678,938	$8,213	$4,231,834

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

6. SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents supplemental cash flow information as of August 31:

	2024	2023
Interest paid—net of capitalized amount of $11,206 in 2024 and $10,378 in 2023	$ 56,164	$ 45,097
Income taxes paid	$ 733	$ 754
Purchases of property and equipment in accounts payable	$ 59,038	$ 42,623
Acquisition of property and equipment through financing lease	$ 11,049	$ 104,860
Acquisition of property and equipment through operating lease	$ 38,314	$ 33,189
Intangible assets contributed to equity method investee	$ 8,500	$ -

7. CONCENTRATION OF CREDIT RISK

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

	2024	2023
Net patient accounts receivable:		
Medicare	28.7 %	31.7 %
Medicaid	11.1	11.1
Other third-party payers	42.8	42.2
Patients	17.4	15.0
Net patient accounts receivable	100.0 %	100.0 %

8. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of August 31, 2024 and 2023, Baptist had working capital, which is current assets less current liabilities, of $362,804 and $384,908, respectively.

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

	2024	2023
Cash and cash equivalents	$ 132,764	$ 68,499
Investments	193,635	269,923
Patient accounts receivable	499,980	468,377
Other accounts receivable, included in prepaids and other current assets in the consolidated balance sheets	67,799	54,139
Assets limited as to use by the board or management for capital improvements or other purposes (less Limited Partnership interests with reduced liquidity of $161,836 and $125,031 for August 31, 2024 and 2023, respectively)	1,906,260	1,664,747
Total financial assets available	$ 2,800,438	$ 2,525,685

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

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

On a periodic basis, Baptist calculates the amount of its unrestricted cash and investments available within certain time frames. As of August 31, 2024, the majority of Baptist's unrestricted cash and short-term investments are available in three days or less. Of the remainder, availability to received proceeds ranges from one month to less than a year.

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

Investments and assets limited as to use or with donor restrictions consists of the following as of August 31, 2024 and 2023:

Investments

	2024	2023
Investments	$ 193,635	$ 269,923

Assets Limited as to Use or With Donor Restrictions

	2024	2023
Designated by board or management for capital improvements or other purposes	$ 2,068,096	$ 1,789,778
Designated by board for endowment	7,035	6,308
Held by trustee or with donor restrictions:		
With donor restrictions	1,657	1,518
In perpetual trust	29,771	25,728
Total held by trustee	31,428	27,246
Assets limited as to use or restricted	$ 2,106,559	$ 1,823,332

Investment Return—Total investment return for assets whose use is limited and investments is reflected in the consolidated statements of operations and is comprised of the following for the years ended August 31, 2024 and 2023:

	2024	2023
Other income:		
Interest and dividend income, net	$ 52,296	$ 39,199
Realized gains (losses) on sale of securities	2,443	(46,483)
Change in net unrealized gains	223,128	129,739
Total investment return	$ 277,867	$ 122,455

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

In the normal course of operations and within the Baptist investment policy guidelines, Baptist's investment managers may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, forward contracts and swaps. Gains or losses, and changes in the fair value of these investments, which were immaterial for the years ended August 31, 2024 and 2023, respectively, are included in total investment return within the consolidated statements of operations.

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

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

At August 31, 2024 and 2023, the gross notional amount of derivative investments in an asset position was 3,911,203 and 3,412,507, respectively, and the gross notional amount of derivative investments in a liability position was 3,829,458 and 3,308,946, respectively, primarily composed of offsetting foreign currency forwards related to the Canadian dollar, Australian dollar, British pound sterling, Chinese yuan renminbi, Japanese YEN, Brazilian real and Euros. Futures and interest rate swaps are cash settled on a daily basis and, accordingly, have a $0 value for asset and liability positions for the periods presented. The net notional and related fair value of positions offset within the consolidated balance sheets at August 31, 2024 and 2023 include the following:

2024	**Notional**	**Asset**	**Liability**
Foreign currency forwards	23,277	$ 156	$ (278)
Swaps	-	717	(196)
Mortgage forwards	63,200	97,426	(96,894)
Options	(6,332)	35	(168)
Government Bonds	1,300	-	(951)
Corporate Bonds	300	186	-
Total	81,745	$ 98,520	$ (98,487)

2023	**Notional**	**Asset**	**Liability**
Foreign currency forwards	(11,339)	$ 348	$ (75)
Swaps	-	643	(26)
Futures	(4,600)	-	-
Mortgage forwards	122,800	108,763	(109,859)
Options	(2,300)	13	(5)
Government Bonds	(1,300)	4,902	(3,692)
Corporate Bonds	300	165	-
Total	103,561	$ 114,834	$ (113,657)

At August 31, 2024 and 2023, Baptist had pending trade receivables of $544 and $272, respectively, reported in prepaids and other current assets and pending trade payables of $3,630 and $3,524, respectively, reported in other current liabilities.

10. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Baptist is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are included in Baptist's consolidated financial statements as net assets with donor restrictions. Trust income is distributed in accordance with the individual trust documents and is included in investment return. The fair value of assets of $29,772 and $25,728 is based on the fair value of the underlying perpetual trust assets at August 31, 2024 and 2023, respectively. Trust income distributed to Baptist for the years ended August 31, 2024 and 2023, was $1,265 and $1,246, respectively.

11. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

There were no significant transfers between Levels 1 and 2 during the years ended August 31, 2024 and 2023.

Recurring Measurements—The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2024 and 2023.

Investments

2024	Level 1	Level 2	Level 3	Total
Exchange Traded funds—Equity	$ 51,472	$ -	$ -	$ 51,472
Government securities	-	55,728	-	55,728
Corporate obligations	-	55,920	-	55,920
Equities	644	-	-	644
Investments at fair value	$ 52,116	$ 111,648	$ -	163,764
Investments measured at net asset value:				
Comingled funds:				
Fixed income				29,871
Investments				$ 193,635

2023	Level 1	Level 2	Level 3	Total
Exchange Traded funds—Equity	$ 42,389	$ -	$ -	$ 42,389
Mutual funds—Fixed income	119,592	-	-	119,592
Government securities	-	57,517	-	57,517
Corporate obligations	-	49,900	-	49,900
Equities	525	-	-	525
Investments	$ 162,506	$ 107,417	$ -	$ 269,923

Assets Limited as to Use or Restricted

2024	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 1,915	$ -	$ -	$ 1,915
Exchange traded/mutual funds:				
Equity	564,942	-	-	564,942
Fixed income	131,161	-	-	131,161
Equities	3,681	-	-	3,681
Government securities	-	188,169	-	188,169
Corporate obligations	-	161,157	-	161,157
Derivative investments—net	-	33	-	33
Perpetual trust	-	29,771	-	29,771
Assets limited as to use or restricted at fair value	$ 701,699	$ 379,130	$ -	1,080,829
Investments measured at net asset value:				
Commingled funds:				
Fixed income				237,400
US equities				369,258
International equities				177,200
LLC, and LP interests				241,872
Assets limited as to use or restricted				$ 2,106,559

2023	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 2,631	$ -	$ -	$ 2,631
Exchange traded/mutual funds:				
Equity	454,115	-	-	454,115
Fixed income	126,634	-	-	126,634
Equities	4,000	-	-	4,000
Government securities	-	158,028	-	158,028
Corporate obligations	-	157,721	-	157,721
Derivative investments—net	-	1,177	-	1,177
Perpetual trust	-	25,728	-	25,728
Assets limited as to use or restricted at fair value	$ 587,380	$ 342,654	$ -	930,034
Investments measured at net asset value:				
Commingled funds:				
Fixed income				220,612
US equities				311,706
International equities				152,533
LLC, and LP interests				208,447
Assets limited as to use or restricted				$ 1,823,332

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended August 31, 2024 and 2023.

Cash Equivalents—The carrying amount is fair value.

