

SSM Health

Consolidated Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
Additional Information as of and for the Years
Ended December 31, 2018 and 2017, and
Independent Auditors' Report

SSM HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SSM Health Care Corporation
St. Louis, Missouri

We have audited the accompanying consolidated financial statements of SSM Health Care Corporation and its subsidiaries (doing business as SSM Health) (SSMH), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SSMH's preparation and fair presentation of the consolidated 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 SSMH'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SSMH as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2018, SSMH adopted new accounting guidance related to the presentation of financial statements for not-for-profit entities. Our opinion is not modified with respect to this matter.

Report on Consolidating Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 64-69 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the consolidated financial statements. This supplementary information is the responsibility of SSMH's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

March 27, 2019

SSM HEALTH

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 116,931	\$ 126,943
Investments	65,063	88,352
Current portion of assets limited as to use	490,822	385,611
Patient accounts receivable—less allowance for uncollectible accounts of \$146,357 in 2017	781,726	627,939
Pharmacy claims and rebates receivable	322,768	266,354
Premium receivable—less allowance for uncollectible accounts of \$1,300 in 2018 and 2017	5,043	9,549
Other receivables	88,678	54,561
Assets held for sale	22,330	-
Inventories, prepaid expenses, and other	170,837	222,543
Estimated third-party payor settlements	<u>28,933</u>	<u>38,232</u>
Total current assets	2,093,131	1,820,084
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	3,146,554	2,890,558
PROPERTY AND EQUIPMENT—Net	2,661,317	2,217,160
OTHER ASSETS:		
Goodwill	121,191	121,191
Intangible assets—net	196,610	207,021
Investments in unconsolidated entities	116,631	107,670
Other	<u>23,636</u>	<u>13,125</u>
Total other assets	<u>458,068</u>	<u>449,007</u>
TOTAL	<u>\$ 8,359,070</u>	<u>\$ 7,376,809</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Revolving line of credit	\$ 60,067	\$ 185,550
Current portion of long-term debt and capital lease obligations	20,847	31,490
Accounts payable, accrued expenses, and other current liabilities	1,398,479	1,215,030
Commercial paper	175,000	200,000
Short-term borrowings	454,005	300,000
Unearned premiums	27,906	30,212
Payable under securities lending agreements	63,699	50,543
Estimated third-party payor settlements	<u>160,977</u>	<u>164,032</u>
Total current liabilities	2,360,980	2,176,857
LONG-TERM DEBT—Excluding current portion	1,883,148	1,627,963
ESTIMATED SELF-INSURANCE OBLIGATIONS	98,282	103,805
CAPITAL LEASE OBLIGATIONS—Excluding current portion	22,851	20,988
PENSION LIABILITY	715,158	795,395
OTHER LIABILITIES	<u>321,608</u>	<u>300,139</u>
Total liabilities	<u>5,402,027</u>	<u>5,025,147</u>
NET ASSETS:		
Without donor restrictions:		
Noncontrolling interest in subsidiaries	148,869	146,062
SSM Health net assets without donor restrictions	<u>2,710,314</u>	<u>2,123,839</u>
Total net assets without donor restrictions	2,859,183	2,269,901
With donor restrictions	<u>97,860</u>	<u>81,761</u>
Total net assets	<u>2,957,043</u>	<u>2,351,662</u>
TOTAL	<u>\$ 8,359,070</u>	<u>\$ 7,376,809</u>

See notes to consolidated financial statements.

SSM HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
OPERATING REVENUES AND OTHER SUPPORT:		
Net patient service revenues before provision for uncollectible accounts		\$ 4,656,527
Less provision for uncollectible accounts		<u>(297,778)</u>
Net patient service revenues	\$ 5,146,211	4,358,749
Premiums earned	1,456,745	1,319,274
Pharmacy benefit management revenue	494,240	381,550
Investment (loss) income	(22,648)	74,714
Income from unconsolidated entities—net	15,563	15,227
Other revenue	454,066	337,373
Net assets released from restrictions	<u>7,479</u>	<u>10,119</u>
Total operating revenues and other support	<u>7,551,656</u>	<u>6,497,006</u>
OPERATING EXPENSES:		
Salaries and benefits	3,239,917	2,836,181
Medical claims	557,558	584,512
Supplies	1,646,005	1,341,508
Professional fees and other	1,594,185	1,345,138
Interest	82,677	67,727
Depreciation and amortization	<u>307,316</u>	<u>281,837</u>
Total operating expenses	<u>7,427,658</u>	<u>6,456,903</u>
INCOME FROM OPERATIONS BEFORE OTHER ITEMS	123,998	40,103
OTHER ITEMS—Nonrecurring items	<u>112,847</u>	<u>9,272</u>
OPERATING INCOME AFTER OTHER ITEMS	<u>11,151</u>	<u>30,831</u>
NONOPERATING GAINS AND (LOSSES):		
Investment (loss) income	(81,756)	242,596
Inherent contribution	598,817	-
Loss from early extinguishment of debt	(13,038)	(8,318)
Net periodic pension cost, less service cost	(30,800)	(25,107)
Change in fair value of interest rate swaps	29,225	7,744
Other—net	<u>749</u>	<u>(3,081)</u>
Total nonoperating gains—net	<u>503,197</u>	<u>213,834</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	514,348	244,665
INCOME TAX EXPENSE	<u>858</u>	<u>1,691</u>
EXCESS OF REVENUES OVER EXPENSES	513,490	242,974
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>8,242</u>	<u>(3,086)</u>
EXCESS OF REVENUES OVER EXPENSES—Net of noncontrolling interest	<u>\$ 505,248</u>	<u>\$ 246,060</u>

(Continued)

SSM HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenues over expenses	\$ 513,490	\$ 242,974
Pension-related changes other than net periodic pension cost	77,876	6,204
Net assets released from restrictions for property acquisitions	4,772	1,595
Distributions to noncontrolling owners	(5,435)	(5,909)
Purchase of subsidiary from noncontrolling owner	(3,391)	(4,450)
Other—net	<u>1,970</u>	<u>643</u>
Increase in net assets without donor restrictions	<u>589,282</u>	<u>241,057</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions for charity care, property acquisitions, and other programs	16,327	12,100
(Losses) gains on investments—net	(1,688)	4,369
Net assets with donor restrictions released from restrictions for operations	(7,479)	(10,119)
Net assets with donor restrictions released from restrictions for property acquisitions	(4,772)	(1,595)
Net assets with donor restrictions contributed from acquisition	13,552	-
Other—net	<u>159</u>	<u>(2)</u>
Increase in net assets with donor restrictions	<u>16,099</u>	<u>4,753</u>
CHANGE IN NET ASSETS	605,381	245,810
NET ASSETS—Beginning of year	<u>2,351,662</u>	<u>2,105,852</u>
NET ASSETS—End of year	<u>\$ 2,957,043</u>	<u>\$ 2,351,662</u>

See notes to consolidated financial statements.

(Concluded)

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 605,381	\$ 245,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(77,876)	(6,204)
Purchase of subsidiary from noncontrolling owner	3,391	4,450
Depreciation and amortization	307,306	281,838
Loss on early extinguishment of debt	13,038	8,318
Loss on impairment and other	112,847	-
Provision for uncollectible accounts and bad debts	-	297,794
Contributions restricted for long-term investment	(6,751)	(4,909)
Distributions to noncontrolling owners—net	5,435	5,909
Inherent contributions related to acquisitions	(612,369)	
Gains and losses on investments—net	176,258	(289,972)
Equity in earnings of unconsolidated entities	(15,563)	(15,227)
Change in fair value of interest rate swaps	(29,225)	(7,744)
Loss on disposal of assets	(887)	19
Distributions from unconsolidated entities	11,236	8,736
Changes in assets and liabilities:		
Investments	4,146	(55,038)
Patient accounts receivable	(55,648)	(254,417)
Pharmacy claims and rebates receivable	(56,414)	(20,213)
Premiums receivable	4,506	(1,531)
Other receivables, inventories, prepaid expenses, and other	56,951	(86,551)
Accounts payable, accrued expenses, and other liabilities	71,918	217,877
Other changes to pension liability	(3,003)	(7,300)
Estimated self-insurance obligations	1,110	12,020
Net cash provided by operating activities	<u>515,787</u>	<u>333,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(347,689)	(209,499)
Proceeds from disposal of property and equipment and sales of other assets	2,394	4,921
Purchase of assets limited as to use or restricted and short-term investments	(8,968,822)	(3,453,488)
Proceeds from sales of assets limited as to use or restricted and short-term investments	8,915,588	3,130,430
Contributions to unconsolidated entities	(4,708)	(5,079)
Acquisitions, net of cash acquired	(48,553)	-
Purchases of other assets	<u>(40,593)</u>	<u>(24,979)</u>
Net cash used in investing activities	<u>(492,383)</u>	<u>(557,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	760,184	604,690
Payments on long-term debt	(788,755)	(249,023)
Debt issuance costs	(6,877)	(3,604)
Contributions restricted for long-term investment	6,751	4,909
Distributions to noncontrolling owners—net	(5,435)	(5,909)
Purchase of subsidiary from noncontrolling owner	(3,391)	(3,907)
Proceeds from patient loans	14,148	12,532
Payments on patient loans	(13,563)	(11,819)
Proceeds from short-term borrowings and commercial paper	154,005	-
Payments on short-term borrowings and commercial paper	(25,000)	(199,870)
Proceeds from revolving line of credit	105,000	185,462
Payments on revolving line of credit	<u>(230,483)</u>	<u>(150,037)</u>
Net cash (used in) provided by financing activities	<u>(33,416)</u>	<u>183,424</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,012)	(40,605)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>126,943</u>	<u>167,548</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 116,931</u>	<u>\$ 126,943</u>

See notes to consolidated financial statements.

SSM HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Dollars in thousands)

1. ORGANIZATION

SSM Health (SSMH) is a multiinstitutional health care system located primarily in Missouri, Oklahoma, Wisconsin, and Illinois. SSM Health Care Corporation (SSMHCC) (doing business as SSMH) is the principal not-for-profit corporation that holds membership or stock ownership in other affiliated corporations. SSMHCC has been established as the parent corporation. Through its affiliated corporations, SSMH owns and operates 23 acute care hospitals, one children's hospital, six long-term care facilities, a health maintenance organization, a national pharmacy benefit management company, an extensive network of physician practice operations, and other health care businesses.

SSMHCC and most of its affiliated subsidiary corporations are organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC). As such, they are exempt from federal income tax on income from activities related to their exempt purposes under IRC Section 501(a). Certain subsidiaries of SSMH are for-profit entities that are taxable under the IRC.

SSMH is sponsored by SSM Health Ministries, an independent seven-member body composed of two Franciscan Sisters of Mary, one Sister of St. Agnes and four lay people who collectively hold certain reserved powers over SSMH.

2. SSMH SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation—The consolidated financial statements include the accounts of SSMHCC and all wholly owned, majority owned, and controlled entities, including the consolidated statements of SSMH Liability Trust I and SSMH Liability Trust II as described in Note 14. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased. The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Investments—Investments are measured at fair value and include liquid investments maintained for near-term cash flow purposes, with original maturities at time of purchase of greater than three months.

Financial Instruments—Management's estimates of the fair value of financial instruments are described elsewhere in the notes to the consolidated financial statements. Investments reported as assets that are designated as limited as to use or restricted, investments, and interest rate swaps are measured at fair value as described in Note 7. Long-term debt fair value is disclosed in Note 12. Due to the volatility of the US economy and the financial markets, there is uncertainty regarding the long-term impact market conditions will have on SSMH's investment portfolio.

