

CONSOLIDATED FINANCIAL STATEMENTS

Premier Health Partners and Subsidiaries  
Years Ended December 31, 2019 and 2018  
With Report of Independent Auditors

Ernst & Young LLP



Premier Health Partners and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

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## Report of Independent Auditors

The Board of Trustees  
Premier Health Partners and Subsidiaries

We have audited the accompanying consolidated financial statements of Premier Health Partners and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Financial Statements**

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

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Premier Health Partners and Subsidiaries at December 31, 2019 and 2018, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Changes in Accounting Principles**

As discussed in Note A to the consolidated financial statements, in 2019 Premier Health Partners and Subsidiaries changed their method of recognizing leases as a result of the adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

*Ernst + Young LLP*

March 13, 2020

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92,134	\$ 87,945
Patient accounts receivable	275,943	256,427
Inventories	16,600	15,294
Prepaid expenses	19,711	23,710
Estimated receivable from third parties	1,513	7,508
Other current assets	25,484	29,330
Total current assets	<u>431,385</u>	<u>420,214</u>
Assets limited as to use: (Note D)		
Board-designated investments	928,053	865,151
Other investments	135,999	116,635
Total assets limited as to use	<u>1,064,052</u>	<u>981,786</u>
Property and equipment, net (Note E)	1,027,839	1,060,466
Right-of-use assets (Note F)	41,068	—
Intangible assets, net (Note M)	44,632	34,321
Other assets	125,545	129,566
Total assets	<u><u>\$ 2,734,521</u></u>	<u><u>\$ 2,626,353</u></u>

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 82,256	\$ 103,470
Accrued expenses	96,280	91,156
Current portion of long-term debt (Note H)	6,087	13,723
Estimated payable to third parties	5,875	4,685
Other current liabilities	55,161	43,180
Total current liabilities	<u>245,659</u>	<u>256,214</u>
Long-term debt, less current portion (Note H)	945,265	911,929
Operating lease liabilities (Note F)	31,522	—
Pension obligation (Note I)	102,979	81,664
Reserve for professional liability (Note G)	38,109	37,810
Interest rate swap liability (Note J)	48,931	32,302
Other liabilities	128,764	102,696
Total liabilities	<u>1,541,229</u>	<u>1,422,615</u>
Net assets:		
Without donor restrictions	1,122,393	1,142,365
With donor restrictions	70,899	61,373
Total net assets	<u>1,193,292</u>	<u>1,203,738</u>
Total liabilities and net assets	<u><u>\$ 2,734,521</u></u>	<u><u>\$ 2,626,353</u></u>

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating revenue</b>		
Patient service revenue	\$ 1,823,688	\$ 1,724,781
Other operating revenue	84,029	80,226
Total operating revenue	<u>1,907,717</u>	<u>1,805,007</u>
<b>Operating expenses</b>		
Salaries and wages	950,182	912,509
Employee benefits	183,662	188,575
Supplies	342,388	315,046
Purchased services, insurance and other	333,635	337,016
Hospital franchise tax	21,740	25,082
Depreciation and amortization	135,571	134,622
Interest	31,902	30,600
Total operating expenses	<u>1,999,080</u>	<u>1,943,450</u>
Loss from operations before exit, disposal, impairment and other costs	(91,363)	(138,443)
Exit, disposal, impairment and other costs	(14,847)	(36,696)
Loss from operations	<u>(106,210)</u>	<u>(175,139)</u>
Non-operating gains (losses), net (Note K)	<u>92,118</u>	<u>(38,003)</u>
Deficiency of revenue over expenses	(14,092)	(213,142)
Change in plan assets and benefit obligations of pension plans	(12,933)	(39,953)
Change in net assets with donor restrictions and other	<u>16,579</u>	<u>(5,674)</u>
Decrease in net assets	(10,446)	(258,769)
Net assets at beginning of year	<u>1,203,738</u>	<u>1,462,507</u>
Net assets at end of year	<u>\$ 1,193,292</u>	<u>\$ 1,203,738</u>

See accompanying notes.

## Premier Health Partners and Subsidiaries

### Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2019	2018
<b>Operating activities</b>		
Decrease in net assets	\$ (10,446)	\$ (258,769)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	135,571	134,622
Impairment of long-lived assets	48	6,366
Change in the valuation of swap agreements	23,423	(10,578)
Change in plan assets and benefit obligations of pension plans	12,933	39,953
Change in unrealized (gains) losses on assets limited as to use	(71,043)	73,004
Gains on disposal of assets	(1,873)	–
Loss on extinguishment of debt	938	232
(Gains) losses from alternative investments	(41,832)	7,518
Purchase of alternative investments	(15,839)	(55,349)
Distribution from alternative investments	37,169	58,450
Pension plan contribution	(9,000)	(9,100)
Net change in assets and liabilities:		
Accounts receivable	(19,516)	16,453
Assets limited as to use	9,279	195,160
Other assets	(12,974)	23,074
Accounts payable and other accruals	(7,926)	33,580
Estimated receivable/payable with third-parties	7,185	(4,344)
Pension plan liability	17,382	16,540
Other liabilities	10,127	(25,514)
Net cash provided by operating activities	<u>63,606</u>	241,298
<b>Investing activities</b>		
Proceeds from the sale of assets	8,618	3,251
Purchases of property and equipment	(78,613)	(205,096)
Net cash used in investing activities	<u>(69,995)</u>	(201,845)
<b>Financing activities</b>		
Proceeds from refinancing long-term debt	422,523	58,505
Debt issuance costs	(3,683)	–
Interest rate swap collateral	5,090	4,130
Interest rate swap settlement	(7,165)	–
Extinguishment of long-term debt relating to refinancing	(403,790)	(58,505)
Repayment of long-term debt and finance leases	(7,487)	(15,449)
Net cash provided by (used in) financing activities	<u>5,488</u>	(11,319)
(Decrease) increase in cash, cash equivalents and restricted cash	(901)	28,134
Cash, cash equivalents and restricted cash at beginning of year	97,245	69,111
Cash, cash equivalents and restricted cash at end of year (Note A)	<u>\$ 96,344</u>	<u>\$ 97,245</u>

See accompanying notes.

**Premier Health Partners and Subsidiaries**  
**Notes to Consolidated Financial Statements**

December 31, 2019

**A. Organization and Significant Accounting Policies**

**Organization**

On January 1, 2018, MedAmerica Health Systems (MAHS), Catholic Health Initiatives (CHI), Atrium Health System (AHS) and Upper Valley Medical Center Parent and Controlled Affiliates (UVMC Parent) (collectively and altogether, the Parent Organizations) contributed nearly all of their interests in their respective affiliates, subsidiaries and other assets to Premier Health Partners (PHP), a not-for-profit organization in accordance with the Definitive System Reorganization Agreement (DSRM). Pursuant to the DSRM, the Parent Organizations are the member organizations of PHP.

PHP owns and operates organizations that provide healthcare services and support to communities in Southwest Ohio. Some of these organizations listed below are no longer active and operating. The dates these organizations ceased operations or closed is noted accordingly:

- Miami Valley Hospital (MVH),
- Good Samaritan Hospital (GSH) (closed in July 2018 and healthcare services moved to other PHP provider locations), including wholly owned The Heart Institute of Dayton (THID) (ceased operations at December 31, 2019) and wholly owned Samaritan North Surgery Center, Ltd. (SNSC) (ceased operations December 31, 2018, and healthcare services moved to Miami Valley Hospital),
- Atrium Medical Center (AMC),
- Upper Valley Medical Center (UVMC),
- Fidelity Health Care (FHC) and its wholly owned subsidiary Premier Community Health (PCH),
- Samaritan Health Partners (SHP) and its wholly owned subsidiary Samaritan Behavioral Health, Inc. (SBHI),
- Premier Health Holding Company (PHHC) which owns Premier Health Specialists, Inc. (PHS), MVHE, Inc., Samaritan Family Care, Inc. (SFC), and Premier Health Urgent Care, Inc.,
- UVMC Nursing Care, Inc. (UVNC),
- Upper Valley Professional Corporation (UVPC) and its wholly owned subsidiaries After Hours Family Care, Inc. (AHFC), (closed in August 2019) and UVPC Specialists, Inc. (UVPCSI)

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

Organizations owned and operated by PHP that support the mission of the healthcare services include: Premier Health International Insurance Limited (PHIIL); Miami Valley Hospital Foundation (MVHF); Good Samaritan Hospital Foundation (GSHF); Premier Health Group, LLC (PHG); and UVMC Management Corporation (UVMCMC).