Commingled Funds—The commingled funds are developed for investment by institutional investors only and therefore does not require registration with the Securities and Exchange Commission. Commingled funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, multiplied by the current percentage ownership of the fund. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. The net asset value, as provided by the trustee, is used as a practical expedient to estimate fair value. The commingled funds include investments in fixed income and equity securities. As commingled funds are measured at net asset value, they are included separately from the fair value hierarchy in the table above.

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

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

Equities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded. Accordingly, equity securities are classified as Level 1 investments.

Government Securities—Government securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. Accordingly, government securities are classified as Level 2 investments.

Corporate Obligations—Corporate obligations are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. Due to the nature of pricing methods utilized, corporate obligations are classified as Level 2 within the fair value hierarchy.

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

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

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

The commingled funds, limited liability companies (LLCs) and limited partnerships (LPs) interests are redeemable at net asset value under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Assets recorded at net asset value at August 31, 2024 and 2023, are as follows:

	Fair Value	Redemption Frequency	Redemption Notice Period
2024			
Investments			
Commingled funds [a]	$ 29,871	Daily, semi-monthly, monthly	0–6 days
Assets limited as to use or restricted			
Commingled funds [a]	$ 783,858	Daily, semi-monthly, monthly	0–6 days
LLC and LP interests [b]	241,872	Quarterly, manager discretion	45–60 days
Assets limited as to use or restricted	$ 1,025,730		
2023			
Assets limited as to use or restricted			
Commingled funds (a)	$ 684,851	Daily, semi-monthly, monthly	0–6 days
LLC and LP interests (b)	208,447	Quarterly, manager discretion	45–60 days
Assets limited as to use or restricted	$ 893,298		

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

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

- Limited liability companies—ownership interests in routinely traded stocks with companies invested in high-quality properties in major metropolitan areas with a net asset value of $80,036 and $83,416 at August 31, 2024 and 2023, respectively.
- Limited partnership interests—ownership interests in primary or secondary funds that are not subject to SEC offering regulations. Liquidity related to the ability to purchase or sell interests are at the sole discretion of the fund manager/general partner with a net asset value of $161,836 and $125,031 at August 31, 2024 and 2023, respectively.

As of August 31, 2024, Baptist had commitments totaling approximately $429,000 in primary and secondary limited partnership funds, of which $217,835 was invested.

Fair Value of Other Financial Instruments—The following table presents estimated fair values of Baptist's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2024 and 2023:

		Fair Value Measurements Using		
2024	**Carrying Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Line of credit	$ 150,000	$ -	$ 150,000	$ -
Commercial paper	99,785	-	99,785	-
Long-term debt	1,301,581	-	1,136,716	-
	$ 1,551,366	$ -	$ 1,386,501	$ -
2023				
Line of credit	$ 150,000	$ -	$ 150,000	$ -
Commercial paper	49,933	-	49,933	-
Long-term debt	1,307,555	-	1,088,341	-
	$ 1,507,488	$ -	$ 1,288,274	$ -

Line of Credit and Commercial Paper—Carrying value approximates fair value.

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis—Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis include items such as property, plant and equipment and goodwill. These assets are measured at fair value if determined to be impaired.

12. PROPERTY AND EQUIPMENT—NET

	2024	**2023**
Land and land improvements	$ 174,651	$ 142,407
Buildings and leasehold improvements	2,167,105	1,599,913
Equipment	1,286,062	1,197,649
Construction in progress	90,347	460,433
Total	3,718,165	3,400,402
Less accumulated depreciation	1,708,071	1,632,163
Property and equipment—net	$ 2,010,094	$ 1,768,239

Baptist recorded depreciation expense of $162,107 and $150,919 during the years ended August 31, 2024 and 2023, respectively.

Computer software is included in equipment in the table above. Original cost and accumulated depreciation, respectively, were $136,210 and $114,628 as of August 31, 2024 and $140,939 and $102,795 as of August 31, 2023.