Patient Accounts Receivable—Patient accounts receivable are stated at estimated net realizable amounts from patients, third-party payors, and other insurers to which SSMH expects to be entitled in exchange for providing patient care. Management periodically reviews the adequacy of the implicit price concessions (during 2018) or the allowance for uncollectible accounts (during 2017) based on historical experience, trends in health care coverage, and other collection indicators.

SSMH's mission is to provide exceptional health care services to all persons regardless of their ability to pay. After all payments, discounts, and reasonable collection efforts have been exhausted, SSMH follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by SSMH. Accounts placed with collection agencies are written off and excluded from patient accounts receivable.

SSMH has entered into a contractual agreement with a third-party bank to provide interest-free loans to SSMH's patients. This arrangement provides for the full recourse purchase of qualifying patient liability accounts receivable balances by the bank, for a nominal fee to SSMH. The bank enters into a loan agreement with the patient and proceeds to bill and collect payments from the patient. If the patient defaults on the loan agreement or the loan meets certain other criteria, the bank will request repayment of the remaining loan balance from SSMH. Because SSMH is responsible for the repayment of the full amount of the patient loan balance under certain circumstances, an obligation is recorded in current liabilities and a corresponding current receivable is recorded. The outstanding loan balance under this agreement was \$15,516 and \$15,428 at December 31, 2018 and 2017, respectively, which is included in accounts payable, accrued expenses, and other current liabilities. The corresponding receivable is included in other receivables.

Pharmacy Claims and Rebates Receivable—Pharmacy claims and rebates receivable consist of amounts due from clients for pharmacy and member claims and rebates receivable from pharmaceutical manufacturers. SSMH assumes no risk for payment of the claims and considers these accounts to be fully collectible.

Other Receivables—Other receivables consist primarily of amounts due from retail pharmacies, accrued interest receivable and the present value of amounts due from a long-term contract.

Assets Held for Sale – SSMH has classified certain assets as assets held for sale in the consolidated balance sheets when the assets have met applicable criteria for this classification. Assets determined to have met the held for sale criteria are evaluated for estimated recoverability of the assets' carrying value. Such analyses require various valuation techniques using management assumptions, including estimates of future cash flows. See Note 11.

Premium Receivable and Unearned Premiums—Premiums are recognized in the period for which services are covered. Premium receivable includes amounts due from subscriber groups for premiums. Premiums billed and due in advance of a coverage period are included in unearned premiums.

Inventories—Inventories are stated at the lower of cost or net realizable value. Cost is determined principally using the first-in, first-out method. Supplies and pharmaceuticals are expensed when they are distributed for use. SSMH held inventories in the amount of \$109,999 and \$98,024 at December 31, 2018 and 2017, respectively. These amounts are included in inventories, prepaid expenses, and other.

Estimated Third-Party Payor Receivable and Payable Settlements—SSMH has agreements with payors that provide for payments at amounts different from established charges. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established charges. These estimated amounts are subject to further adjustments upon review by third-party payors. See Note 21.

Assets Limited as to use or Restricted—Assets limited as to use include investments and other assets set aside by the Board of Directors or management at their discretion for future capital improvements, medical insurance claims or for other purposes, and assets held in trust under bond indentures and self-insurance agreements. Assets restricted as to use include investments and other assets whose use is restricted by donors.

Pooled Investments—SSMH holds the majority of its investments in a pooled investment program, which also includes the investments of its defined benefit plans. The earnings are allocated proportionately according to ownership percentages as defined in pooled investment agreements.

SSMH has elected the fair value option for financial investments in limited partnerships and limited liability corporations made through its centralized investment program that would otherwise be recorded using either the cost or equity methods. SSMH made this election in order to ensure that the accounting treatment of these investments was comparable between categories, regardless of the current organizational structure of the various investments. Interest and dividend income on investments for which the fair value option has been elected is included in either operating or nonoperating investment income depending on various factors as described in SSMH's investment income accounting policy below.

Other Assets—Other assets include long-term prepaid contracts and swap contracts.

Derivative Instruments—It is SSMH's policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. Accordingly, SSMH periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt.

Within established investment policy guidelines, SSMH may also enter into various exchange-traded and over-the-counter derivative contracts for economic hedging purposes, including futures, options, swaps and forward contracts.

SSMH records derivative instruments as either an asset or liability measured at its fair value (Note 7). The estimated fair value of all derivative instruments has been determined using available market information and valuation methodologies, primarily discounted cash flows. These amounts are reported in other noncurrent liabilities for interest rate swap derivatives and in assets whose use is limited for investment asset derivatives. SSMH does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for cash collateral posted.

The net change in the fair value is recorded as a nonoperating gain or loss. The difference between the actual amount paid and the actual amount received on all interest rate swaps is accrued and recognized as an adjustment to interest expense. See Note 17.

Securities Lending Program—SSMH participates in securities lending transactions with its custodian whereby SSMH lends a portion of its investments to various brokers in

exchange for collateral for the securities loaned, usually on a short-term basis. SSMH maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Collateral received from brokers must equal at least 102% of the original market value of the securities on loan, and is subsequently adjusted for market fluctuations. SSMH must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. All collateral is in the form of treasury securities, which can be re-invested in a pool maintained by the custodian. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded as assets whose use is limited. The market value of collateral held for loaned securities is reported as collateral held under a securities lending program and an obligation is recorded in current liabilities for repayment of collateral upon settlement of the lending transaction. The fees received for these transactions are recorded in investment income.

Property and Equipment—Property and equipment acquisitions are recorded at cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation expense is determined using the straight-line method over the estimated useful life of the asset: 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 20 years for equipment. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense. Interest costs incurred on borrowed funds during construction periods are capitalized as a component of the asset cost.

SSMH periodically evaluates property and equipment to determine whether assets may have been impaired. The evaluations address the estimated recoverability of the assets' carrying value. Such analyses require various valuation techniques using management assumptions, including estimates of future cash flows. As discussed in Note 8, an impairment loss of \$107,312 was recognized in the year ended December 31, 2018. There were no impairments identified during 2017.

Goodwill—Goodwill represents the future economic benefits arising from assets acquired in business combinations that are not individually identified and separately recognized. Goodwill is evaluated for possible impairment at the reporting unit level at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Fair value of a reporting unit is estimated using a combination of income-based and market-based valuation methodologies. An impairment is recorded if the carrying value of the goodwill exceeds its implied fair value. There were no impairments identified during 2018 or 2017.

Intangible Assets—Intangible assets include capitalized computer software costs, tradenames, noncompete agreements, and other intangible assets acquired from independent parties. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from one to 20 years. Amortization of intangible assets is included in depreciation and amortization expense. SSMH reviews the carrying value of its amortizable intangible assets only when impairment indicators are present. SSMH evaluates intangible assets for impairment by comparing the estimates of undiscounted future cash flows to the carrying values of the related assets. Indefinite-lived intangible assets are evaluated for possible impairment at least annually or whenever events or changes in circumstances indicate the asset might be impaired. There were no impairments identified during 2018 or 2017.

Software Costs—Capitalized computer software costs include internally developed software. Costs incurred in developing and installing internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Capitalized software costs and related accumulated amortization expenses are included in net intangible assets.

Investments in Unconsolidated Entities—Investments in unconsolidated entities, other than limited partnerships and limited liability corporations in the pooled investment program, are accounted for under the cost or equity method of accounting, as appropriate. SSMH accounts for the investment under the cost method if it does not have the ability to exercise influence over the investee, generally evidenced by less than 20% ownership interest. SSMH utilizes the equity method of accounting for its investments in unconsolidated entities over which it exercises significant influence. SSMH evaluates these investments for other-than-temporary impairment in accordance with accounting standards for equity method investments. There were no material impairments identified during 2018 or 2017.

Pension Liability—Pension liability represents the value of the projected benefit obligation of SSMH's pension plans over the fair value of the plans' assets. The pension plan obligations and plan assets are measured as of December 31. In 2018, SSMH recorded \$77,876 to decrease its pension liability and increase net assets without donor restrictions. The gain was primarily a result of a higher discount rate offset by weak investment earnings. In 2017, SSMH recorded \$6,204 to decrease its pension liability and increase net assets without donor restrictions. The gain was primarily a result of strong investment earnings partially offset by a lower discount rate.

Other Liabilities—Other liabilities include various deferred compensation plans, the fair value of interest rate swaps, deferred revenue, and various other noncurrent liabilities.

Net Assets without Donor Restrictions—Net assets without donor restrictions are available for use in general operations and are not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for future use as described in Note 6.

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

Noncontrolling Interests—The consolidated financial statements include all assets, liabilities, revenue, and expenses of less than 100% owned or controlled entities that SSMH controls in accordance with applicable accounting guidance. Accordingly, SSMH has reflected a noncontrolling interest for the portion of net assets not owned or controlled by SSMH separately on the consolidated balance sheets.

Revenues—As further discussed in Note 4, under recently adopted accounting pronouncements, Accounting Standard Update (ASU) 2014-09 was issued to clarify the principles for recognizing revenue, to remove inconsistencies and weaknesses in revenue recognition requirements, and to provide a more robust framework for addressing revenue issues. SSMH adopted ASU 2014-09 using a modified retrospective method of application,

and SSMH's accounting policies related to revenues were revised accordingly effective January 1, 2018.

SSMH recognizes revenues in the period in which SSMH satisfies its performance obligations under contracts by transferring services to customers. Net operating revenues are recognized in the amounts to which SSMH expects to be entitled, which are the transaction prices allocated to the distinct services.

Net Patient Service Revenues—SSMH's main source of revenue is net patient service revenue principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients. As discussed in Note 4, SSMH's performance obligations are to provide health care services to the patients.

Premiums Earned—SSMH receives capitation insurance premiums based on the demographic characteristics of covered members in exchange for providing comprehensive medical services for those members. SSMH recorded capitated revenue of \$1,342,499 and \$1,205,424 for the years ended December 31, 2018 and 2017, respectively. Capitation revenue is included in premiums earned. Premiums earned also includes administration fees recognized on a per-member, per-month basis earned by SSMH's national pharmacy benefit management company of \$97,718 and \$97,255 for the years ended December 31, 2018 and 2017, respectively, as well as other administrative fees.

Medical Claims—Medical claims consist of payments to health care providers and are accrued as of the date of service and reported net of recoveries of \$36,863 and \$45,570 for the years ended December 31, 2018 and 2017, respectively. Recoveries consist mainly of drug company volume discounts, CMS risk-sharing and subsidies and reinsurance.

Changes in estimates of claims costs resulting from an ongoing review process and differences between estimates and payments for claims are recognized in the period in which the change in estimate is identified or payments are made. The liability for unpaid medical claims for medical services purchased, which is included in accounts payable, is based on known amounts of reported claims and an estimate of incurred but not reported claims using past experience adjusted for current trends.

Investment Income—Most investment income is reported as nonoperating gains or losses. Investment income on funds held in trust for self-insurance purposes, funds held for insurance and pharmacy benefit purposes, funds held under certain employee benefit plans, and funds without donor restrictions held by foundations is included in operating investment income. The cost of investments sold is based on the specific-identification method.

Investment income on investments of donor-restricted funds, other than endowments, is included in excess of revenues over expenses unless the income or loss is restricted by donors. Investment income that is restricted by the donor is recorded directly to net assets with donor restrictions, in accordance with the donor-imposed restrictions.

SSMH values commingled funds, hedge funds, and certain limited partnership and REIT interests at net asset value. Limited partnership interests not recorded at net asset value are recorded at fair value as determined by external fund managers based on factors described in Note 7. Gains and losses on these investments are included in nonoperating investment income unless it is restricted by donors.