PHP also controls and consolidates Premier Plaza, LLC (ceased operations in May 2019 and transferred its assets to MVH).

Certain entities are financially interrelated to PHP. These entities include: Atrium Medical Center Foundation (AMCF), UVMC Foundation (UVMCF) and certain assets of UVMC Parent.

#### **Principles of Consolidation**

The financial statements of PHP have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements of PHP include the accounts of PHP and its controlled entities. Joint ventures at the consolidated level of PHP greater than 50% owned and controlled are consolidated in the PHP financial statements. Joint ventures that are owned 50% or less, and not controlled at the consolidated level of PHP are not consolidated in the PHP financial statements. These investments are accounted for using the equity method of accounting and are included in other assets on the consolidated balance sheets. The consolidated financial statements also include the entities for which management has determined are financially interrelated entities. All material intercompany accounts and transactions are eliminated between affiliates upon consolidation of the PHP consolidated financial statements.

#### **Reclassification**

Certain financial statement line items relating to the prior year have been reclassified to conform to the current year's presentation.

#### **Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PHP's management and the board of trustees.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

##### **Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of those assets whose use has been restricted by donors. Some restrictions are temporary in nature, meaning those resources can only be used after a specified date, for a particular program or service, or to acquire buildings or equipment. Other restrictions require that PHP maintain resources in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the associated net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor restricted net assets that have met their restriction and the income from donor restricted net assets are used primarily to support healthcare services and capital needs.

##### **Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the revenue and expenses of the periods reported. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **Claims and Contingencies**

In the normal course of business, PHP is subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. Management believes the amounts recorded in its consolidated financial statements are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, and other matters and to comply with applicable laws and regulations will not exceed the amounts reflected in its consolidated financial statements and, therefore, it is possible that recorded estimates may change by a material amount.

##### **Cash and Cash Equivalents**

PHP considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding the short-term investments within assets limited as to use.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

Reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets:

	<u>2019</u>	<u>2018</u>
	<i>(Dollars in Thousands)</i>	
Cash and cash equivalents	\$ 92,134	\$ 87,945
Restricted cash included in other assets	<u>4,210</u>	<u>9,300</u>
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 96,344</u>	<u>\$ 97,245</u>

#### Patient Accounts Receivable and Patient Service Revenue

Patient accounts receivable and patient service revenue have been adjusted to the estimated amounts expected to be collected.

PHP has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of patient service revenue in future periods, as the amounts become known or as years are no longer subject to such audits, reviews and investigations.

For uninsured patients who do not qualify for charity care, PHP recognizes revenue based on established rates, subject to certain discounts as determined by PHP. The estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient service revenues and are being reported at the net amount expected to be received in the consolidated statements of operations and changes in net assets.

#### Inventories

Inventories, carried at average cost, include pharmacy and other medical supplies that are used in the hospital operations.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Fair Value Measurements

PHP follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which defines fair value as 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 and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. PHP's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, PHP uses three basic valuation approaches to determine the fair value of its assets and liabilities which are required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to pay to replace the respective asset or liability. The second approach is the market approach, which looks at how a market participant would value an exact or similar asset or liability to that of PHP, including those traded

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

on exchanges. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of PHP's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

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

Assets limited as to use consist of Board-designated and other investments, which are used to support capital and operating needs of the organization. Investments consist of short-term investments, equity securities, mutual funds, common trust funds (CTFs), corporate and other bonds, U.S. government securities, and alternative investments in limited liability companies, hedge funds, and private equities.

PHP has elected to account for common trust funds at fair value as allowed under ASC 825, *Financial Instruments*, due to the nature of these investments and their similarity to exchange-traded mutual funds. The carrying value of limited liability companies, hedge funds, and private equities, collectively alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for using the equity method of accounting based on the net asset value (NAV) provided by the administrators. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments are subject to various risks including market, credit, liquidity, and foreign exchange risk. PHP believes the carrying amount of these financial instruments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investments. Because some of these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and therefore, may differ from the value that would have been used had a public market for such financial instruments existed. Such differences could be material. PHP's risk related to alternative investments is limited to its carrying value plus amounts committed to private equity as disclosed in Note D.

Some of PHP's alternative investments have liquidity restrictions, meaning amounts can be divested only at specific times based on the terms of the respective partnership agreements. Certain general resources are designated by the governing board for capital and other expenditures or are limited under the terms of the bond indenture and are reported as other investments on the consolidated balance sheets.

Gains and losses consist of realized gains and losses on the sale of investments, the market valuation changes in investments, as well as dividend and interest income. These gains and losses are included in the deficiency of revenue over expenses unless the income or loss is restricted by donor or law. Investment income or loss that is restricted by donor or law is included in the changes in net assets with donor restrictions, as appropriate. Changes in unrealized gains and losses on investments that have been designated as trading securities are also included in the deficiency of revenue over expenses as investment income or loss.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

The global financial markets and the banking system are subject to volatility, which could adversely affect PHP. Certain PHP assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

PHP's collective investment program includes trust assets relating to its self-insurance program for professional liability claims. These trust assets provide funds for professional liability claims under a self-insurance program and are reported as an asset limited as to use.

#### **Property and Equipment**

Property and equipment are stated at historical cost or, if donated, fair value at the date of receipt. Depreciation and amortization are calculated on a straight-line basis over the estimated asset lives. Depreciation taken on assets recorded as finance leases is determined over the shorter of the period of the lease term or the useful life of the underlying asset and is included as a component of accumulated depreciation and depreciation expense in the consolidated balance sheets and consolidated statements of operations and changes in net assets, respectively. Interest on construction-in-process is capitalized and amortized over the estimated lives of the related depreciable assets. Depreciation expense was \$133.7 million and \$132.8 million for the years ended December 31, 2019 and 2018, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

PHP evaluates the carrying value of long-lived assets, including property and equipment, and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. PHP may evaluate its business operations from time to time and determine that certain organization changes are required to meet the future strategic goals of PHP. Any resulting impairment losses or additional required depreciation due to shortened useful lives are recorded in the accompanying consolidated statements of operations and changes in net assets if those long-term assets are related to continuing operations.

#### **Leases**

Effective January 1, 2019, PHP determines if an arrangement is a lease at inception. Operating leases are included in noncurrent assets, other current liabilities, and operating lease liabilities in the consolidated balance sheet. Finance leases are included in property and equipment and in the current portion and long-term debt lines in the consolidated balance sheets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, PHP generally uses the U.S. Treasury Yield Curve Rates using a period comparable with the lease term. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. The operating lease ROU asset also includes any lease payments made and is reported net of lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease depreciation expense is recognized on a straight-line basis over the shorter of the period of the lease term or the useful life of the underlying asset. The lease terms may include options to extend or terminate the lease when it is reasonably certain that PHP will exercise that option. PHP has elected the practical expedient to not separate lease and non-lease components for all asset classes.

#### **Exit, Disposal, Impairment and Other Costs**

Management continually evaluates its business and has implemented cost savings initiatives and reorganization efforts to react to changes affecting the business to better align its operations to its strategic plan. As such, in January 2018, management made the decision to close GSH. GSH was closed at the end of July 2018. For the years ended December 31, 2019 and 2018, PHP recorded charges of \$9.4 million and \$29.1 million, respectively, resulting from the GSH closure that included impairment of assets, retention costs, voluntary retirement costs and other associated costs. These amounts are reflected in the line exit, disposal, impairment and other costs in the consolidated statements of operations and changes in net assets. PHP will finalize the GSH closure project during 2020 when the on-going process of razing the buildings on the GSH campus is completed. PHP expects to incur restructuring charges of \$4 million in 2020.