As of August 31, 2024, Baptist entered into non-cancellable contractual agreements for the purchase of equipment and the construction of hospital facilities for approximately $186,548.

13. RELATED PARTY TRANSACTIONS

On September 1, 2021, Baptist entered into a purchased services agreement with Baptist Health Deaconess Madisonville, Inc., Baptist Health Deaconess Madisonville Foundation, Inc. and Baptist Health Deaconess Madisonville Medical Group, Inc. (all of the Baptist Health Deaconess entities are wholly controlled affiliates of Baptist Health Deaconess, LLC) to provide certain purchased services as more fully defined in the agreement. The initial term of the agreement is one year with subsequent one year renewals unless either party provides 120 day notice of intent not to renew.

Baptist provided purchased services to BHD resulting in management fee revenue from this unconsolidated joint venture of $3,509 and $19,432 included in other operating revenue in the accompanying consolidated statement of operations for the years ended August 31, 2024 and 2023, respectively. In addition, Baptist provided supplies to BHD at cost totaling $18 and $553 for the years ended August 31, 2024 and 2023, respectively. As of August 31, 2024 and 2023, respectively, Baptist had a net payable due to BHD of $1,177 and $190 in the accompanying consolidated balance sheets.

14. COMMITMENTS AND CONTINGENCIES

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

Baptist is self-insured with respect to medical malpractice risks. Professional insurance actuaries have been retained to assist Baptist in determining liability amounts to be recognized.

Effective September 1, 2021, Baptist's self-insured limits are $6,000 per occurrence and not to exceed $25,000 in the aggregate for all Baptist hospitals. Baptist's self-insurance aggregate limits increased to $30,000 effective June 1, 2022 through September 1, 2022 and reverted back to original limits thereafter. Baptist is self-insured for the first $1,000 up to $3,000 in the aggregate for the majority of its physician practices. Baptist participates in the American Excess Insurance Exchange (AEIX), Risk Retention Group, a Vermont-chartered "captive" insurance company organized as a reciprocal for coverage above the self-insurance limits. Baptist currently has an 8.22% ownership in AEIX, the value of which is reported using the equity method of accounting and which is not material to the accompanying consolidated financial statements.

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

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

The total undiscounted current liability for medical malpractice claims reported and claims incurred but not reported was approximately $17,500 and $15,000 as of August 31, 2024 and 2023, respectively. The total undiscounted long-term liability for medical malpractice claims reported and claims incurred but not reported was approximately $121,367 and $116,321 at August 31, 2024 and 2023, respectively, and is included in other long-term liabilities in the consolidated balance sheets. Net malpractice expense recognized was approximately $32,434 and $23,270 for the years ended August 31, 2024 and 2023, respectively.

Baptist is self-insured with respect to workers' compensation risks. Professional insurance consultants have been retained to assist Baptist in determining liability amounts to be recognized. The total current liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $6,000 at August 31, 2024 and 2023. The total long-term liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $21,365 and $23,905 at August 31, 2024 and 2023, respectively, and is included in other long-term liabilities in the consolidated financial statements. Net workers' compensation expense recognized was approximately $4,885 and $10,258 for the years ended August 31, 2024 and 2023, respectively.

15. LINE OF CREDIT AND COMMERCIAL PAPER

On January 31, 2023, Baptist entered a $200,000 secured revolving credit agreement priced at Secured Overnight Financing Rate (SOFR) plus 0.25%. The revolving credit agreement is permitted by the Baptist Health Amended and Restated Master Trust Indenture initially dated February 1, 2009, and amended and restated as of April 1, 2022 and is secured by a pledge of revenues of the obligated group (defined below). The revolving credit agreement matured on January 30, 2024. Effective January 30, 2024, Baptist entered two $100,000 secured revolving credit agreements priced at Secured Overnight Financing Rate (SOFR) plus a margin. As of August 31, 2024, Baptist had $150,000 outstanding on the revolving credit facilities with $50,000 of undrawn capacity. Both revolving credit agreements carry an interest rate of 6.0% as of August 31, 2024 and mature on January 28, 2025.