Pharmacy Benefit Management Revenue – Pharmacy product revenue and other revenues are recognized by Navitus Health Solutions, LLC which provides pharmacy benefit administration services to a variety of clients. Revenue is recognized when the product is shipped.

Contributions—Contributions, including unconditional promises to give, are recognized at their fair value at the time of receipt. For financial reporting purposes, SSMH distinguishes between contributions that are without donor restrictions and those that have restrictions placed on their use by the donors. Contributions restricted for additions to property and equipment are recorded as net assets with donor restrictions. When the restrictions have been met, these restricted contributions are recorded as net assets released from restrictions for property acquisitions. Contributions restricted for other purposes are reported as increases in net assets with donor restrictions if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, they are reported as net assets released from restrictions and an increase to net assets without donor restrictions. Contributions for which donors have not stipulated restrictions are reported as other revenue.

Endowment assets include donor-restricted funds that SSMH must hold in perpetuity or for a donor-specified period. SSMH preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. SSMH retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the SSMH entity that received the donation. SSMH considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

- a. State law
- b. The duration and preservation of the fund
- c. The purposes of the donor-restricted endowment funds and how they relate to SSMH's priorities for carrying out its mission within the communities it serves
- d. General economic conditions
- e. The possible effects of inflation and deflation
- f. The expected total return from income and the appreciation of investments
- g. Other resources available to the entity and its beneficiary, if applicable
- h. The investment policies of the entity

Performance Indicator—The consolidated statements of operations and changes in net assets include excess of revenues over expenses as SSMH's performance indicator. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses, consistent with industry practice, include: permanent transfers of assets to and from affiliates for other than goods and services; contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets); noncontrolling interests related to acquisitions and

changes in ownership while retaining controlling financial interests; distributions to noncontrolling owners; and pension-related changes other than the net periodic pension cost.

Consolidated Statements of Operations—For the purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of health care and related services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Other Items—Other items includes unusual and nonrecurring revenues and expenses. During 2018 SSMH recognized an impairment loss on assets held and used at its Mid-Missouri locations of \$107,312 and a loss on assets held for sale in Wisconsin of \$5,535. See Note 8 and Note 11. During 2017 SSMH incurred certain expenses related to a one-time reduction in force and incurred a fee related to the early termination of contracted services.

Advertising Costs—SSMH expenses advertising costs as they are incurred. Advertising expenses were \$22,174 and \$18,512 for the years ended December 31, 2018 and 2017, respectively, and are included in professional fees and other.

Income Taxes—SSMH has established its status as an organization exempt from income taxes under IRC Section 501(c)(3) and the laws of the states in which it operates, and as such, is generally not subject to federal or state income taxes. However, SSMH is subject to income taxes on net income derived from a trade or business, regularly carried on, which does not further the organization's exempt purpose. No significant income tax provisions have been recorded in the consolidated financial statements for net income, if any, derived from any unrelated business or investment income as management has determined that such amounts are not material to the consolidated financial statements as a whole.

SSMH's for-profit subsidiaries account for income taxes related to their operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities along with net operating losses that meet the more likely than not recognition criteria. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Penalties and interest incurred on income tax liabilities are included in income tax expense.

SSMH evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. There have been no uncertain tax positions recorded in 2018 or 2017.

Use of Estimates—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates can significantly impact the following balances reported on the consolidated balance sheets: assets limited as to use, patient accounts receivable, estimated third-party payor settlements, goodwill and net

intangible assets, self-insurance obligations, pension liability, medical claims payable, and other liabilities. Actual results could differ from those estimates.

Non-Cash Transactions—During the years ended December 31, 2018 and 2017, SSMH had the following non-cash transactions:

	2018	2017
(Increase) decrease in securities lending program	\$ (13,156)	\$ (5,011)
Property and equipment purchases included in accounts payable	58,003	32,399
Capital leases	6,766	598

Premium Stabilization and Cost-Sharing Reduction Programs—During 2014, under the Affordable Care Act (ACA), three programs (collectively referred to as the “Premium Stabilization Programs”) designed to stabilize health insurance markets and an additional program (the “Cost-Sharing Reduction Program”) designed to assist low-income insureds with their member responsibility payments became effective. Two of the Premium Stabilization Programs were terminated as of December 31, 2016. The permanent risk adjustment program includes provisions that apply to market-reform-compliant individual and small group plans in the commercial markets. The Cost-Sharing Reduction Program provides a reimbursement for a portion of health care costs for certain low-income individual members of eligible plans.

SSMH has recorded receivables and payables based on estimates determined in accordance with the ACA programs and anticipated program funding availability. The net amount is not material to the consolidated financial statements in 2018 and 2017. The final determination and settlement of net amounts receivable or payable are not anticipated to have a material adverse impact on SSMH’s consolidated cash flows and operations.

Recently Adopted Accounting Pronouncements—Effective January 1, 2018, SSMH adopted Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using a modified retrospective method of application to all contracts existing on January 1, 2018. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Adoption of ASU 2014-09 resulted in changes to SSMH’s presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of SSMH’s provision for uncollectible accounts included within net patient service revenues related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to SSMH by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenue and not reflected separately as a provision for uncollectible accounts. For the year ended December 31, 2018, SSMH recorded \$363,125 of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for uncollectible accounts prior to the adoption of ASU 2014-09.

Under the new standard, subsequent changes in estimate of collectibility due to a change in the financial status of a payor, for example, a bankruptcy, will be recognized as bad debt expense in operating expenses under professional fees and other on the consolidated statements of operations. Additionally, upon adoption of ASU 2014-09 the allowance for uncollectible accounts of \$146,357 as of January 1, 2018 was reclassified as a component of patient accounts receivable. Other than these changes in presentation on the consolidated statement of operations and consolidated balance sheets, the adoption of ASU 2014-09 did not have a material impact on the consolidated results of operations for the year ended December 31, 2018, and SSMH does not expect it to have a material impact on its consolidated results of operations on a prospective basis. This ASU does not apply to the healthcare premiums as they are accounted for under *Financial Services – Insurance* (Topic 944).

As part of the adoption of ASU 2014-09, SSMH elected two of the available practical expedients provided for in the standard. First, SSMH does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, SSMH expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period less than one year. The ASU also requires an entity to disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Effective in the reporting period ended December 31, 2018, SSMH adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to improve the financial reporting of not-for-profit entities. The guidance requires two categories of net assets instead of the previous three and enhances disclosures. SSMH adopted the ASU retrospectively and has adjusted the presentation of its consolidated financial statements accordingly, except for the disclosures related to functional expenses and liquidity. Those disclosures have been omitted for the year ended December 31, 2017, the period presented prior to the period of adoption as permitted in the transition guidance. Although the adoption of ASU 2016-14 affected the presentation of the net asset sections in the consolidated financial statements, it had no impact on the total amount of net assets or revenues over expenses shown in the consolidated financial statements.

Effective January 1, 2018, SSMH early adopted ASU 2017-07, *Compensation-Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside a subtotal of income from operations. The amendments in ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations. As a result of the adoption of ASU 2017-07, SSMH reclassified \$25,107 of net periodic benefit cost from salaries and benefits expense to non-operating net periodic pension cost, less service cost for the year ended December 31, 2017, and \$30,800 of other components of net periodic benefit cost are included in net periodic pension cost, less service cost for the year ended December 31, 2018.

Upcoming Accounting Pronouncements—In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General* (Subtopic 715-20): *Disclosure Framework—Changes to the Disclosure Requirements for*

Defined Benefit Plans. The amendments in ASU 2018-14 remove, clarify, and add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements. SSMH will adopt ASU 2018-14 in the reporting period beginning January 1, 2021 and is currently evaluating the impact on the consolidated financial statements.

Also in August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies and improves the effectiveness of fair value measurement disclosures as part of FASB's disclosure framework project. SSMH will adopt ASU 2018-13 in the reporting period beginning January 1, 2020 and is currently evaluating the impact on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the accounting guidance around contributions received and contributions made. The ASU provides guidance on whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. In addition, it provides a more robust framework for determining whether a contribution is conditional which affects the timing of contribution revenue and expense recognition. It does not apply to transfers of assets from governments. SSMH will adopt ASU 2018-08 in the reporting period beginning January 1, 2019 and it is not expected to have a material impact on the consolidated financial statements.

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*, which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. SSMH will adopt ASU 2017-08 in the reporting period beginning January 1, 2020 and is currently evaluating the impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. SSMH will adopt ASU 2016-18 in the reporting period beginning January 1, 2019. Upon adoption, SSMH will include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows and related disclosures. Adoption will not have an impact on the consolidated balance sheets or consolidated statements of operations and changes in net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 retains a distinction between operating leases and financing leases, and the classification criteria is substantially similar to previous lease guidance. The primary change will be the recognition of lease assets for the right-of-use of the underlying asset and lease liabilities for the obligation to make payments by lessees on the balance sheet for leases currently classified as operating leases. The ASU, as amended, also requires increased qualitative disclosure about leases in addition to quantitative disclosures currently required. Upon adoption, companies are required to either apply a modified retrospective transition approach, or recognize a cumulative-effect adjustment to the

opening balance of retained earnings in the period of adoption with no restatement of prior period financial statement. SSMH will elect the cumulative-effect adjustment method of transition. The ASU also provides a practical expedient which will allow companies to continue to account for existing leases under the prior guidance unless a lease is modified, other than the requirement to recognize the right-of-use asset and lease liability for all operating leases. This ASU permits companies to elect certain practical expedients upon adoption, and at adoption SSMH elected such practical expedients related to, among other things, lease classification (in which existing leases classified as operating leases under current GAAP would be classified as an operating lease under the new ASU, and existing leases classified as a capital lease under current GAAP would be classified as a finance lease under the new ASU), nonlease components for real estate leases (in which fixed nonlease components, such as property taxes, insurance and maintenance, would be treated as a lease component and considered part of minimum lease rent payments), and short-term leases (in which leases with an original term of 12 months or less would be excluded from the recognition requirements of the new ASU). The changes indicated above are effective for SSMH in the reporting period beginning January 1, 2019. SSMH is in the process of completing its evaluation of the effect this ASU will have on its consolidated financial statements, but given the material amount of future minimum payments under non-cancellable operating leases at December 31, 2018 discussed in Note 21, SSMH expects to recognize a material right-of-use lease asset and lease liability upon adoption of the ASU. SSMH does not expect a material impact on the consolidated statements of operations and changes in net assets or cash flows. SSMH will finalize its accounting assessment and quantitative impact of the adoption prior to its release of operating results for the quarter ended March 31, 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires equity investments to be measured at fair value with changes in fair value recognized in net income. In addition, for private companies and not-for-profit organizations it eliminates the requirement to disclose fair value information about financial instruments measured at amortized cost. SSMH will adopt ASU 2018-01 in the reporting period beginning January 1, 2019 and it will not have a material impact on the consolidated financial statements.

3. COMMUNITY BENEFIT MINISTRY

In line with its mission, SSMH provides health care services to patients without regard to their ability to pay for those services. For some of its patient services, SSMH receives no payment or payment that is less than the full cost of providing the care.

SSMH voluntarily provides free care to patients who are unable to pay for all or part of their health care expenses as determined by SSMH's criteria for financial assistance. Because SSMH does not pursue the collection of amounts determined to qualify as charity care, they are not reported as patient service revenues.

In some cases, SSMH does not receive the amount billed for patient services even though it did not receive information necessary to determine if the patients met the criteria for financial assistance.

SSMH also commits significant time and resources to activities and critical services that address unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The following summary has been prepared in accordance with Internal Revenue Service Form 990,

Schedule H and the Catholic Health Association of the United States' publication, *A Guide for Planning & Reporting Community Benefit, 2015 Edition*.