For the year ended December 31, 2018, GSH's deficiency of revenue over expenses was (\$1.2 million).

PHP also implemented other cost savings initiatives during 2019 and 2018 that resulted in exit, disposal and other costs of \$5.4 million and \$7.6 million, respectively, that were not related to the GSH closure. These amounts are reflected in exit, disposal, impairment and other costs in the consolidated statements of operations and changes in net assets.

#### **Goodwill and Intangible Assets, Net**

Intangible assets consist of goodwill and other identifiable intangible assets such as non-compete agreements. Definite-lived intangible assets are amortized using the straight-line method, which allocates the cost over the estimated useful lives of generally three to five years. Goodwill is tested annually for impairment. PHP performed its goodwill impairment test on October 1, 2019, its annual goodwill evaluation test date. The evaluation by management determined no events or circumstances existed to conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

##### **Derivative Financial Instruments**

PHP uses derivative financial instruments (interest rate swaps) in managing its capital costs. The interest rate swaps are recorded at fair market value based on the contractual terms, including the period to maturity, and observable market-based inputs are used to value the swaps.

The net cost and change in fair value of such interest rate swaps is recognized as a component of non-operating gains (losses), net in the consolidated statements of operations and changes in net assets. The interest rate swap agreements are exposed to counterparty risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. Collateralization requirements mitigate some of the credit risk associated with PHP's interest rate swap agreements.

##### **Pension**

PHP utilizes an approach that discounts the individual expected cash flows underlying interest and service costs using the applicable spot rates derived from the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. The use of disaggregated discount rates results in a different amount of weightings given to each subset of payments. The use of disaggregated discount rates affects the amount of service cost, because the benefit payments associated with new service credits for active employees tend to be of longer duration than the overall benefit payments associated with the plan's benefit obligation. As a result, the payments are associated with longer-term spot rates on the yield curve, resulting in lower present values than the calculations using the traditional single weighted-average discount rate.

##### **Hospital Franchise Tax**

The Ohio Hospital Franchise Fee program requires Ohio hospitals to pay a provider tax to the state in order to draw down federal Medicaid matching funds. For the years ended December 31, 2019 and 2018, PHP recorded as expense \$21.7 million and \$25.1 million, respectively, for the hospital franchise tax.

The supplemental Medicaid payments received from the program are recorded as other operating revenue. For the years ended December 31, 2019 and 2018, PHP recorded revenue for the payments of \$26.2 million and \$33.0 million, respectively.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Functional Expenses

The consolidated financial statements report certain categories of expenses that are primarily attributable to providing healthcare services and supporting functions. Some expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include technology, office occupancy and depreciation, which are allocated as a percentage of direct program costs to total operating costs. Salaries and benefits are allocated on the basis of estimates of time and effort. Expenses reported in the consolidated statements of operations and changes in net assets are as follows for the years ended December 31:

	2019			2018		
	Healthcare Services	Management and General	Total	Healthcare Services	Management and General	Total
	<i>(Dollars in Thousands)</i>					
Salaries and wages	\$ 851,363	\$ 98,819	\$ 950,182	\$ 814,158	\$ 98,351	\$ 912,509
Employee benefits	159,410	24,252	183,662	157,890	30,685	188,575
Supplies	341,547	841	342,388	314,044	1,002	315,046
Purchased services and other	261,891	71,744	333,635	265,567	71,449	337,016
Hospital franchise tax	21,740	–	21,740	25,082	–	25,082
Depreciation and amortization	132,687	2,884	135,571	132,935	1,687	134,622
Interest	31,902	–	31,902	30,600	–	30,600
Total operating expenses	<u>\$ 1,800,540</u>	<u>\$ 198,540</u>	<u>\$1,999,080</u>	<u>\$1,740,276</u>	<u>\$ 203,174</u>	<u>\$1,943,450</u>

##### Deficiency of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line deficiency of revenue over expenses, which represents the performance indicator for PHP. Consistent with industry practice, changes in net assets that are excluded from the deficiency of revenue over expenses include change in plan assets and benefit obligations of pension plans, and change in net assets with donor restrictions and other.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

##### Income Taxes

PHP has been determined by the Internal Revenue Service to be a tax-exempt non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. As a tax-exempt organization, its income is exempt from federal income tax except to the extent of any unrelated business activities. PHP consolidates certain subsidiaries, which are for-profit corporations subject to federal income taxes. These are:

- Premier Health Insuring Co. (PHIC), and PHHC (wholly owned subsidiaries of PHP),
- Premier Health Plan (PHPlan) (a wholly owned subsidiary of PHIC),
- MVHE, Inc., Samaritan Family Care, Inc., Premier Health Specialists, Inc. and Premier Health Urgent Care, Inc. (subsidiaries of PHHC),
- UVMC Management Corporation and After Hours Family Care, Inc. (subsidiaries of PHP)

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. For tax-exempt entities, the Act requires organizations to pay an excise tax on remuneration to executives above certain thresholds and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. PHP has recorded estimated liabilities and related expenses for all excise and unrelated business income taxes identified at December 31, 2019.

Management annually reviews the tax positions and has determined that there are no material uncertain tax positions.

##### Discontinued Operations

During 2017, PHP made the decision to discontinue business for the Medicare and Commercial insurance companies PHIC and PHPlan, as well as its accountable care organization, Premier Health Accountable Care Organization of Ohio (PHACO).

Based on the criteria in ASC 205, *Discontinued Operations*, it was determined that the Medicare and Commercial insurance companies PHIC and PHPlan, as well as the accountable care organization, PHACO, met the criteria for discontinued operations treatment for the years ended December 31, 2019 and 2018, as the exit represented a strategic shift in PHP's business. Consequently, the results of operations for PHIC, PHPlan and PHACO have been classified in the line change in net assets with donor restrictions and other for all periods presented.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### A. Organization and Significant Accounting Policies (continued)

PHIC's and PHPlan's assets and liabilities to be disposed of other than by sale at December 31, 2019, were \$7.6 million and \$1.9 million, respectively. PHIC's and PHPlan's assets and liabilities to be disposed of other than by sale at December 31, 2018, were \$12.9 million and \$4.4 million, respectively. The assets and liabilities are included in the other current assets and other current liabilities lines of the consolidated balance sheets.

The excess (deficiency) of revenue over expenses for PHIC, PHPlan and PHACO reported as discontinued operations for the years ended December 31, 2019 and 2018, were \$0.2 million and (\$3.8) million, respectively, and are reported with the change in net assets with donor restrictions and other in the consolidated statements of operations and changes in net assets.

#### Recently Adopted Accounting Standards

Effective January 1, 2019, PHP adopted ASU No. 2016-02, *Leases (Topic 842)*, using the modified retrospective approach. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends previous guidance that required only finance leases to be recognized on the lessee balance sheet. ASU 2016-02 also requires additional disclosures, included in Note F below, to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The adoption of ASU No. 2016-02 constitutes a change in Accounting Principle under ASC 250, *Accounting Changes and Error Corrections*. The impact of adoption on the consolidated financial statements resulted in an increase in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record remaining lease payments for operating leases. The adoption of ASU 2016-02 did not have a material impact on excess of revenues over expenses or net assets.

Effective January 1, 2019, PHP adopted ASU No. 2016-18 *Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. PHP reports cash, cash equivalents, restricted cash and restricted cash equivalents in more than one line on the consolidated balance sheet. A reconciliation between the totals in the consolidated statements of cash flows and the related captions on the consolidated balance sheets is included in Note A, Subheading Cash and Cash Equivalents, as required by the new guidance. PHP adopted the ASU on a retroactive basis and has adjusted the presentation in these consolidated financial statements accordingly.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **A. Organization and Significant Accounting Policies (continued)**

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension plans present the net periodic benefit cost in the statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic benefit cost in the same statement of operations line items as other employee compensation costs arising from services rendered during the period. Employers are to present the other components of net periodic benefit cost separately from the line items that include the service cost and outside of any subtotal of operating income, if one is presented. Employers must disclose the lines used to present the other components of net periodic benefit cost, if the components are not presented separately in the statement of operations. ASU 2017-07 was effective for fiscal years beginning after December 15, 2018, and interim periods therein. The guidance provides a practical expedient for disaggregating the service cost component and other components for comparative periods. The adoption of ASU No. 2017-07 constitutes a change in Accounting Principle under ASC 250, *Accounting Changes and Error Corrections*. PHP adopted ASU 2017-07 on January 1, 2019, and recorded a \$3.8 million credit in net periodic costs in non-operating gains (losses), net in the consolidated statements of operations and changes in net assets for the year ended December 31, 2019. For the year ended December 31, 2018, a credit of \$6.8 million of net periodic pension costs was reclassified from employee benefits to non-operating gains (losses), net in the consolidated statements of operations and changes in net assets.