On April 4, 2023, the Baptist Healthcare Obligated group initiated a commercial paper program under which it may issue commercial paper notes up to a maximum aggregate amount outstanding at any time of $200,000. As of August 31, 2024, Baptist had $99,785 in borrowings outstanding under the commercial paper program at a fixed interest rate of 5.4% and maturities of $25,000 due September 5, 2024, September 12, 2024, September 19, 2024, and September 26, 2024, respectively. The commercial paper programs were subsequently renewed and mature on December 12, 2024, December 19, 2024, December 26, 2025, January 3, 2025, and February 12, 2025.

16. LONG-TERM DEBT

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

		Interest Rates	Maturity Dates	2024	2023
Revenue Bonds, Series 2015A	Variable	0.00 %	August 15, 2024	$ -	$ 2,370
Revenue Bonds, Series 2016A	Variable	5.10	March 1, 2036	32,415	34,460
County Note, 2020	Fixed	2.50	January 1, 2045	43,436	44,995
Revenue Bonds, Series 2017A	Fixed	5.00	August 15, 2051	84,410	84,410
Revenue Bonds, Series 2017B	Fixed	3.50–5.00	August 15, 2046	217,905	217,905
Revenue Bonds, Series 2018A	Fixed	5.08	August 15, 2048	128,980	128,980
Taxable Bonds, 2020B	Fixed	3.54	August 15, 2050	510,000	510,000
Revenue Bonds, Series 2022A1	Fixed	1.85	August 15, 2038	131,725	131,725
Revenue Bonds, Series 2022A2	Fixed	1.80	August 15, 2038	152,710	152,710
Total debt				1,301,581	1,307,555
Less current installments of long-term debt				(3,748)	(5,974)
Plus unamortized premium				13,663	14,551
Less unamortized debt issuance costs				(5,984)	(6,340)
Total long-term debt				$ 1,305,512	$ 1,309,792

The aggregate amount at August 31, 2024, of required funding for principal payments of long-term debt is as follows:

	Amount
2025	$ 3,748
2026	3,888
2027	23,079
2028	24,390
2029	25,279
Thereafter	1,221,197
Total	$ 1,301,581

17. LEASES

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

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

The following table presents the components of Baptist's right-of-use assets and liabilities related to leases and their classification in the consolidated balance sheets as of August 31, 2024 and 2023:

Component of Lease Balances	**Classification in Consolidated Balance Sheet**	**August 31, 2024**	**August 31, 2023**
Assets:			
Operating lease right-of-use asset	Other assets	$137,394	$122,857
Finance lease right-of-use asset	Property, plant & equipment	123,228	114,544
Liabilities:			
Current portion for operating lease liabilities	Separately stated	19,082	21,054
Current portion of finance lease liability	Other current liabilities	15,093	9,907
Long-term portion for operating lease liabilities	Separately stated	123,174	105,990
Long-term portion of finance lease liability	Other liabilities	83,006	96,028

The components of lease expense included in administration and other expense for the years ended August 31, 2024 and 2023 were as follows (in thousands):

	2024	**2023**
Operating lease expense	$ 27,598	$ 26,717
Finance lease expense:		
Amortization	12,654	12,746
Interest on lease liabilities	4,764	2,816
Total finance lease expense	17,418	15,562
Short-term lease expense	14,842	13,209
Total lease expense	$ 59,858	$ 55,488

The weighted average remaining lease term and weighted average discount rate as of and for the year ended August 31, 2024, were as follows:

	Weighted-Average Remaining Lease Term (Years)	**Weighted-Average Discount Rate**
Operating leases	10.77	4.28%
Finance leases	18.77	4.96%

Supplemental cash flow information related to leases for the years ended August 31, 2024 and 2023 are as follows (in thousands):

	2024	**2023**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$ 22,353	$ 22,309
Operating cash outflows from finance leases	4,752	2,285
Financing cash outflows from finance leases	17,312	12,374