The estimated costs of SSMH's community benefit ministry for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Financial Assistance and Means-tested Government Programs:		
Charity care at cost	\$117,090	\$121,101
Unpaid costs of Medicaid	152,672	155,740
Costs of other means-tested government programs	<u>10,964</u>	<u>13,665</u>
Total Financial Assistance and Means-tested Government Programs	<u>280,726</u>	<u>290,506</u>
Other Community Benefits:		
Community health improvement services	8,567	7,830
Health professions education	136,273	133,003
Subsidized health services	14,866	14,870
Research	77	12
Financial contributions	2,314	3,727
Community building activities	<u>2,414</u>	<u>1,953</u>
Other Community Benefits	<u>164,511</u>	<u>161,395</u>
Community benefit ministry	<u>\$445,237</u>	<u>\$451,901</u>

The estimated costs are calculated using a cost-to-charge approach. The costs of providing patient care are divided by gross patient service revenue. This cost-to-charge ratio is then applied to the gross charity and means-tested government programs charges to determine estimated costs.

Charity care at cost represents the cost of services provided to patients who cannot afford to pay and who meet the eligibility criteria of SSMH's financial assistance policy as further described in Note 5. Financial assistance is reported in terms of costs, not charges.

Unpaid costs of Medicaid represents the shortfall created when costs of providing services to beneficiaries of Medicaid exceed the governmental payments.

Costs of other means-tested government programs represents the shortfall created when costs of providing services to beneficiaries of other government programs exceed the payments received. These programs include State Children's Health Insurance Program, Supplemental Nutrition Assistance Program and other state-specific programs for discounts on health services.

Community health improvement services are activities and services carried out to improve community health beyond patient care activities and do not generate patient care bills. Some examples include community health education, health screenings for underinsured and uninsured persons and support groups.

Health professions education includes the unreimbursed costs of educational programs for health care professionals such as physicians, interns and residents, medical students, and nurses.

Subsidized health services are clinical programs that are provided despite a financial loss so significant that negative margins remain after removing the effects of financial assistance and Medicaid shortfalls. SSMH continues to provide these services because they meet an identified community need and, if no longer offered, would either be unavailable or fall to the responsibility of government or another not-for-profit organization.

Research includes clinical and community health research, as well as studies on health care delivery that are generalizable and shared with the public.

Financial contributions includes funds donated to community organizations or to the community at large for a community benefit purpose. Amounts here also include certain in-kind donations such as medical supplies.

Community building activities represent the cost of activities which improve the community's health and safety by addressing the root causes of health problems, such as poverty, homelessness, and environmental hazards.

4. NET PATIENT SERVICE REVENUES

Net patient service revenue is reported at the amount that reflects the consideration to which SSMH 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, SSMH bills patients and third-party payors several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services SSMH provides. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. SSMH believes that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in SSMH's hospitals receiving inpatient acute care services. SSMH measures performance obligations from admission to the point when there are no further services required for that patient, which is generally at the time of discharge. Revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, are recognized when goods or services are provided and SSMH does not believe the patient requires additional goods or services.

Because all of SSMH's performance obligations relate to contracts with a duration of less than one year, SSMH has elected to apply the optional exemption provided in FASB Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, SSMH 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 generally occurs within days or weeks of the end of the reporting period.

SSMH determines the transaction price based on gross charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with SSMH's policies, and implicit price concessions provided primarily to uninsured patients. SSMH determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience using the portfolio approach. SSMH determines its estimate of implicit price concessions based on its historical collection experience with classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

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 is as follows:

- **Medicare and Medicaid:** A significant portion of SSMH's revenue is generated under agreements with Medicare and Medicaid. Payments for services covered by Medicare are based on federal regulations specific to the type of service provided. Medicare pays for most services at a prospective rate. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. The rates for services covered by Medicaid are determined by the regulations of the state in which the beneficiary is a resident. Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Included in net patient service revenues are Medicaid supplemental payments which are funded through state financial arrangements commonly referred to as provider taxes. Under provider tax arrangements, states collect taxes from healthcare providers and then use the revenue to pay the providers as a Medicaid expenditure, which allows the states to then claim additional federal matching funds on the additional reimbursements. Current federal law provides for a cap on the maximum allowable provider tax as a percentage of the provider's total revenue. There can be no assurance that federal law will continue to provide matching federal funds on state Medicaid expenditures funded through provider taxes, or that the current caps on provider taxes will not be reduced. SSMH participates in assessment programs in the four states in which it operates. For the year ended December 31, 2018, SSMH recognized \$294,739 in revenue and \$192,472 in expenses relating to these programs. For the year ended December 31, 2017, SSMH recognized \$273,209 in revenue and \$181,758 in expenses relating to these programs.

- **Other:** SSMH has negotiated contracts with certain other third-party payors. Revenues under these contracts are based primarily on payment terms involving predetermined rates per diagnosis, per diem rates, discounted fee-for-service rates, and other similar contractual arrangements. SSMH estimates the discounts for contractual allowances at the individual hospital level utilizing billing data on an individual patient basis. On a monthly basis, an estimate is made of the expected reimbursement for patients of managed care plans based on the applicable contract

terms. In addition, the contracts SSMH 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. SSMH uses the expected value method of calculating estimated revenue, receivables and liabilities as it relates to third-party settlements. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and SSMH'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 are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. In relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process. In 2018 and 2017, net patient service revenues increased by \$23,246 and \$17,706, respectively, relating to changes in estimates for prior years' settlements from Medicare, Medicaid, and other programs.

Generally patients who are covered by third-party payors are responsible for related co-pays, co-insurance and deductibles, which vary in amount. SSMH also provides services to uninsured patients, and offers uninsured patients a discount from standard charges. The discount varies by geographical location, primarily based on the discounts negotiated with private third-party payors in that location. The total discounts provided to uninsured patients under this policy were \$301,881 and \$256,509 for the years ended December 31, 2018 and 2017, respectively. SSMH estimates the transaction price for patients with co-pays, co-insurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any 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. 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 year ended December 31, 2018 was immaterial.

Consistent with SSMH's mission, care is provided to patients regardless of their ability to pay. Therefore, SSMH has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts SSMH expects to collect based on its collection history with those patients.

Patients who meet SSMH'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.

Revenue disclosures under ASC 606 include enhanced disclosures on the disaggregation of revenue. The composition of net patient care service revenue by payor and service line for the year ended December 31, 2018 is as follows:

		Ratio
Medicare	\$ 1,443,419	28 %
Medicaid	585,570	11 %
Managed care	2,600,072	51 %
Commercial and other	<u>517,150</u>	<u>10 %</u>
 Total net patient service revenue by payor	 <u>\$ 5,146,211</u>	 <u>100 %</u>
 Hospital operations	 \$ 4,140,040	 80 %
Physician operations	875,933	17 %
Skilled nursing	51,896	1 %
Home health	<u>78,342</u>	<u>2 %</u>
 Total net patient service revenue by service line	 <u>\$ 5,146,211</u>	 <u>100 %</u>

Under ASC 605, SSMH's revenue disclosure shows the sources of net patient service revenue before provision for uncollectible accounts for the year ended December 31, 2017 is as follows:

		Ratio
Medicare	\$ 1,300,179	28 %
Medicaid	587,646	13 %
Managed care	2,288,984	49 %
Commercial and other	<u>479,718</u>	<u>10 %</u>
 Net patient service revenue before provision for uncollectible accounts	 <u>\$ 4,656,527</u>	 <u>100 %</u>

Net patient service revenue does not include payment for services provided to patients covered under Dean Health Plan (DHP). These revenues are eliminated upon consolidation. Revenues from DHP which are eliminated and excluded from the above tables amounted to \$584,596 and \$481,918 for the years ended December 31, 2018 and 2017, respectively.

5. CONCENTRATION OF CREDIT RISK

SSMH provides health care services through its inpatient and outpatient care facilities located in their respective communities. SSMH attempts to collect amounts due from patients, including co-payments and deductibles for patients with insurance, at the time of service, while complying with all federal and state laws and regulations, including the Emergency Medical Treatment and Active Labor Act (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to the inability to pay. In nonemergency circumstances or for elective procedures, SSMH's policy is to verify

insurance prior to treatment; however, exceptions can occur. SSMH generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies).

For patient accounts receivable resulting from revenue recognized prior to January 1, 2018, SSMH recorded an allowance for uncollectible accounts by establishing an allowance to reduce the carrying value of receivables to their estimated net realizable value. This allowance was calculated on an individual entity basis and was based upon the aging of accounts receivable by payor class, historical collection experience, and other relevant factors. Under the provisions of ASU 2014-09, which SSMH adopted effective January 1, 2018, the estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than an allowance for uncollectible accounts.

SSMH reviews its financial assistance and billing policies on a regular basis to ensure compliance with IRS 501(r) regulations in accordance with the ACA. During 2017, SSMH revised its financial assistance policy to provide clarification on guidelines for presumptive financial assistance. These changes did not have a significant impact on the allowance for uncollectible accounts or on net patient receivables as of December 31, 2017. There were no changes to the billing and collections policies in 2018 and 2017.

The mix of net receivables from patients and third-party payors as of December 31, 2018 and 2017, is as follows:

	2018	2017
Medicare	16 %	18 %
Medicaid	9	10
Managed care	53	46
Other	<u>22</u>	<u>26</u>
	<u>100 %</u>	<u>100 %</u>

6. ASSETS LIMITED AS TO USE OR RESTRICTED

The SSMH Board of Directors and management have designated the accumulation of certain funds for future replacement of property and equipment, other capital improvements, debt retirement, medical insurance claims, and other purposes. Additionally, under the terms of the indentures for various bond issues, funds held by trustees have been established and legally designated for debt service.

A summary of assets limited as to use or restricted as of December 31, 2018 and 2017, is as follows:

	2018	2017
Assets limited as to use:		
Board designated for property and equipment, long-term employee benefit programs, and other	<u>\$ 3,250,809</u>	<u>\$ 2,924,500</u>
Securities on deposit as required by state regulators	<u>21,760</u>	<u>16,691</u>
Held by trustee:		
Project and bond funds	7,997	-
Self-insurance (Note 14)	195,929	202,674
Collateral held under securities lending agreements	<u>63,699</u>	<u>50,543</u>
	<u>267,625</u>	<u>253,217</u>
Assets restricted by donor as to use	<u>97,182</u>	<u>81,761</u>
Total assets limited as to use or restricted	3,637,376	3,276,169
Less current portion	<u>490,822</u>	<u>385,611</u>
Noncurrent portion	<u>\$ 3,146,554</u>	<u>\$ 2,890,558</u>

A summary of investment income for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Interest and dividends, net of investment fees	\$ 85,433	\$ 42,402
Realized and unrealized (losses) gains on investments—net	<u>(191,525)</u>	<u>279,277</u>
Total	<u>\$ (106,092)</u>	<u>\$ 321,679</u>

The change in net unrealized (loss) gain on investments held at December 31, 2018 and 2017, was (\$236,458) and \$226,311, respectively.

Investment (loss) income is reported as follows:

	2018	2017
Operating investment (losses) income	\$ (22,648)	\$ 74,714
Nonoperating investment (losses) income	(81,756)	242,596
(Losses) gains on investments—net—net assets with donor restrictions	<u>(1,688)</u>	<u>4,369</u>
Total	<u>\$ (106,092)</u>	<u>\$ 321,679</u>

The securities on loan are included in the following classifications:

	2018	2017
Equity securities	\$49,205	\$42,919
Government securities	2,805	2,790
Corporate obligations	<u>9,809</u>	<u>3,402</u>
Total	<u>\$61,819</u>	<u>\$49,111</u>

SSMH recorded net investment income of \$162 and \$87 on these transactions for the years ended December 31, 2018 and 2017, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers.