#### **Pending Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This ASU improves the disclosure requirements on fair value measurements and is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. PHP is currently evaluating the impact ASU 2018-13 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)*. This update clarifies specific requirements and adds disclosure requirements considered relevant to financial statement users of organizations that sponsor defined benefit pension plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2021, with early adoption permitted. PHP is currently evaluating the impact this update will have on its consolidated financial statements.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **B. Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which PHP expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, PHP bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by PHP. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PHP believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. PHP measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and PHP does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, PHP has elected to apply the optional exemption provided in FASB ASC 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 unsatisfied 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 typically occurs within days or weeks of the end of the reporting period.

PHP determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with PHP's policy, and/or implicit price concessions provided to uninsured patients. PHP determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. PHP determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **B. Patient Service Revenue (continued)**

- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge PHP's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon PHP.

In addition, the contracts PHP has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and PHP's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements with contracted payors, including Medicare and Medicaid, are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. The effect of these settlements was recognition of net revenue of \$6.8 million and \$3.5 million in 2019 and 2018, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. PHP also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. PHP estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any applicable contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, the changes to the estimates of implicit price concessions for performance obligations satisfied

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### B. Patient Service Revenue (continued)

in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018, was not significant.

Consistent with PHP's mission, care is provided to patients regardless of their ability to pay. Therefore, PHP has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts PHP expects to collect based on its collection history with those patients. Patients who meet PHP's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The estimated cost incurred by PHP to provide these services to patients, based on a cost to charge ratio, who were unable to pay was \$42.1 million and \$37.8 million for the years ended December 31, 2019 and 2018, respectively.

PHP recorded charity care subsidies of \$14.7 million and \$16.3 million for the years ended December 31, 2019 and 2018, respectively, which were recognized as a component of patient service revenue in the consolidated statements of operations and changes in net assets. Charity care subsidies comprise the Ohio Hospital Care Assurance program and the Montgomery County Human Services Levy.

The composition of patient care service revenue by payor is as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
	<i>(Dollars in Thousands)</i>	
Medicare	\$ 641,843	\$ 592,195
Medicaid	212,620	220,920
Commercial	949,365	888,514
Self-pay	19,860	23,152
	<u>\$ 1,823,688</u>	<u>\$ 1,724,781</u>

PHP has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to PHP's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, PHP does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### C. Financial Assets and Liquidity Availability

For the years ended December 31, 2019 and 2018, PHP had a working capital surplus of \$186 million and \$164 million, respectively.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following:

	<u>2019</u>	<u>2018</u>
	<i>(Dollars in Thousands)</i>	
Cash and cash equivalents	\$ 92,134	\$ 87,945
Patient accounts receivable	275,943	256,427
Assets limited as to use:		
Board-designated investments	855,792	804,301
Other investments	30,549	24,832
	<u>\$ 1,254,418</u>	<u>\$ 1,173,505</u>

PHP has certain board-designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. PHP has other assets limited as to use for donor-restricted purposes, debt service and for the professional and general liability captive insurance program. These assets limited as to use, which are more fully described in Note D, are not available for general expenditure within the next year and are not reflected in the amounts above. As part of PHP's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

#### D. Assets Limited as to Use and Fair Value of Assets and Liabilities

The carrying amount reported in the consolidated balance sheets for current assets (other than investments, which are separately disclosed) and current liabilities are reasonable estimates of fair value due to their short-term nature. These current assets and current liabilities are not required to be marked to fair value on a recurring basis, and therefore are not disclosed in the accompanying table.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, are as follows:

	Total	Fair Value Measurements at Reporting Date Using <sup>(a)</sup>		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
<b>Assets</b>				
Cash and cash equivalents	\$ 92,134	\$ 92,134	\$ –	\$ –
Assets limited as to use:				
Short-term investments	20,530	20,530	–	–
Equity securities	42,717	42,717	–	–
Mutual funds:				
Domestic large cap	19,007	19,007	–	–
Domestic small cap	142	142	–	–
International	38,318	38,318	–	–
Fixed income	308,224	308,224	–	–
Corporate and other bonds:				
Corporate and other bonds	19,491	–	19,491	–
Asset-backed securities	17,896	–	17,896	–
U.S. government securities:				
U.S. government securities	8,674	–	8,674	–
U.S. government agencies	4,274	–	4,274	–
Subtotal fair value measurements	479,273	428,938	50,335	–
Alternative investments at NAV:				
Limited liability companies	134,730			
Hedge funds	49,560			
Private equity <sup>(b)</sup>	68,247			
Interest in financially interrelated entities <sup>(c)</sup>	216,079			
CTFs measured at NAV <sup>(d)</sup>	116,163			
Total assets limited as to use	1,064,052			
Total assets	\$ 1,156,186			
<b>Liabilities</b>				
Interest rate swap liability	\$ 48,931	\$ –	\$ –	\$ 48,931

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018, are as follows:

	Total	Fair Value Measurements at Reporting Date Using <sup>(a)</sup>		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
<b>Assets</b>				
Cash and cash equivalents	\$ 87,945	\$ 87,945	\$ –	\$ –
Assets limited as to use:				
Short-term investments	14,755	14,755	–	–
Equity securities	35,575	35,575	–	–
Mutual funds:				
Domestic large cap	14,446	14,446	–	–
Domestic small cap	90	90	–	–
International	97,166	97,166	–	–
Fixed income	217,426	217,426	–	–
Corporate and other bonds:				
Corporate and other bonds	16,901	–	16,901	–
Asset-backed securities	18,421	–	18,421	–
U.S. government securities:				
U.S. government securities	8,428	–	8,428	–
U.S. government agencies	5,417	–	5,417	–
Subtotal fair value measurements	428,625	379,458	49,167	–
Alternative investments at NAV:				
Limited liability companies	129,392			
Hedge funds	52,963			
Private equity <sup>(b)</sup>	55,455			
Interest in financially interrelated entities <sup>(c)</sup>	186,445			
CTFs measured at NAV <sup>(d)</sup>	128,906			
Total assets limited as to use	981,786			
Total assets	\$ 1,069,731			
<b>Liabilities</b>				
Interest rate swap liability	\$ 32,302	\$ –	\$ –	\$ 32,302

<sup>(a)</sup> There were no securities transferred between Level 1, 2, or 3 during 2019 or 2018.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

- <sup>(b)</sup> PHP has committed capital yet to be called of \$49.0 million and \$44.6 million at December 31, 2019 and 2018, respectively, to private equity funds over the next one to three years.
- <sup>(c)</sup> Interest in financially interrelated entities are valued in accordance with ASC 820 and are included with the overall investment portfolio of PHP. Asset allocation specific to these entities is 75% marketable equity securities, 2% marketable fixed-income securities, 19% alternative investments, and 4% cash.
- <sup>(d)</sup> In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

PHP maintains diversification in its investment programs by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2019 and 2018. Funds restricted by donors for charitable purposes, included in cash and cash equivalents, investments, and assets limited as to use, were \$75.0 million and \$63.3 million at December 31, 2019 and 2018, respectively.