Future maturities of lease liabilities as of August 31, 2024 are presented in the following table (in thousands):

	Operating Leases	Finance Leases	Total
2025	$ 24,445	$ 19,440	$ 43,885
2026	21,834	12,735	34,569
2027	19,461	10,476	29,937
2028	17,318	8,481	25,799
2029	15,179	6,261	21,440
Thereafter	87,899	108,226	196,125
Total lease payments	186,136	165,619	351,755
Less imputed interest	43,880	67,520	111,400
Total lease obligations	142,256	98,099	240,355
Less current obligations	19,082	15,093	34,175
Long-term lease obligation	$ 123,174	$ 83,006	$ 206,180

18. EMPLOYEE BENEFIT AND RETIREMENT PLANS

Baptist employees who meet eligibility requirements are covered by a Retirement Accumulation Plan (RAP), which includes a defined contribution plan funded entirely by Baptist and a 401(k) plan to which the employees of BHP are the only participants permitted to make 401(k) deferrals. The finance committee of the board of directors of Baptist controls and manages the operation of the RAP. Participants are immediately fully vested in participant contributions and related earnings and are fully vested in Baptist contributions after five years of service, or after reaching age 65, whichever occurs first. There were no contributions by Baptist to the RAP for the years ended August 31, 2022.

Effective January 1, 2022, Baptist amended the RAP and renamed it the Baptist Health 401(k) Plan (401(k)). The 401(k) allows employees to defer a percentage of their earnings on a pre-tax basis, as defined in the Plan document. Baptist matches 100% of the first 3% of the employees' contributions and fifty cents on each dollar for the next 2% of the employees' contributions. Employees are immediately vested in their contributions, related earnings, and are fully vested in employer contributions after reaching normal retirement age or attaining 3 or more years of service, whichever occurs first. Baptist contributed approximately $52,385 and $48,776 to the 401(k) for the years ended August 31, 2024 and 2023, respectively.

Baptist Health Richmond has a noncontributory defined benefit pension plan covering substantially all of its employees employed prior to 2005 (the "Pension"). Baptist Health Richmond's funding policy is to make the minimum annual contribution that is required by applicable regulations. Effective December 31, 2004, the defined benefit pension plan was frozen and does not allow any new participants. Effective December 31, 2007, Baptist Health Richmond resolved to freeze the accrued benefits of the defined benefit plan as part of its plan to restructure employee benefits of its employees. Baptist expects to contribute approximately $65 to the Pension in 2025.

Baptist has a post-retirement benefit plan covering all employees who meet the eligibility requirements (the "Post Retirement" plan). The Post Retirement plan provides for a continuation of medical benefits until the retiree reaches the age of 65 and for death benefits that vary with retirement date and position. The Post-Retirement medical benefits plan is contributory, with retiree contributions adjusted annually. Funding by Baptist is on a cash basis as benefits are paid. Baptist contributed approximately $2,505 and $3,117 for the years ended August 31, 2024 and 2023, respectively. Baptist expects to contribute approximately $2,874 to the plan in 2025.

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

Change in Accumulated Benefit Obligation

	Pension		Post Retirement	
	2024	**2023**	**2024**	**2023**
Accumulated benefit obligation—beginning of year	$ 17,760	$ 19,080	$ 34,271	$ 36,926
Service cost	-	-	627	733
Interest cost	943	889	1,809	1,857
Amortization of loss	-	-	913	1,561
Net periodic benefit cost	943	889	3,349	4,151
Employer contributions	-	-	(2,505)	(3,117)
Net plan expense	943	889	844	1,034
Amortization of loss	-	-	(913)	(1,561)
Net (gain) loss arising during the period	-	-	1,595	(2,128)
Change in unrestricted net assets	-	-	682	(3,689)
Actuarial gain	745	(1,024)	-	-
Benefits paid	(1,246)	(1,185)	-	-
Accumulated benefit obligation—end of year	$ 18,202	$ 17,760	$ 35,797	$ 34,271