7. FAIR VALUE MEASUREMENTS

SSMH defines fair value as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk, including SSMH's own credit risk.

The fair values of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. SSMH used the following methods to determine fair value:

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

Level 2—Inputs (financial matrices, models, valuation techniques) other than quoted market prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields, and spreads in the market.

Level 3—Inputs (such as professional appraisals, quoted prices from inactive markets that require adjustment based on significant assumptions or data that is not current, or data from independent sources) that are unobservable for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis as listed in the following tables use the following valuation methodologies:

Cash and Cash Equivalents—Limited or Restricted—Cash equivalents that trade on a regular basis in active markets are classified as Level 1 in the fair value hierarchy. Those that do not meet this criteria are classified as Level 2.

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

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

Mutual Funds—Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned and are classified as Level 1 within the fair value hierarchy.

Equities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded and are classified as Level 1 within the fair value hierarchy.

Cash surrender value of life insurance—Cash surrender value of life insurance is valued based on the underlying investments and represents the guaranteed value that would be received upon surrender of the policies. It is classified as Level 2 within the fair value hierarchy.

Trading Derivatives—Trading derivatives consist of interest rate swaps and options, credit default swaps, and futures, for which fair values are estimated based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. These derivatives are classified as Level 2 within the fair value hierarchy.

Guaranteed Fixed Funds—Guaranteed fixed funds are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. Due to

the nature of pricing methods utilized, guaranteed fixed funds are classified as Level 2 within the fair value hierarchy.

Pooled Separate Accounts—Assets are represented by a “unit of account.” The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. Pooled separate accounts are classified as Level 2 within the fair value hierarchy.

Securities Lending—The security lending collateral is invested in a Northern Trust-sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value of the commingled collateral fund is determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying securities valued using techniques similar to those used for marketable securities. As security lending is measured at net asset value, it is included separately from the fair value hierarchy in the table below.

Commingled Funds—Commingled funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, multiplied by the current percentage ownership of the fund. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. As commingled funds are measured at net asset value, they are included separately from the fair value hierarchy in the table below.

Hedge Funds—Hedge funds are valued primarily using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals. As investments in hedge funds are measured at net asset value, they are included separately from the fair value hierarchy in the table below. Certain hedge funds are classified as Level 3 within the fair value hierarchy because the prices used to generate the valuations are unobservable. Level 3 hedge funds are valued based on the most current statements issued by each fund adjusted for cash flow to and from the fund subsequent to the statement reporting date.

Limited Liability Companies (LLC), Limited Partnerships (LP) and Real Estate Investment Trust (REIT) Interests—LLC, LP and REIT interests are primarily valued based on the most current financial statements issued by each fund adjusted for cash flow to and from the fund subsequent to the financial statement reporting date. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. The prices used to generate these valuations are unobservable and therefore are classified as Level 3 within the fair value hierarchy. Limited liability companies and limited partnership interests whose underlying securities are publicly traded are valued at the closing price reported on the applicable exchange on which the underlying securities are traded and are classified as Level 2 within the fair value hierarchy. A portion of LLC, LP and REIT interests are valued using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals.

SSMH may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The following describes assets measured at fair value on a nonrecurring basis:

Assets Held for Sale—Assets held for sale includes property and equipment in the amount of \$1,675 at December 31, 2018 that is valued at fair value. The fair value of assets held for sale is determined based on valuation methodologies as described in Note 2 which would generally be considered Level 3 inputs.

Impaired Property and Equipment—Property and equipment includes assets in the amount of \$87,387 at December 31, 2018 that are considered impaired and valued at fair value. The fair value of impaired property and equipment is determined based on valuation methodologies as described in Note 2 which would generally be considered Level 3 inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SSMH believes that its methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

SSMH holds the majority of its financial assets in a pooled investment program, which also includes the investments of its defined benefit plans. The tables below do not reflect actual securities owned by SSMH. The values below represent SSMH's allocated non-pension share of the pooled investment program as well as investments in nonpooled assets.

The following tables summarize assets and liabilities measured at fair value on a recurring basis and nonrecurring basis by the level of significant input:

December 31, 2018	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents—restricted	\$ 441,458	\$ 85,842	\$ -	\$ 527,300
Corporate obligations	-	440,547	-	440,547
Government securities	-	504,532	-	504,532
Mutual funds:				
Domestic equities	187,467	-	-	187,467
International equities	79,058	-	-	79,058
Fixed income	58,024	-	-	58,024
Equities—domestic	657,656	-	-	657,656
Trading derivatives	-	2,406	-	2,406
Interest rate swaps	-	3,963	-	3,963
LLC and LP interests	-	119,641	219,929	339,570
Guaranteed fixed funds	-	5,285	-	5,285
Hedge funds	-	-	5,791	5,791
Cash surrender value of life insurance	-	37,361	-	37,361
Subtotal	<u>\$ 1,423,663</u>	<u>\$ 1,199,577</u>	<u>\$ 225,720</u>	2,848,960
Investments measured at net asset value:				
Commingled funds:				
Securities lending				63,699
International equities				263,203
Fixed income				173,728
Hedge funds				214,515
LLC, LP, and REIT interests				<u>129,668</u>
Total assets				<u>\$ 3,693,773</u>
Liabilities—interest rate swaps	<u>\$ -</u>	<u>\$ 109,830</u>	<u>\$ -</u>	<u>\$ 109,830</u>

December 31, 2017	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents—restricted	\$ 315,731	\$ 43,512	\$ -	\$ 359,243
Corporate obligations	-	259,433	-	259,433
Government securities	-	613,300	-	613,300
Mutual funds:				
Domestic equities	199,037	-	-	199,037
International equities	90,839	-	-	90,839
Fixed income	45,045	-	-	45,045
Equities—domestic	607,387	-	-	607,387
Trading derivatives	-	3,569	-	3,569
Limited partnerships	-	143,803	94,111	237,914
Guaranteed fixed funds	-	5,894	-	5,894
Pooled separate accounts	-	<u>6,249</u>	-	<u>6,249</u>
Subtotal	<u>\$ 1,258,039</u>	<u>\$1,075,760</u>	<u>\$ 94,111</u>	2,427,910
Investments measured at net asset value:				
Commingled funds:				
Securities lending				50,543
International equities				297,526
Fixed income				199,910
Hedge funds				285,902
Limited partnerships and REIT interests				<u>90,168</u>
Total assets				<u>\$ 3,351,959</u>
Liabilities—interest rate swaps	<u>\$ -</u>	<u>\$ 134,800</u>	<u>\$ -</u>	<u>\$ 134,800</u>

The following table reconciles the information about the fair value of SSMH's financial instruments measured at fair value on a recurring basis presented in the table above to amounts presented in the consolidated balance sheets as of December 31, 2018 and 2017:

	2018	2017
Assets:		
Investments	\$ 65,063	\$ 88,352
Assets limited as to use or restricted—current portion	490,822	385,611
Assets limited as to use or restricted—excluding current portion	3,146,554	2,890,558
Interest rate swaps recorded as other assets—other	3,963	-
Less items not recorded at fair value:		
Unconditional promises to give—net	(6,588)	(5,915)
Other	<u>(6,041)</u>	<u>(6,647)</u>
Total assets	<u>\$ 3,693,773</u>	<u>\$ 3,351,959</u>

The values below represent SSMH's defined benefit plan's allocated proportionate share of the pooled investment program by the level of significant input.

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 26,085	\$ 2,997	\$ -	\$ 29,082
Corporate obligations	-	89,184	-	89,184
Government securities	-	137,427	-	137,427
Mutual funds—international equities	50,930	-	-	50,930
Equities—domestic	358,369	-	-	358,369
Trading derivatives	-	798	-	798
LLC and LP interests	-	81,116	178,660	259,776
Hedge funds	-	-	5,752	5,752
Subtotal	<u>\$435,384</u>	<u>\$311,522</u>	<u>\$184,412</u>	931,318
Investments measured at net asset value:				
Commingled funds:				
Securities lending				36,195
International equities				178,450
Fixed income				53,302
Hedge funds				213,042
LLC, LP and REIT interests				<u>106,063</u>
Total assets				1,518,370
Accrued income				2,266
Payable under security lending agreement				<u>(36,195)</u>
Fair value of plan assets				<u>\$1,484,441</u>

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 26,375	\$ 12,247	\$ -	\$ 38,622
Corporate obligations	-	52,740	-	52,740
Government securities	-	171,921	-	171,921
Mutual funds—international equities	57,349	-	-	57,349
Equities—domestic	409,857	-	-	409,857
Derivative financial instruments	-	1,243	-	1,243
Limited partnerships	<u>-</u>	<u>96,112</u>	<u>109,537</u>	<u>205,649</u>
Subtotal	<u>\$493,581</u>	<u>\$334,263</u>	<u>\$109,537</u>	937,381
Investments measured at net asset value:				
Commingled funds:				
Securities lending				33,319
International equities				198,667
Fixed income				60,970
Hedge funds				261,357
Limited partnerships and REIT interests				<u>115,852</u>
Total assets				1,607,546
Payable under security lending agreement				<u>(33,319)</u>
Fair value of plan assets				<u>\$1,574,227</u>

The following disclosures for level 3 and net asset value investments are for SSMH's pooled investment program, which includes SSMH investments and the investments of its defined benefit plans.

The allocated shares of level 3 pooled investment assets for the years ended December 31, 2018 and 2017 are as follows:

	SSMH investments	SSMH's Defined Benefit Plan assets	Total
December 31, 2017	94,111	109,537	203,648
December 31, 2018	225,720	184,412	410,132

It is SSMH's policy that transfers between levels will occur when revised information regarding the lowest level of significant inputs becomes available. There were no transfers between levels during 2018 or 2017.

Changes related to the fair values based on Level 3 inputs for the years ended December 31, 2018 and 2017, are summarized as follows:

	LLC and LP Interests	Hedge Funds	Total
Beginning balance as of January 1, 2017	\$ 89,993	\$ -	\$ 89,993
Realized gains	7,075	-	7,075
Unrealized losses	(3,416)	-	(3,416)
Purchases	146,147	-	146,147
Sales	<u>(36,151)</u>	<u>-</u>	<u>(36,151)</u>
Ending balance as of December 31, 2017	203,648	-	203,648
Realized gains	3,796	-	3,796
Unrealized gains	10,276	(284)	9,992
Purchases	207,699	-	207,699
Acquisitions	-	11,836	11,836
Sales	<u>(26,839)</u>	<u>-</u>	<u>(26,839)</u>
Ending balance as of December 31, 2018	<u>\$398,580</u>	<u>\$11,552</u>	<u>\$410,132</u>

The allocated shares of pooled investment assets measured at net asset value for the years ended December 31, 2018 and 2017 are as follows:

	SSMH investments	SSMH's Defined Benefit Plan assets	Total
December 31, 2018:			
Commingled funds	\$ 500,630	\$ 267,947	\$ 768,577
Hedge funds	214,515	213,042	427,557
LLC, LP and REIT interests	<u>129,668</u>	<u>106,063</u>	<u>235,731</u>
Total	<u>\$ 844,813</u>	<u>\$ 587,052</u>	<u>\$ 1,431,865</u>
December 31, 2017:			
Commingled funds	\$ 547,979	\$ 292,956	\$ 840,935
Hedge funds	285,902	261,357	547,259
LLC, LP and REIT interests	<u>90,168</u>	<u>115,852</u>	<u>206,020</u>
Total	<u>\$ 924,049</u>	<u>\$ 670,165</u>	<u>\$ 1,594,214</u>

The commingled funds, hedge funds, and certain LLC, LP, and REIT interests are redeemable at net asset value under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Assets recorded at net asset value at December 31, 2018 and 2017, are as follows:

December 31, 2018			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$ 768,577	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	427,557	Monthly, quarterly, annually	30–90 days
LLC, LP and REIT interests ^(c)	<u>235,731</u>	Quarterly	45–60 days
Total	<u>\$1,431,865</u>		
December 31, 2017			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$ 840,935	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	547,259	Monthly, quarterly, annually	30–90 days
LLC, LP, and REIT interests ^(c)	<u>206,020</u>	Quarterly	45–60 days
Total	<u>\$1,594,214</u>		

- (a) This category includes investments in commingled funds that primarily invest in financial instruments of US and non-US entities, bonds, notes, bills, currencies, and interest rate and derivative products.
- (b) This category includes investments in hedge funds that maintain positions in long-short equity, credit, and derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, and the managers can maintain net long or net short exposure levels based on market views. The strategy designs a diversified portfolio of managers and strategies with the objective of significantly lowering the risk and volatility of investing with an individual manager.
- (c) This category includes investments in certain limited liability companies, limited partnerships and REIT interests that invest in the following: underperforming and distressed real estate assets at well below potential replacement cost and which create significant value-added upside through extensive repositioning and capital improvements; distressed real estate and real estate-related debt, companies, securities, and other assets; high-quality properties in major metropolitan areas; and participating mortgages secured by core real estate properties. Investments in real estate are valued based upon independent appraisals using a cost approach, market approach, or income approach, as well as consideration of other third-party evidence.