#### *Cash and Cash Equivalents and Assets Limited as to Use*

PHP's cash and cash equivalents and assets limited as to use are comprised of short-term investments, money market, equity securities, mutual funds (domestic, international and fixed), corporate bonds and other bonds, asset-backed securities, U.S. government securities, and U.S. government agencies, with the exception of alternative investments, which are accounted for using the equity method of accounting, are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable fixed-income securities, is based on quoting prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most cash and short-term investments, equity securities, mutual funds and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. PHP does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include corporate and other bonds, asset-backed securities, U.S. government securities, and U.S. governmental agencies. Such financial instruments are generally classified within Level 2 of the fair value hierarchy. Primarily all of PHP's corporate and other bonds, asset-backed securities, U.S. government

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

securities, and U.S. government agencies are actively traded, and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and valuation techniques as of December 31, 2019 and 2018, used for valuing Level 2 securities in the portfolio:

<u>Securities</u>	<u>Input</u>	<u>Valuation Technique</u>
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market
U.S. government agencies	Broker/dealer	Market

The common trust funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of fair value of the common trust funds at December 31, 2019 and 2018, based on the fact that the common trust funds are audited and accounted for at fair value by the administrators of the respective common trust funds. There are no restrictions on the ability of PHP to redeem any of the common trust funds at December 31, 2019 or 2018.

Some alternative investments are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Investments that have lock-up provisions longer than one year as of December 31, 2019 and 2018, were \$76.8 million and \$64.1 million, respectively. The remaining alternative investments are not subject to lock-up restrictions.

#### *Interest Rate Swap Agreements*

PHP uses interest rate swaps to manage its exposure to fluctuations in interest rates and the overall long-term debt portfolio. PHP's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the London Interbank Offered Rate (LIBOR), Securities Industry and Financial Markets Association (SIFMA) yield curve or five-year Constant Maturity Swap (5YCMS) and respective fixed rates. The valuation of PHP's interest rate swap agreements is performed by PHP's counterparty and validated through the use of independent third-party valuation, including the unobservable inputs used in the calculation.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreement at December 31:

Interest Rate Swap Agreement	Receiving Floating/Fixed Rate		Paying Fixed/ Floating Rate		Discount Rate
	2019	2018	2019	2018	
May 2011	<b>67% of LIBOR</b>	67% of LIBOR	<b>3.23%</b>	3.23%	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR<sup>(1)</sup></b>	67% of LIBOR <sup>(1)</sup>	<b>SIFMA</b>	SIFMA	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR</b>	67% of LIBOR	<b>3.23%</b>	3.23%	Avg. of LIBOR curve
May 2011	<b>67% of LIBOR<sup>(1)</sup></b>	67% of LIBOR <sup>(1)</sup>	<b>SIFMA</b>	SIFMA	Avg. of LIBOR curve
December 2012	<b>n/a</b>	70% of LIBOR	<b>n/a</b>	1.748%	Avg. of LIBOR curve
December 2012	<b>n/a</b>	70% of LIBOR	<b>n/a</b>	1.733%	Avg. of LIBOR curve
April 2007	<b>n/a</b>	67% of 5YCMS <sup>(2)</sup>	<b>n/a</b>	3.12%	Avg. of LIBOR curve
August 2016	<b>5.00</b>	5.00	<b>LIBOR<sup>(3)</sup></b>	70% OF LIBOR <sup>(4)</sup>	Avg. of LIBOR curve
September 2019	<b>70% of LIBOR</b>	n/a	<b>3.708%</b>	n/a	Avg of LIBOR curve
September 2019	<b>70% of LIBOR</b>	n/a	<b>3.711%</b>	n/a	Avg of LIBOR curve

<sup>(1)</sup> Receiving rate is 67% of LIBOR plus a spread of 0.6395%.

<sup>(2)</sup> Receiving rate is 67% of 5YCMS less a spread of 0.458%.

<sup>(3)</sup> Paying rate is 70% of LIBOR plus a spread of 0.78%.

<sup>(4)</sup> Paying rate is 70% of LIBOR plus a spread of 0.63%.

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although PHP has determined that certain inputs used to value the interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by PHP or the counterparty. As a result, PHP has determined that the interest rate swap agreements will be classified in Level 3 of the fair value hierarchy.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)**

**Level 3 Liabilities**

The following table represents the changes in fair value of PHP's Level 3 liabilities (interest rate swap liability) for the years ended December 31:

	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Balance at January 1	\$ (32,302)	\$ (42,714)
Total unrealized (losses) gains and adjustments included in net income:		
Mark-to-market adjustment	(26,436)	10,981
Settlements	7,165	–
Credit valuation adjustment	2,642	(569)
Balance at December 31	<u>\$ (48,931)</u>	<u>\$ (32,302)</u>

All realized and unrealized gains (losses) on interest rate swap agreements, including payments due to and from a counterparty, are presented net and included in the consolidated statements of operations and changes in net assets as non-operating gains, net.

**E. Property and Equipment**

The composition of property and equipment is as follows as of December 31:

	<b>Average Life</b>	<b>2019</b>	<b>2018</b>
		<i>(Dollars in Thousands)</i>	
Land		\$ 76,455	\$ 77,360
Land improvements	8–10 years	45,523	45,753
Buildings	25–40 years	1,409,629	1,386,390
Equipment	3–7 years	922,342	881,157
Right-of-use assets—finance leases		60,013	26,749
Construction-in-process		25,402	37,629
		<u>2,539,364</u>	<u>2,455,038</u>
Less allowances for depreciation		1,511,525	1,394,572
Property and equipment, net		<u>\$ 1,027,839</u>	<u>\$ 1,060,466</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### E. Property and Equipment (continued)

PHP had construction commitments of \$17.3 million and \$37.2 million outstanding at December 31, 2019 and 2018, respectively.

#### F. Leases

PHP has operating and finance leases for real estate and certain equipment. The leases have remaining lease terms of one year to 18 years, some of which include options to extend the leases for up to five years, and some of which include the options to terminate the leases within one year. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. At December 31, 2019, PHP had right-of-use (ROU) assets and lease liabilities for operating leases totaling approximately \$41 million. PHP had ROU assets and lease liabilities for finance leases totaling approximately \$45 million (net of \$15 million of accumulated depreciation) and \$54 million, respectively, at December 31, 2019.

Operating expenses for the leasing activity of PHP as lessee for the year ending December 31, 2019 (*dollars in thousands*):

	<b>Classification</b>			
Operating lease expense	Purchased services, insurance and other	\$	<b>11,082</b>	
Finance lease amortization	Depreciation and amortization		<b>3,007</b>	
Finance lease interest	Interest expense		<b>1,569</b>	
Total lease cost		\$	<b>15,658</b>	

Supplemental cash flow information for the year ended December 31, 2019 (*dollars in thousands*):

Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases		\$	<b>10,717</b>
Operating cash flows from finance leases			<b>1,569</b>
Financing cash flows from finance leases			<b>789</b>
Total		\$	<b>13,075</b>

The following is the ROU assets obtained in exchange for lease obligations for the year ended December 31, 2019 (*dollars in thousands*):

Operating leases	\$	<b>1,530</b>
Finance leases		<b>37,459</b>
Total	\$	<b>38,989</b>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### F. Leases (continued)

The aggregate future lease payments for operating and finance leases were as follows:

	<b>December 31, 2019</b>	
	<b>Operating</b>	<b>Finance</b>
	<i>(Dollars in Thousands)</i>	
2020	\$ 9,719	\$ 6,905
2021	7,606	5,679
2022	5,646	5,490
2023	4,473	5,385
2024	3,679	5,263
Thereafter	<u>14,207</u>	<u>48,328</u>
Total lease payments	45,330	77,050
Less imputed interest	4,351	23,148
Total	<u>\$ 40,979</u>	<u>\$ 53,902</u>

	<b>December 31, 2019</b>
Weighted Average Remaining Lease Term (Years)	
Operating leases	7
Finance leases	12
Weighted Average Discount Rates	
Operating leases	2.58%
Finance leases	4.32%

#### G. Liability Insurance

PHP and most of its subsidiaries maintain professional liability coverage through Premier Health International Insurance Limited (PHIIL). The Premier Health physician companies (MVHE, SFC, PHS, UVPC and UVPCSI) are also covered by PHIIL for all liability claims, except for professional liability, which is obtained from a commercial carrier. PHIIL was formed to provide professional liability, general liability, directors and officers, and employment insurance coverage to the organization and its subsidiaries. The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the consolidated balance sheet date. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. The reserve is undiscounted and based on management's best estimate, which is subject to change. The professional liability, general liability, directors and officers, and employment insurance coverage

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### G. Liability Insurance (continued)

accrual of \$38.1 million and \$37.8 million at December 31, 2019 and 2018, respectively, is included in the reserve for professional liability in the consolidated balance sheets. PHIL has excess insurance through a commercial carrier in the amount of \$40 million for claims in excess of \$10 million self-insured retention.