Changes in Plan Assets

	Pension		Post Retirement	
	2024	2023	2024	2023
Fair value—beginning of year	$ 16,854	$ 17,733	$ -	$ -
Actual return on plan assets	645	264	-	-
Employer contributions	627	42	2,505	3,117
Benefits paid	(1,246)	(1,185)	(2,505)	(3,117)
Fair value—end of year	$ 16,880	$ 16,854	$ -	$ -

Plan Obligations and Funded Status

	Pension		Post Retirement	
	2024	2023	2024	2023
Benefit obligation	$ (18,202)	$ (17,760)	$ (35,797)	$ (34,271)
Fair value of plan assets	16,880	16,854	-	-
Funded status	$ (1,322)	$ (906)	$ (35,797)	$ (34,271)

Liabilities Recognized in the Consolidated Balance Sheets

	Pension		Post Retirement	
	2024	2023	2024	2023
Accrued expenses—current	$ -	$ -	$ 2,874	$ 3,215
Other liabilities—noncurrent	1,322	906	32,923	31,056
Total liabilities	$ 1,322	$ 906	$ 35,797	$ 34,271

Amounts Recognized in Unrestricted Net Assets

	Pension		Post Retirement	
	2024	2023	2024	2023
Net gain (loss)	$ 1,912	$ 2,761	$ (14,599)	$ (13,917)
Accumulated contributions in deficit of net periodic benefit cost	(3,234)	(3,667)	(21,198)	(20,354)
Net amount recognized in unrestricted net assets	$ (1,322)	$ (906)	$ (35,797)	$ (34,271)

Amounts Recognized as Components of Net Periodic Benefit Cost Consist of

	Pension		Post Retirement	
	2024	2023	2024	2023
Service cost	$ -	$ -	$ 627	$ 733
Interest cost	943	889	1,809	1,857
Amortization of (gain) loss	(137)	(11)	913	1,561
Expected return on plan assets	(613)	(501)	-	-
Net periodic benefit cost	$ 193	$ 377	$ 3,349	$ 4,151

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

Significant Assumptions Include

	Pension		Post Retirement	
	2024	2023	2024	2023
Weighted-average assumptions to determine benefit obligation—discount rate	5.16 %	5.55 %	5.30 %	5.53 %
Assumptions to determine net cost:				
Discount rate	5.55 %	4.85 %	5.53 %	4.71 %
Expected return on plan assets	3.75	2.95	-	-

For measurement purposes, a 6.24% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2024. The rate was assumed to decrease gradually to 4.00% by the year 2047 and remain at that level thereafter.

Pension Plan Assets—Valuation technologies maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy. There have been no changes in the methodologies used at August 31, 2024 and 2023.

Mutual Funds—Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the pension plan are deemed to be actively traded. The mutual fund assets were liquidated during the year ended August 31, 2024.

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

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

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no transfers between levels for the years ended August 31, 2024 and 2023.

As of August 31, 2024, there were no Level 1, Level 2, or Level 3 pension plan assets. Pension plan assets consisted of an immediate participation guarantee contract at contract value of $16,880.

The following tables set forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of August 31, 2023:

		Fair Value Measurements Using		
2023 Asset Class	**Total Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds—common stock	$ 80	$ 80	$ -	$ -
Immediate participation guarantee contract at contract value	16,774			
Total assets	$ 16,854			

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

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

	Pension	**Post Retirement**
2025	$ 1,481	$ 2,874
2026	1,488	2,961
2027	1,490	2,792
2028	1,481	2,654
2029	1,463	2,425
2030–2034	6,862	9,017

19. NET ASSETS WITH DONOR RESTRICTIONS

	2024	2023
Health care services:		
Capital purchases	$ 15,647	$ 15,246
Service line support	14,556	-
Indigent care	2,163	959
Health research and education	1,201	6,559
Other	7,820	14,535
Perpetual trusts	29,771	25,729
Endowments	4,496	4,061
Total	$ 75,654	$ 67,089

20. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 11, 2024, the date the consolidated financial statements were issued.

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