PHP recorded a decrease in insurance expense of approximately \$8.2 million and \$8.9 million in 2019 and 2018, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, tort reform and other environmental factors, and improved claim resolution history.

#### H. Long-Term Debt

The details of long-term debt, net of original issue discount/premium and issuance costs, are as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
<b>Bonds</b>		
City of Middletown, Ohio, Fixed Rate Revenue Bonds – 2016 Series A, final maturity in 2045, fixed interest rate was 5.00% (net of unamortized issue cost of \$336 and \$349 in 2019 and 2018, respectively)	\$ 82,604	\$ 82,591
County of Miami, Ohio, Floating Rate Revenue Bonds – 2016 Series B, final maturity in 2026, average interest rate was 2.41% and 1.97% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$76, respectively)	–	27,489
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series C, final maturity in 2039, average interest rate was 1.65% and 1.37% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$147, respectively)	–	29,288
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series D, final maturity in 2039, average interest rate was 1.62% and 1.37% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$145, respectively)	–	27,700
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series E, final maturity in 2045, average interest rate was 1.55% and 1.37% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$222, respectively)	–	43,603

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**H. Long-Term Debt (continued)**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series F, final maturity in 2045, average interest rate was 1.52% and 1.37% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$222, respectively)	\$ –	\$ 43,603
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2016 Series G, final maturity in 2046, fixed interest rate was 3.09% (net of unamortized issue cost of \$1,831 and \$2,093 in 2019 and 2018, respectively)	<b>298,169</b>	297,907
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2012 Series A, final maturity in 2039, average interest rate was 2.76% and 2.40% in 2019 and 2018, respectively (net of unamortized issue cost of \$0 and \$162, respectively)	–	77,973
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2011 Series A, final maturity in 2023, fixed interest rate was 5.61% (net of unamortized premium of \$1,171 and \$1,760 in 2019 and 2018, respectively, and unamortized issue cost of \$285 and \$383 in 2019 and 2018, respectively)	<b>95,751</b>	97,087
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2009 Series B, final maturity in 2039, average interest rate was 2.79% and 2.28% in 2019 and 2018, respectively	–	15,000
City of Middletown, Ohio, Variable Rate Demand Revenue Bonds – 2008 Series A, final maturity in 2039, average interest rate was 1.55% and 1.42% in 2019 and 2018, respectively	–	41,425
City of Middletown, Ohio, Variable Rate Demand Revenue Bonds – 2008 Series B, final maturity in 2039, average interest rate was 1.55% and 1.42% in 2019 and 2018, respectively	–	41,125
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2018, final maturity in 2034, average interest rate was 2.14% and 2.69% in 2019 and 2018, respectively.	–	58,505
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2019 Series A, final maturity in 2045, fixed interest rate was 4.43% in 2019 (net of unamortized premium of \$48,255, and unamortized issue cost of \$3,052)	<b>333,407</b>	–

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**H. Long-Term Debt (continued)**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series B, final maturity in 2045, average interest rate was 1.35% in 2019 (net of unamortized issue cost of \$287)	<b>\$ 42,213</b>	\$ –
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series C, final maturity in 2045, average interest rate was 1.35% in 2019 (net of issue cost \$287)	<b>42,213</b>	–
Total bonds, including current portion	<b>894,357</b>	883,296
<b>Notes payable</b>		
Various notes payable, fixed interest rates ranging from 0% to 4.084%, including current portion	<b>3,093</b>	21,275
<b>Finance lease obligations</b>		
Total finance lease obligations, including current portion	<b>53,902</b>	21,081
<b>Less current portion of debt and finance leases</b>		
Total current portion of debt and finance leases	<b>6,087</b>	13,723
Total long-term debt	<b>\$ 945,265</b>	\$ 911,929

Maturities of long-term bonds for the five years succeeding December 31, 2019, and thereafter are as follows *(dollars in thousands)*:

2020	\$ 945
2021	32,685
2022	31,210
2023	33,450
2024	10,575
Thereafter	742,145
Minimum payments before premiums and issue costs	851,010
Premiums	49,426
Issue costs	(6,079)
Minimum payments on bonds	<u>\$ 894,357</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **H. Long-Term Debt (continued)**

On August 1, 2016, Premier Health Partners amended and restated its Master Trust Indenture with the Bank of New York Mellon Trust Company, N.A. (Master Trustee), and formed the Premier Health Partners Obligated Group (PHPOG), which comprises MVH, AMC and UVMC (Members). Under terms of the master indenture, substantially all of the MVH, AMC and UVMC properties, buildings and equipment are leased from the governmental issuer (County of Montgomery, Ohio, City of Middletown, Ohio and County of Miami, Ohio) of all outstanding bonds. Members of the PHPOG are jointly and severally liable for all outstanding obligations, except for the Notes Payable described in this note. PHPOG is also responsible for the performance of all debt covenants.

On August 31, 2016, PHPOG issued \$82.9 million of the City of Middletown, Ohio Hospital Facilities Revenue Bonds, Series 2016A fixed rate bonds. The Series 2016A bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. The 2016A bonds have an embedded put option that will expire on November 15, 2023.

On August 31, 2016, PHPOG issued \$300 million of the County of Montgomery, Ohio Taxable Hospital Revenue Bonds, Series 2016G fixed rate bonds. The Series 2016G bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. PHPOG will pay a taxable rate of 2.911% on \$250 million and a taxable rate of 3.992% on the remaining \$50 million. The 2016G bond agreement has \$250 million that will expire November 15, 2026, and \$50 million that will expire on November 15, 2046.

The 2011A Series Bonds were issued and secured under the terms of a Bond Trust Indenture dated as of April 1, 2011, between PHPOG and the Bank of New York Mellon Trust Company.

On September 24, 2019, PHPOG issued the County of Montgomery, Ohio Hospital Facilities Revenue Refunding Bonds, Series 2019A fixed rate bonds and Series 2019 B and C variable rate bonds in the amounts of \$288.2 million (issued with a \$49.3 million premium), \$42.5 million and \$42.5 million, respectively. The Series 2019A, B and C bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2019, between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Capital Inc. and PNC Capital Markets LLC. The Series 2019A, B and C bonds have a final

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### H. Long-Term Debt (continued)

maturity of November 15, 2045. The 2019 Series B and C variable rate revenue bonds are backed by a Letter of Credit from PNC and this will expire on September 24, 2024. The 2019A, B and C bonds were used to call and extinguish the following bond series as outlined in the table below:

	<b>Issuing Series</b>			<b>Total</b>
	<b>Series 2019A</b>	<b>Series 2019B</b>	<b>Series 2019C</b>	
	<i>(Dollars in Thousands)</i>			
<b>Refunded Series</b>				
Refunding Series 2009B Bonds	\$ 15,000	\$ —	\$ —	\$ 15,000
Refunding Series 2012A Bonds	78,135	—	—	78,135
Refunding Series 2016C Bonds	29,435	—	—	29,435
Refunding Series 2016D Bonds	27,845	—	—	27,845
Refunding Series 2018 Bonds	58,505	—	—	58,505
Refunding Atrium Series 2008A Bonds	41,425	—	—	41,425
Refunding Atrium Series 2008B Bonds	41,125	—	—	41,125
Refunding UVMC Series 2016B Bonds	24,670	—	—	24,670
Refunding Series 2016E Bonds	1,630	42,195	—	43,825
Refunding Series 2016F Bonds	1,630	—	42,195	43,825
<b>Total</b>	<b>\$ 319,400</b>	<b>\$ 42,195</b>	<b>\$ 42,195</b>	<b>\$ 403,790</b>

Bond agreements and letters of credit include certain restrictive covenants, which include among other things, minimum requirements for leverage ratio, cash, and revenues available for debt service. At December 31, 2019 and 2018, PHPOG was in compliance with its financial debt covenants.

#### Notes Payable

In May 2012, MAHS and MVH entered into a financing arrangement, within the guidelines of the Internal Revenue Service's New Market Tax Program, to fund a capital project. The arrangement called for the creation of a new limited liability company (Premier Plaza, LLC) for which 100% interest was owned by MAHS and MVH. As part of this arrangement, MAHS and a third-party investor were required to loan \$12.5 million and \$5.2 million, respectively, to a group of qualified community development entities (CDEs) through an investment fund. These CDEs subsequently loaned \$17.7 million back to Premier Plaza, LLC for purposes of funding the capital project through four notes with interest rates ranging from 1.0% to 4.1% and 20-year terms. Payment on the CDE notes was guaranteed by MVH in the event of default. The loans were also secured by a collateral security interest in the future stream of lease rental payments to be received by Premier Plaza, LLC.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **H. Long-Term Debt (continued)**

In May 2019, MAHS and MVH ended the financing arrangement within the guidelines of the Internal Revenue Service's New Market Tax Program. Under the structure of the program, MAHS's ownership interests in Premier Plaza, LLC were transferred from MAHS to MVH resulting in MVH owning Premier Plaza, LLC. As such, the \$12.5 million loan receivable described above and the \$17.7 million loan to Premier Plaza, LLC were consolidated and forgiven, which resulted in an increase in net assets of \$5.2 million for the year ended December 31, 2019.

In July 2017, PHP entered into a financing arrangement to purchase land in the amount of \$5.0 million, to be paid in equal annual installments beginning July 31, 2018 through July 31, 2025. This amount is included in notes payable in the consolidated balance sheets.

For the years ended December 31, 2019 and 2018, net interest paid on bonds was \$27.8 million and \$26.6 million, respectively. For the year ended December 31, 2018, capitalized interest was \$1.4 million and for the year ended December 31, 2019, was immaterial.

#### **I. Pension Plan**

The Premier Health Partners Employees Retirement Plan (PHP Plan) was formed on January 1, 2013. Participants of the PHP Plan earn benefits using formulas that existed under the defined benefit plans for MAHS Plan, GSH Plan, AHS Plan, and UVMC Plan for employees hired before January 1, 2008. The formulas for MAHS Plan, GSH Plan, AHS Plan, and UVMC Plan are primarily based on the total of retirement income and/or service credits calculated using various percentages of annual earnings depending on the year of employment. Individuals participating under these formulas are 100% vested in all amounts credited to their accounts upon the completion of three vesting years as defined by the PHP Plan. In December 2016, PHP's board approved an amendment to the PHP Plan for participants hired prior to January 1, 2008. For these affected participants, their formulas were frozen as of January 1, 2018, and from that date forward they are covered under the cash balance formula.

Individuals hired after January 1, 2008, earn benefits based on a percentage of compensation and with escalating percentages related to years of service (cash balance formula). Individuals earning benefits under this formula shall become 100% vested in all amounts credited to their accounts upon completion of three vesting years, as defined in the PHP Plan. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits for individuals hired after January 1, 2008, are fully portable upon termination of employment.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

PHP's funding policy is to contribute amounts to the PHP Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). PHP recognizes in the consolidated balance sheets the funded status of its defined benefit pension plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic cost in the same periods will be recognized as a component of net assets without donor restrictions.

The following table sets forth the funded status of PHP's pension plans and the amounts recognized in the consolidated balance sheets for the years ended December 31:

	<u>2019</u>	<u>2018</u>
	<i>(Dollars in Thousands)</i>	
Accumulated benefit obligation	<u>\$ 806,836</u>	<u>\$ 673,430</u>
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at beginning of year	\$ 680,306	\$ 728,026
Service cost	21,214	23,368
Interest cost	26,991	24,397
Actuarial loss (gain)	114,149	(36,160)
Benefits paid	<u>(29,051)</u>	<u>(59,325)</u>
Projected benefit obligation at end of year	813,609	680,306
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	598,642	693,755
Actual return on plan assets	132,039	(44,888)
Contributions	9,000	9,100
Benefits paid	<u>(29,051)</u>	<u>(59,325)</u>
Fair value of plan assets at end of year	<u>\$ 710,630</u>	<u>\$ 598,642</u>
Funded status and net pension liability	<u>\$ (102,979)</u>	<u>\$ (81,664)</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Included as a reduction in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension expense as of December 31:

	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Net prior service credit	\$ 23,375	\$ 26,584
Net actuarial loss	<b>(287,492)</b>	(277,768)
	<b>\$ (264,117)</b>	<b>\$ (251,184)</b>

Net actuarial loss is amortized as a component of net periodic pension cost, only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit is amortized on a straight-line basis over the estimated life of the PHP Plan's participants. The net prior service credit and net actuarial loss included as a reduction in net assets without donor restrictions that is expected to be recognized in net periodic pension expense during the year ending December 31, 2020, are \$3.2 million and \$35.5 million, respectively, for the PHP plan.

The following amounts related to pension benefit activity have been recognized in net assets without donor restrictions for the years ended December 31:

	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Net actuarial loss	\$ (23,814)	\$ (53,952)
Amortization of actuarial loss	<b>14,090</b>	17,208
Amortization of unrecognized prior service credit	<b>(3,209)</b>	(3,209)
Decrease in net assets without donor restrictions	<b>\$ (12,933)</b>	<b>\$ (39,953)</b>

Net pension expense included the following components for the years ended December 31:

	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Service cost	\$ 21,214	\$ 23,368
Interest cost	<b>26,991</b>	24,397
Expected return on assets	<b>(41,705)</b>	(45,224)
Amortization of unrecognized prior service credit	<b>(3,209)</b>	(3,209)
Amortization of actuarial loss	<b>14,091</b>	17,208
Net pension expense	<b>\$ 17,382</b>	<b>\$ 16,540</b>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Weighted-average assumptions to determine the benefit obligation for the PHP Plan are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Discount rate	3.31%	4.43%
Average salary increase rate	3.97	3.97

Weighted-average assumptions to determine the net periodic benefit expense for the PHP Plan are as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Discount rate	4.43%	3.74%
Interest cost discount rate on benefit obligations	4.07	3.37
Service cost discount rate	4.52	3.78
Interest cost discount rate on service cost	4.18	3.22
Long-term rate of return	6.50	6.75
Average salary increase rate	3.97	3.00

In selecting the expected long-term return on plan assets for the PHP Plan, management considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of the plan. This includes the asset allocation and the expected returns that are anticipated to be earned over the life of the plan. This basis is consistent with the prior year.

Projected benefit payments for the ten years succeeding December 31, 2019, are as follows:

	<u>PHP Plan</u>
2020	\$ 33,439
2021	41,148
2022	43,286
2023	45,255
2024	47,460
2025–2029	251,634
	<u>\$ 462,222</u>

PHP expects to make a \$24.0 million contribution to its pension plan in 2020.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**I. Pension Plan (continued)**

The fair values of the PHP Plan's assets at December 31, 2019, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements <sup>(a)</sup>		
		(Level 1)	(Level 2)	(Level 3)
		<i>(Dollars in Thousands)</i>		
Short-term investments	\$ 21,405	\$ 21,405	\$ —	\$ —
Mutual funds:				
Domestic small cap	26,488	26,488	—	—
International	35,833	35,833	—	—
Corporate and other bonds:				
Corporate and other bonds	162,364	—	162,364	—
Asset-backed securities	398	—	398	—
U.S. government securities:				
U.S. government securities	194,714	—	194,714	—
CTFs measured at NAV <sup>(b)</sup>	118,574	—	—	—
Alternative investments measured at NAV <sup>(b)</sup> :				
Limited liability companies	115,103	—	—	—
Hedge funds	35,751	—	—	—
<b>Total PHP Plan assets</b>	<b>\$ 710,630</b>	<b>\$ 83,726</b>	<b>\$ 357,476</b>	<b>\$ —</b>

<sup>(a)</sup> There were no securities transferred between Level 1, 2, or 3 during 2019.

<sup>(b)</sup> In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2018, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements <sup>(a)</sup>		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
Short-term investments	\$ 32,955	\$ 32,955	\$ —	\$ —
Mutual funds:				
Domestic small cap	23,404	23,404	—	—
International	41,648	41,648	—	—
Corporate and other bonds:				
Corporate and other bonds	132,170	—	132,170	—
U.S. government securities:				
U.S. government securities	143,933	—	143,933	—
CTFs measured at NAV <sup>(b)</sup>	98,558	—	—	—
Alternative investments measured at NAV <sup>(b)</sup> :				
Limited liability companies	91,820	—	—	—
Hedge funds	34,154	—	—	—
<b>Total PHP Plan assets</b>	<b>\$ 598,642</b>	<b>\$ 98,007</b>	<b>\$ 276,103</b>	<b>\$ —</b>

<sup>(a)</sup> There were no securities transferred between Level 1, 2, or 3 during 2018.

<sup>(b)</sup> In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Fair value methodologies for short-term investments, mutual funds, corporate and other bonds, and U.S. government securities sections included in Level 1 and Level 2 are consistent with the inputs described in Note D.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### I. Pension Plan (continued)

Following is the summary of the inputs and valuation techniques as of December 31, 2019 and 2018, used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CTFs at December 31, 2019 and 2018, based on the fact the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2019 or 2018.

Alternative investments, which consist of hedge funds and limited liability companies, are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2019, based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund and limited liability companies' redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated.

PHP's objective for the pension plan is to provide the payment of all future participant benefits. To meet this objective, the plan assets are invested in a manner that considers asset and liability movements and prudent efforts are made to exceed growth in liabilities. The PHP Plan is actively invested to achieve growth of capital and capital preservation. PHP maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Consideration is given to variables such as productivity, inflation, global competitiveness, and market risk. PHP's objective for the PHP Plan is to be in the range of 35% to 68% invested in return-seeking assets and 32% to 65% invested in liability-driven investments. Within those ranges, the Plan's target allocation for December 31, 2019, by asset category is 50% return-seeking assets and 50% liability-driven investments. Accordingly, based on this diversification, management does not believe there are any concentrations of credit risk at the measurement date.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### J. Interest Rate Swaps

The following table summarizes the notional and valuation assets (liabilities) of PHP's interest rate swaps as of December 31 (in millions):

Interest Rate Swap Agreement	Transaction Type	Termination Date	Notional Amount		Valuation Amount	
			2019	2018	2019	2018
April 2007 <sup>1</sup>	Fixed Pay	2039	\$ —	\$ 92.6	\$ —	\$ (16.0)
May 2011	Fixed Pay	2045	42.5	42.5	(15.4)	(10.6)
May 2011	Fixed Pay	2045	42.5	42.5	(15.0)	(11.0)
May 2011	Basis swap	2037	50.0	50.0	2.5	1.7
May 2011	Basis swap	2037	50.0	50.0	2.6	1.7
December 2012 <sup>2</sup>	Fixed Pay	2039	—	78.1	—	1.0
December 2012 <sup>2</sup>	Fixed Pay	2039	—	47.5	—	0.6
August 2016	Total Return	2026	82.9	82.9	0.3	0.3
September 2019	Fixed Pay	2045	41.5	—	(12.1)	—
September 2019	Fixed Pay	2045	41.5	—	(11.8)	—
Total liability					\$ (48.9)	\$ (32.3)

<sup>1</sup> April 2007 swap with notional value of \$92.6 million was novated and became the two September 2019 swaps with notional values of \$41.5 million each in 2019.

<sup>2</sup> December 2012 swaps with notional values of \$78.1 million and \$47.5 million were both terminated in 2019.

PHP's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. PHP has posted collateral with a designated custodian of \$4.2 million at December 31, 2019 (\$9.3 million at December 31, 2018) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and is included in other assets on the consolidated balance sheets, restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in non-operating gains (losses), net on the consolidated statements of operations and changes in net assets.

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### K. Non-operating Gains (Losses), Net

Non-operating gains (losses), net are as follows:

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Interest income, net of investment fees	\$ 17,406	\$ 19,231
Realized gains on assets limited as to use	52,158	14,847
Change in unrealized gains (losses) on assets limited as to use	71,043	(73,004)
Unrealized (losses) gains on interest rate swaps	(23,423)	10,578
Other losses	(25,066)	(9,655)
Non-operating gains (losses), net	<u>\$ 92,118</u>	<u>\$ (38,003)</u>

#### L. Concentration of Credit Risk

PHP's primary purpose is to provide healthcare services. PHP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors was as follows at December 31:

	<b>2019</b>	<b>2018</b>
Medicare	35%	35%
Medicaid	17	17
Anthem	10	9
United HealthCare	5	5
Other third-party payors	16	15
Patients' responsibility	17	19
Total	<u>100%</u>	<u>100%</u>

## Premier Health Partners and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### M. Goodwill and Intangible Assets, Net

Goodwill and intangible assets have been generated primarily from the acquisition of certain businesses. The following table sets forth the related carrying values of goodwill and other intangibles, as of December 31:

	<b>2019</b>	<b>2018</b>
	<i>(Dollars in Thousands)</i>	
Goodwill balance, January 1,	\$ 32,420	\$ 27,807
Goodwill acquired	11,286	2,831
Purchase accounting adjustment	—	1,782
Goodwill balance, December 31,	<u>43,706</u>	<u>32,420</u>
Intangible assets, December 31,	6,996	8,282
Intangible asset accumulated amortization	<u>(6,070)</u>	<u>(6,381)</u>
Net intangible assets	926	1,901
Total goodwill and intangible assets, December 31,	<u>\$ 44,632</u>	<u>\$ 34,321</u>

Amortization expense for the years ended December 31, 2019 and 2018, was \$1.8 million and \$1.8 million, respectively.

In 2019, PHP acquired the remaining ownership interest in a business in which it had a controlling interest, resulting in an increase to goodwill of \$11.3 million and an increase in other current liabilities of \$11.3 million.

In 2018, PHP acquired the remaining ownership interest in a business in which it had a controlling interest, resulting in an increase to goodwill of \$2.8 million.

#### N. Subsequent Events

PHP has evaluated subsequent events through March 13, 2020, which is the date the consolidated financial statements were issued and made available. No recognized or unrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

Premier Health Partners and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**O. Cost of Community Benefits (Unaudited)**

<b>Cost of Community Benefit</b>	<b>2019 PHP</b>	<b>PHP % of Operating Expense</b>	<b>2018 PHP</b>	<b>PHP % of Operating Expense</b>
<i>(Dollars in Thousands)</i>				
<b>Charity care and means-tested government programs</b>				
Charity care at cost	\$ 27,373		\$ 21,460	
Unreimbursed Medicaid	119,437		122,696	
Unreimbursed costs – other means-tested government programs	7,365		5,975	
Total charity care and means-tested government programs	<b>154,175</b>	<b>7.7%</b>	150,131	7.7%
<b>Other benefits</b>				
Community health improvement and community benefit operations	3,482		3,329	
Health professions education	4,346		7,297	
Subsidized health services	37,057		42,309	
Cash and in-kind contributions to community groups	8,561		6,319	
Total other benefits	<b>53,446</b>	<b>2.7%</b>	59,254	3.1%
Total quantifiable benefits	<b>207,621</b>	<b>10.4%</b>	209,385	10.8%
<b>Community building activities</b>				
Physical improvements	1,096		638	
Other	14,270		80	
Total community building activities	<b>15,366</b>	<b>0.8%</b>	718	0.0%
Total Medicare	<b>120,921</b>	<b>6.0%</b>	133,856	6.9%
Total community benefits	<b>\$ 343,908</b>	<b>17.2%</b>	\$ 343,959	17.7%

Medicaid and Medicare include total costs of treating patients which is higher than the costs covered by those programs.

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