At December 31, 2018 SSMH had unfunded commitments to purchase limited partnership interests in the amount of \$371,560 with 56% allocable to SSMH investments and 44% allocable to the investments of its defined benefit plans. At December 31, 2017 SSMH had unfunded commitments to purchase limited partnership interests in the amount of \$320,604 with 45% allocable to SSMH investments and 55% allocable to the investments of its defined benefit plans.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	2018	2017
Land and improvements	\$ 203,706	\$ 184,490
Buildings	3,010,223	2,754,421
Equipment	<u>1,370,168</u>	<u>1,292,175</u>
	4,584,097	4,231,086
Less accumulated depreciation	<u>2,261,932</u>	<u>2,152,357</u>
	2,322,165	2,078,729
Real estate held for future development	6,456	7,314
Construction in process	<u>332,696</u>	<u>131,117</u>
Total	<u>\$ 2,661,317</u>	<u>\$ 2,217,160</u>

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$256,540 and \$222,032, respectively.

The book value of equipment under capital lease obligations at December 31, 2018 and 2017 totaled \$34,231 and \$28,062, respectively. The related accumulated depreciation totaled \$9,715 and \$7,197, respectively, at December 31, 2018 and 2017. These amounts are included in the above summary of property and equipment.

During 2018, SSMH determined that indicators existed that there was potential impairment of the fixed assets at its Mid-Missouri locations. SSMH engaged outside consultants to evaluate whether the carrying value of these reporting units exceeded the fair value. The income and market approaches were used to determine the fair value and the key assumptions used in the impairment analysis included projected results. An impairment loss of \$107,312 was recognized in the year ended December 31, 2018 and is included in operating income as other items-nonrecurring items.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table provides information on changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017:

	2018	2017
Balance—end of the period:		
Goodwill	\$ 159,494	\$ 159,494
Accumulated impairment losses	<u>(38,303)</u>	<u>(38,303)</u>
Total	<u>\$ 121,191</u>	<u>\$ 121,191</u>

The following table provides information regarding other intangible assets for the years ended December 31, 2018 and 2017:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Software	\$ 373,174	\$ 293,913	\$ 332,337	\$ 254,783
Trade name	119,742	46,145	119,742	37,641
Customer contracts	60,100	16,973	60,100	13,634
Other	<u>3,354</u>	<u>2,729</u>	<u>3,948</u>	<u>3,048</u>
Total	<u>\$ 556,370</u>	<u>\$ 359,760</u>	<u>\$ 516,127</u>	<u>\$ 309,106</u>

The weighted-average amortization period for the intangible assets subject to amortization acquired during the year ended December 31, 2018, is approximately 5.5 years. There are no expected residual values related to these intangible assets.

Amortization expense on these intangible assets was \$51,545 and \$60,821 during the years ended December 31, 2018 and 2017, respectively. There are no other intangible assets that are not subject to amortization.

The estimated future amortization of intangible assets with finite useful lives as of December 31, 2018, is as follows:

Years Ending December 31	
2019	\$46,351
2020	32,348
2021	19,814
2022	17,870
2023	16,840

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES

SSMH included the following income from operations from equity method investments in health care joint ventures for the years ended December 31, 2018 and 2017, as operating revenues:

	2018	2017
Income from operations	\$16,023	\$15,480
Losses from operations	<u>(460)</u>	<u>(253)</u>
Net income from operations	<u>\$15,563</u>	<u>\$15,227</u>

The total carrying amount of cost-method investments was \$5,697 and \$5,796 at December 31, 2018 and 2017, respectively.

During 2013, Premier, Inc., a national health care alliance, issued an initial public offering (IPO). As a result of the IPO, Premier, Inc. acquired under a unit put/call agreement a portion of SSMH's pre-IPO partnership units for \$11,133 and SSMH's remaining investment in Premier, Inc. was converted to Class B common units. In connection with the reorganization, SSMH has the right to exchange one-seventh of its Class B common units to either cash or Class A common stock in each of the subsequent seven years. As the common units become eligible for redemption, SSMH recognizes the gain associated with the redemption to Class A stock, either as a reduction of supply expense prior to the redemption to Class A stock or as unrealized gains subsequent to the redemption. During the year ended December 31, 2018, SSMH recognized \$14,986 as a reduction in supply expense and \$2,855 as unrealized gains. During the year ended December 31, 2017, SSMH recognized \$10,414 as a reduction in supply expense and \$1,086 as unrealized losses. SSMH has recorded its remaining common units and membership interest as a cost method investment in unconsolidated entities with a carrying amount of \$515 and \$796 at December 31, 2018 and 2017, respectively.

11. BUSINESS ACQUISITIONS AND DIVESTITURES

SSMH entered into the following significant acquisition activities during the years ended December 31, 2018 and 2017:

Congregation of Sisters of St. Agnes—Effective January 1, 2018, SSMH and the Congregation of Sisters of St. Agnes (CSA) entered into an agreement that transferred sponsorship of the CSA's Wisconsin-based healthcare ministries, Agnesian HealthCare (Agnesian), based in Fond du Lac, Wisconsin, and the Monroe Clinic (Monroe), based in Monroe, Wisconsin, to SSMH. The combined ministries are comprised of four hospitals, four long-term care facilities, and multiple outpatient care sites in Wisconsin. In connection with the agreement, SSMH paid cash consideration of \$75,000 to the CSA and recognized an inherent contribution, net of the cash contribution, in the amount of \$598,817 which is included in nonoperating gains and (losses) and an inherent contribution in the amount of \$13,552 which is included in net assets with donor restrictions, during the year ended December 31, 2018.

As a result of the sponsorship transfer, SSMH's integrated health care delivery network in Wisconsin now extends into Northern Illinois and includes seven hospitals, six long-term care facilities, and more than 85 physician offices and other outpatient care sites, as well as a health plan and pharmacy benefit management company.

The acquisition related costs incurred by SSMH in relation to the transaction were \$2,308 and \$1,107 for the years ended December 31, 2018 and 2017, respectively, and are recorded in professional fees and other.

Summarized balance sheet information of the CSA ministries at January 1, 2018, is shown below:

Cash	\$ 26,447
Assets limited or restricted as to use	442,365
Current assets	132,263
Property and equipment, net	452,950
Other non-current assets	<u>21,880</u>
Total assets acquired	<u>\$1,075,905</u>
Current liabilities	76,684
Long-term debt	<u>311,852</u>
Total liabilities assumed	<u>\$ 388,536</u>
Net assets with donor restrictions	<u>\$ 13,552</u>

Combined operating results of the CSA ministries for the year ended December 31, 2018, included total operating revenues of \$712,417, operating income of \$30,390, and expenses over revenues of \$27,412.

The pro forma amount of SSMH's revenue, earnings, and excess of revenues over expenses had the above acquisition occurred on January 1, 2017, are as follows:

	<u>(Unaudited)</u>
	<u>2017</u>
Total operating revenues and other support	\$ 7,160,778
Income from operations	39,886
Excess of revenues over expenses	267,603

Home Health Care Entities—During 2018, SSMH purchased the remaining sponsorship interests in three Wisconsin home health care entities from the noncontrolling owners for \$3,391 in cash. Prior to the 2018 transactions, SSMH owned 70% controlling interests and the subsidiaries are fully consolidated in these financial statements. As such, there is no gain or loss recognized in the consolidated statements of operations and the change is reflected in SSMH's net assets without donor restrictions. See Note 19.

Oncology Practice—Effective October 11, 2017, SSMH purchased the remaining shares of an oncology practice from the noncontrolling owner for \$4,450, consisting of \$3,907 in cash and \$543 in accounts payable. Prior to the 2017 transaction, SSMH owned a 51% controlling interest and the subsidiary is fully consolidated in these financial statements. As such, there is no gain or loss recognized in the consolidated statements of operations and the change is reflected in SSMH's net assets without donor restrictions. See Note 19.

SSMH entered into the following significant divestiture activities during the years ended December 31, 2018 and 2017.

St. Francis Hospital Maryville—On December 7, 2018, SSMH entered into a definitive agreement with Mosaic Life Care to transfer ownership of its ministries in Northwest Missouri. This includes SSMH St. Francis Hospital – Maryville and affiliated outpatient, home care, hospice, medical group, and other ministries in the area. At the same time, SSMH will be removed as a nonmember affiliate of the St. Francis Hospital Foundation. As a result, certain assets met the criteria to be classified as held for sale at their carrying amount as that is lower than their approximate fair value less estimated costs to sell. The assets of St. Francis Hospital Maryville and the related foundation which were moved to assets held for sale as of December 31, 2018 included the following:

Assets:	
Inventories	\$ 1,112
Property, plant and equipment, net	14,242
Assets limited as to use or restricted	<u>5,301</u>
Total	<u>\$20,655</u>

Wingra Building Group—As of December 31, 2018, SSMH determined that certain long-lived assets held by the Wingra Building Group met the criteria to be classified as held for sale. Property and equipment in the net amount of \$1,675 was reclassified as assets held for sale as of December 31, 2018. These assets were recorded at the lower of their carrying amount or their fair value less estimated costs to sell, resulting in a loss on held for sale assets of \$5,535 being recognized and included in other items in the consolidated financial statements.

12. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt at December 31, 2018 and 2017, consists of the following:

	2018	2017
Under the Master Indenture:		
Fixed rate:		
Series 2018A Bonds, 4.00% to 5.00%, due serially through 2048 (plus unamortized premium of \$1,539 at December 31, 2018)	\$ 74,964	\$ -
Series 2018B Bonds, 5.00%, due in 2038 (plus unamortized premium of \$3,626 at December 31, 2018)	44,236	-
Series 2018C Bonds, 5.00%, due in 2036 (plus unamortized premium of \$4,381 at December 31, 2018)	53,526	-
Series 2018 Bonds, 3.69% , due in 2023 (plus unamortized discount of \$1,111 at December 31, 2018)	523,459	-
Series 2017A Agnesian Bonds, 3.25% to 5.00%, due serially through 2047 (plus unamortized premium of \$5,348 at December 31, 2018)	61,918	-
Series 2017A Bonds, 3.82%, due in 2027	500,000	500,000
Series 2014A Bonds, 3.00% to 5.00%, due serially through 2034 (plus unamortized premium of \$13,970 and \$15,511 at December 31, 2018 and 2017, respectively)	250,005	251,546
Series 2012A Bonds, 4.78%, due in 2045	100,300	102,640
Series 2010A Bonds, 4.00% to 5.00%, defeased May 2018, (plus unamortized premium of \$1,577 at December 31, 2017)	-	109,547
Series 2010B Bonds, 4.00% to 5.00%, defeased May 2018, (plus unamortized premium of \$819 at December 31, 2017)	-	140,784
Total fixed rate debt	<u>1,608,408</u>	<u>1,104,517</u>
Variable rate:		
Series 2018D-F Variable Rate Demand Bonds, 1.71% to 1.74% at December 31, 2018, due serially through 2036	154,005	-
Series 2014B-G Variable Rate Demand Bonds, 1.68% to 1.84% at December 31, 2018, due serially through 2044	300,000	300,000
Series 2014H-K Variable Rate Direct Loans, 2.30% to 2.49% at December 31, 2018, due serially through 2045	176,855	331,905
Series 2012B Variable Rate Direct Loans, 2.29% at December 31, 2018, due serially through 2045	66,545	68,115
Series 2002B, Auction Rate Bonds, 3.17% at December 31, 2018, term bonds due in 2020	6,950	10,200
Series 1998B, Auction Rate Bonds, 3.17% at December 31, 2018, due serially through 2019	3,000	17,100
Total variable rate debt	<u>707,355</u>	<u>727,320</u>
Taxable debt	-	84,082
Deferred financing costs	(12,945)	(8,882)
Note payable to Felician Services, Inc.	44,678	43,841
Surplus notes, 1.83% at December 31, 2018, due in 2022	6,663	6,663
Notes payable, due at various dates through 2029, interest at 4.50%, unsecured	283	329
Capital lease obligations, at varying rates from 2.17% to 8.62% collateralized by leased equipment	<u>26,409</u>	<u>22,571</u>
Total other debt	<u>78,033</u>	<u>73,404</u>
Total debt and capital lease obligations	2,380,851	1,980,441
Less capital lease obligations, excluding current portion	22,851	20,988
Less short-term borrowings	454,005	300,000
Less current portion of long-term debt and capital lease obligations	<u>20,847</u>	<u>31,490</u>
Total long-term debt	<u>\$ 1,883,148</u>	<u>\$ 1,627,963</u>

SSM Health Master Indenture—SSMHCC is a member of the SSM Health Credit Group (the “Credit Group”) and the only obligated group member pursuant to a master trust indenture (amended and restated) dated May 15, 1998. Effective May 8, 2018, Agnesian and Monroe were designated as members of the Credit Group. SSMH corporations not included in the Credit Group include Dean Health Plan and Dean Health Insurance, Inc. (DHI) as well as a variety of entities consisting primarily of foundations, medical office building corporations, employed physician practices, and various other corporations involved in activities supporting SSMH. Certain of SSMH’s affiliates are “Designated Affiliates” under the master trust indenture. The net assets of the Designated Affiliates are available to SSMHCC to service all obligations under the master indenture. Various issuing authorities have issued tax-exempt revenue bonds under the master trust indenture. The payment of Series 2002B and 1998B which total \$9,950 and \$27,300 at December 31, 2018 and 2017, respectively, is insured by municipal bond insurance policies. The remaining bonds are uninsured. All master indenture debt is subject to certain debt covenants, including the maintenance of certain financial ratios.

On December 11, 2018, SSMH completed a \$177,749 taxable debt issuance, which was accomplished through reopening of the Series 2018 taxable bonds CUSIP. Net proceeds were used to pay off the taxable term loan (\$80,687), redeem the Series 2014J bonds (\$95,050) and pay market and underwriter discounts (\$2,012). On the date specified above, SSMH also drew on its outstanding line of credit in order to redeem the Series 2014I bonds (\$60,000). SSMH recorded a loss on the extinguishment of debt of \$263 in connection with this issue. The loss is included in nonoperating gains (losses).

On May 8, 2018, SSMH completed a \$664,006 taxable and tax-exempt debt issuance. Net proceeds were used to fund capital needs for SSMH (\$73,425), redeem Agnesian and Monroe bonds (\$187,348 par plus related costs), defease SSMH’s outstanding Series 2010A-B bonds (\$247,935 par plus related costs), repay the outstanding line of credit borrowing associated with the defeasance of the SSM Series 2008A bonds (\$110,462), pay down taxable commercial paper (\$21,845) and fund a termination payment of an Agnesian fixed payor swap (\$1,373). SSMH recorded a loss on the extinguishment of debt of \$12,775 in connection with this issue. The loss is included in nonoperating gains (losses).

On February 28, 2018, SSMH repaid \$75,000 in outstanding line of credit borrowings.

On April 28, 2017, SSMH completed the conversion of the Series 2012A bonds from a variable interest rate to a fixed interest rate. In conjunction with the fixed rate conversion SSMH entered into a total return swap which effectively converts the debt back to a variable rate. See Note 17. This transaction resulted in no new debt for SSMH. SSMH recorded a loss on the extinguishment of debt of \$278 in connection with this issue. The loss is included in nonoperating gains (losses).

On April 19, 2017, SSMH completed the issuance of \$500,000 in taxable fixed rate bonds (Series 2017A). Of the proceeds, \$200,000 was used to pay down taxable commercial paper and the remainder, net of costs of issuance, was added to unrestricted cash and investments.

On February 23, 2017, SSMH completed a full defeasance of the \$104,000 in outstanding Series 2008A bonds through an advanced refunding transaction. SSMH utilized its general revolving line of credit and drew \$110,462 to fund the escrow account and pay costs of issuance. SSMH recorded a loss on the extinguishment of debt of \$8,040 in connection with this issue. The loss is included in nonoperating gains (losses).

Auction Rate Bonds—The debt includes \$9,950 and \$27,300 at December 31, 2018 and 2017, respectively, of variable auction rate bonds. The interest rates on these bonds are reset at regular intervals of 35 days. The bonds are bought and sold at the lowest bid rate at which all of the outstanding bonds can be sold. This rate varies based on market conditions. If there are insufficient orders to purchase all of the bonds available for sale, the rate is set at a maximum rate required by the bond agreement. The maximum rate for SSMH's auction rate bonds is the higher of 175% of the after-tax equivalent rate or the 30-day Tax-exempt Municipal Commercial Paper Index, but no more than 12%.

Variable Rate Bonds—The debt includes \$697,405 and \$802,660 at December 31, 2018 and 2017, respectively, of variable rate bonds. The interest rates on these bonds are reset at daily or longer intervals. The Series 2014 and Series 2018 variable rate demand bonds, totaling \$454,005 and \$300,000 at December 31, 2018 and 2017, respectively, are supported through self-liquidity. The remaining variable rate bonds were issued as funded direct placements that do not require liquidity support.

Surplus Notes—As part of a third-party service agreement, DHI has entered into a surplus note agreement in the amount of \$6,663. Principal and interest repayments must be approved by the Office of the Commissioner of Insurance (OCI) of the State of Wisconsin. Repayment of the note will not occur until the earlier of OCI approval or 18 months after the service agreement termination date of December 31, 2020. Interest is accrued on the outstanding principal balance at the one-year U.S. Treasury securities rate as set on the first business day of the calendar year. The annual interest rate for the years ended December 31, 2018 and 2017, was 1.83% and 0.89%, respectively.

Note Payable to Felician Services, Inc. (FSI)—On July 1, 2007, SSMH entered into an installment note payable to FSI. Under the terms of the agreement, FSI may elect to convert the note to pay status on or after December 31, 2015. SSMH will begin making twenty annual payments on the note, with the first one due one year after FSI has notified SSMH of its election to convert the note to pay status. The fixed interest rate will be equal to the 20-year municipal market data index plus 0.25 on the first day the note is in pay status. As of December 31, 2018, FSI had not elected to convert the note to pay status.

Until the note is in pay status, the principal is adjusted annually based on a specified consumer price index. The principal of the note was adjusted \$837 and \$906 for the years ended December 31, 2018 and 2017, respectively, from the book value at July 1, 2007, which is reflected in interest expense.

Liquidity Agreement—The Series 2014 B-G and Series 2018 D-F Variable Rate Demand Bonds are supported through self-liquidity. These series are classified as short-term borrowings based upon these accelerated terms. The contingent payments below reflect these accelerated terms. However, SSMH's contractual payments do not reflect these accelerated terms. If any of these agreements are terminated and not replaced, extended, or renewed, SSMH can be required to purchase the tendered bonds at the specified bank rate in a specified period of time.

Contractual and Contingent Principal Repayments—Contractual and contingent principal repayments on debt and capital lease obligations of SSMH are as follows:

	Debt		Capital Lease Obligations
	Contractual Payments	Contingent Payments	
2019	\$ 17,289	\$ 471,294	\$ 5,410
2020	18,541	18,541	4,070
2021	16,946	16,946	3,819
2022	17,708	17,708	3,712
2023	545,374	545,374	3,008
Thereafter	<u>1,723,776</u>	<u>1,269,771</u>	<u>20,753</u>
	2,339,634	2,339,634	40,772
Plus amount representing net premium	27,753	27,753	-
Less amount representing interest under capital lease obligations	-	-	<u>14,363</u>
Plus capital lease principal payments	26,409	26,409	<u>\$26,409</u>
Less deferred financing costs	<u>(12,945)</u>	<u>(12,945)</u>	
Total debt and capital lease obligations	<u>\$2,380,851</u>	<u>\$2,380,851</u>	

Commercial Paper—SSMH utilizes commercial paper supported by self-liquidity for general corporate purposes. Under the program, SSMH is registered to issue up to \$400,000. At December 31, 2018 and 2017, \$175,000 and \$200,000 of commercial paper was issued. Annual interest rates charged during the year ended December 31, 2018, were 2.45% to 2.69%.

Revolving Line of Credit—SSMH utilizes revolving lines of credit for general corporate purposes. On April 22, 2016, SSMH entered into a \$500,000 364-day revolving line of credit agreement. This agreement was renewed at the same terms on April 17, 2017 and is secured under SSMH's existing master trust indenture. As of December 31, 2018 and 2017, SSMH had borrowings of \$60,000 and \$185,462, respectively, on this line.

Fair Value of Debt—The valuation of the estimated fair value of fixed-rate long-term debt is completed by a third-party service and accepted by management and takes into account a number of factors including, but not limited to, any one or more of the following: general interest rate and market conditions; macroeconomic and/or deal-specific credit fundamentals; valuations of other financial instruments that may be comparable in terms of rating, structure, maturity and/or covenant protection; investor opinions about the respective deal parties; size of the transaction; cash flow projections, which in turn are based on assumptions about certain parameters that include, but are not limited to, default, recovery, prepayment, and reinvestment rates; administrator reports, asset manager estimates, broker quotation, and/or trustee reports; and comparable trades, where observable. Based on the inputs in determining the estimated fair value of debt this

liability would be considered Level 2. The fair value of debt approximated \$2,403,347 and \$2,037,000 at December 31, 2018 and 2017, respectively, compared to carrying amounts net of deferred financing costs of \$2,393,796 and \$1,989,323, respectively.

Deferred Financing Costs—Deferred financing costs are amortized using the effective interest rate method over the term of the related obligation.

Cash Paid for Interest—Cash paid for interest totaled \$82,497 and \$67,131 for the years ended December 31, 2018 and 2017, respectively. SSMH capitalized interest costs in the amounts of \$5,672 and \$1,913 in the years ended December 31, 2018 and 2017, respectively.

13. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

SSMH administers several qualified and nonqualified pension plans for its employees. On November 3, 2015, SSMH announced plan changes, effective January 1, 2016, for most of its pension plans. Under the revised plans, employees meeting certain age and length of employment eligibility requirements will continue to earn benefits in the pension plans until December 31, 2020, at which time their pension benefits will be frozen and they will move into SSMH's defined contribution (DC) formula. Employees in these plans that did not meet these eligibility criteria as of January 1, 2016 had their pension benefits frozen as of December 31, 2015, and moved to the DC formula on January 1, 2016. Effective January 1, 2021, no further benefits will be earned in the pension plans.

The following table summarizes the benefit obligations, the fair value of plan assets, and the funded status at December 31, 2018 and 2017:

	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation—beginning of period	\$ 2,373,769	\$ 2,204,762
Service cost, benefits earned during the period	49,353	47,478
Interest costs on projected benefit obligation	86,477	89,811
Plan change	598	-
Actuarial (gain) loss	(192,632)	132,705
Settlements	(2,193)	(2,173)
Benefits paid	<u>(112,268)</u>	<u>(98,814)</u>
Projected benefit obligation—end of period	<u>2,203,104</u>	<u>2,373,769</u>
Change in plan assets:		
Fair value of plan assets—beginning of period	1,574,227	1,391,717
Actual (loss) return on plan assets	(58,481)	203,612
Employer contributions	83,156	79,885
Settlements	(2,193)	(2,173)
Benefits paid	<u>(112,268)</u>	<u>(98,814)</u>
Fair value of plan assets—end of period	<u>1,484,441</u>	<u>1,574,227</u>
Net amount recognized at end of period and funded status	<u>\$ (718,663)</u>	<u>\$ (799,542)</u>
Accumulated benefit obligation—end of period	<u>\$ 2,180,003</u>	<u>\$ 2,338,988</u>

SSMH holds the majority of the plan's financial assets in a pooled investment program, which also includes the investments included in investments and assets whose use is limited. For a summary of the plan's allocated proportionate share of the pooled investment program, including fair value leveling, see Note 7.

Under accounting guidelines non-qualified pension plan liabilities are included as plan liabilities, but the investments are not considered to be plan assets. Accordingly, the table above does not include investments with a fair value of \$46,158 and \$52,895 as of December 31, 2018 and 2017, respectively, which are included as assets limited as to use on SSMH's consolidated balance sheets.

The following is a summary of the amounts recognized in the consolidated balance sheets for the years ended December 31, 2018 and 2017:

	2018	2017
Amounts recognized in the consolidated balance sheets consist of:		
Accounts payable and accrued expenses	\$ (3,505)	\$ (4,147)
Long-term pension liability	<u>(715,158)</u>	<u>(795,395)</u>
Net amount recognized	<u>\$(718,663)</u>	<u>\$(799,542)</u>
Amounts recognized in unrestricted net assets consist of:		
Beginning of year balance	\$ 809,984	\$ 816,188
Arising during current year—net actuarial (gain) loss	(17,018)	43,811
Actuarial loss recognized due to settlement	(480)	(453)
Reclassified into net periodic benefit cost:		
Net actuarial loss	(72,192)	(60,778)
Current year prior service cost	598	-
Prior service credit	<u>11,216</u>	<u>11,216</u>
End-of-year balance	<u>\$ 732,108</u>	<u>\$ 809,984</u>

The net loss and prior service (credit) cost for the defined benefit pension plans that will be amortized from net assets without donor restrictions into net periodic benefit costs over the next fiscal year are \$49,552 and \$(11,143), respectively.

The following is a summary of the components of net periodic pension cost for the years ended December 31, 2018 and 2017:

	2018	2017
Service cost, benefits earned during the period	\$ 49,353	\$ 47,478
Interest costs on projected benefit obligation	86,477	89,811
Expected return on plan assets	(117,133)	(114,719)
Amortization of unrecognized:		
Prior service credits	(11,216)	(11,216)
Net loss	<u>72,192</u>	<u>60,778</u>
Net periodic pension cost	79,673	72,132
Settlement	<u>480</u>	<u>453</u>
Total cost	<u>\$ 80,153</u>	<u>\$ 72,585</u>

As a result of the adoption of ASU 2017-07 discussed in Note 2, SSMH recognized costs as follows:

Cost recognized in salaries and benefits	\$ 49,353	\$ 47,478
Cost recognized in nonoperating net periodic pension cost, less service cost	<u>30,800</u>	<u>25,107</u>
Total cost	<u>\$ 80,153</u>	<u>\$ 72,585</u>

The following are the actuarial assumptions used by the pension plans to develop the components of pension expense for the years ended December 31, 2018 and 2017:

	2018	2017
Discount rates	3.65 %	4.10 %
Rates of salary increase	3.00	3.00
Return on plan assets	7.50	7.75

The following are the actuarial assumptions used by the pension plans to develop the components of the pension projected benefit obligation as of December 31, 2018 and 2017:

	2018	2017
Discount rates	4.40 %	3.65 %
Rates of salary increase	3.00	3.00

SSMH expects to contribute a minimum of \$80,400 to its pension plans in 2019.

Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2019	\$130,455
2020	143,449
2021	151,875
2022	149,531
2023	149,887
Years 2024–2028	728,143

The actual plan asset allocations and the allocation goals comprise the following investment classifications at December 31, 2018 and 2017:

	2018	2017	Allocation Goals
Cash, cash equivalents, and short-term investments	1 %	2 %	1 %
Equities	46	48	43
Fixed income	19	18	16
Real asset investments	13	12	12
Hedge funds	18	18	18
Private equity	<u>3</u>	<u>2</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

SSMH’s investment objective with respect to pension plans is to produce sufficient current income and capital growth through a portfolio of equity, fixed-income, hedge fund, real asset and private equity investments, which together with appropriate employer contributions is sufficient to provide for the pension benefit obligations. Within the equity, hedge fund, real asset, and private equity categories are investments in limited liability companies, limited partnerships and REIT interests. The assumed return on plan assets is intended to be a long-term rate expected on funds invested or to be invested in accordance with SSMH’s asset allocation policy to provide for benefits reflected in the plans’ projected benefit obligation. In developing the assumptions, SSMH evaluates input from its actuary and pension fund investment advisors. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees, and are diversified by investment style, asset category, sector, industry, issuer, geographical location, and maturity. Pension assets are rebalanced each quarter to the plan’s asset allocation guidelines. SSMH anticipates that its investment managers will continue to generate long-term returns equal to or in excess of its assumed rates.

Defined Contribution Plans—SSMH contributes to a defined contribution plan for eligible employees based upon a percentage of employee compensation. The expense for this plan was \$30,847 and \$26,264 for 2018 and 2017, respectively, and is included in salaries and benefits. SSMH also sponsors defined contribution plans covering employees who participate in the voluntary tax deferred annuity program and other defined contribution plans and who meet age and service requirements. SSMH’s contributions to these plans are based on a percentage of employee compensation or employee contributions. The

defined contribution pension expense for these plans was \$57,524 and \$38,365 for 2018 and 2017, respectively, and is included in salaries and benefits.

14. SELF-INSURANCE

Professional and General Liability Insurance—A majority of the members of SSMH participate in the SSMH Liability Trust I or SSMH Liability Trust II (the “Trusts”). Both Trusts are revocable grantor trusts. These Trusts, which cover primary limits of professional and general liability, require annual contributions by participating entities at actuarially determined amounts. All professional and general liability claims and workers’ compensation claims are paid from the Trusts subject to certain liability limitations.

SSMH’s underlying self-insured retention for professional liability claims is as follows:

	January 1, 2017 to December 31, 2018
Per occurrence limits—Missouri, Oklahoma, and Illinois	\$5,000
Annual aggregate	None

SSMH’s hospitals and physicians located in Wisconsin are qualified health care providers as defined by Wisconsin state statutes regarding professional liability coverage and participate in the State of Wisconsin Injured Patients and Families Compensation Fund (PCF). As defined by Wisconsin state statute, these hospitals and physicians have separate professional liability limits of \$1,000 per claim and a \$3,000 annual aggregate applied to each qualified provider. Losses in excess of these amounts are fully covered through mandatory participation in the PCF. SSMH is commercially insured up to these limits for these hospitals and physicians. For any Wisconsin operation not qualified to participate in the PCF, separate commercial limits of liability are purchased; limits and coverages are evaluated annually.

SSMH’s underlying self-insured retention for general liability claims is as follows:

	January 1, 2017 to December 31, 2018
Per occurrence limits—Missouri, Oklahoma, Wisconsin, and Illinois	\$3,000
Annual aggregate	None

SSMH maintains reinsurance through a wholly owned captive for professional and general liability claims exceeding the underlying self-insured retention. As of December 31, 2018, the reinsurance provides coverage (based on specific policy terms, conditions and limitations) up to the limits in the following table. The sublimits that apply are part of and not in addition to the overall policy aggregate limits.

	All Locations
Each loss event	\$135,000
Annual aggregate, per location	135,000
Annual aggregate all locations	160,000

The estimated professional and general liability obligation is recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using a discount rate of 3.0% at December 31, 2018 and 2017. The liability for self-insured reserves represents estimates of the ultimate net cost of all losses and related expenses, which are incurred but not paid at the balance sheet date based on an actuarial valuation. This estimated obligation is \$101,187 and \$110,581 at December 31, 2018 and 2017, respectively, of which \$22,354 and \$26,637 is recorded in accounts payable, accrued expenses, and other current liabilities at December 31, 2018 and 2017, respectively.

The accumulated assets of the Trusts are not available to participating members except to pay covered professional liability claims or to reduce future contributions when warranted by claims experience. In the event the Trusts are ever depleted, the participating members would be required to fund deficiencies based on future actuarial determinations.

DHS retains deductible levels with respect to its professional liability program. For professional liability claims reported on or after July 1, 2004, the per-occurrence deductible level is \$1,000 per defendant, and the annual aggregate deductible level is \$3,000. DHS is contractually obligated to reimburse its insurance carriers for all claims paid under the professional liability policies. The PCF also provides unlimited insurance for amounts in excess of the deductibles. DHS recognized a liability of \$10,346 and \$10,500 at December 31, 2018 and 2017, respectively, of which \$1,396 and \$1,550 is recorded in accounts payable, accrued expenses, and other current liabilities at December 31, 2018 and 2017, respectively.

Workers' Compensation—A majority of the members of SSMH participate in SSMH's centralized self-insured workers' compensation program. Claims in excess of certain liability limitations are covered by commercial insurance. The estimated workers' compensation liability obligation is actuarially determined and recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using a discount rate of 1.0% at December 31, 2018 and 2017.

Employee Health Insurance—A majority of the members of SSMH participate in the SSM Employee Health Care Plan as well as other self-funded plans (the Plans). Each participating member funds an actuarially determined amount for payment of covered benefits and related expenses, which are subject to certain limitations. Claims paid by the Plans are included in salaries and benefits expense and include claims paid by the Plans to SSMH entities of \$140,138 and \$99,439 for the years ended December 31, 2018 and 2017, respectively. SSM of Wisconsin members, excluding the CSA ministries, are fully insured under Dean Health Plan.

15. ASSET RETIREMENT OBLIGATIONS

SSMH has recorded conditional asset retirement obligations and capitalized retirement costs related to the estimated cost of removing asbestos from its facilities. Federal and state regulations require the removal of asbestos when a building is demolished or, at a minimum, encapsulation of the asbestos when it would be exposed during renovation. The obligation is included in other liabilities, and the capitalized costs are included in property and equipment. The following summarizes the asset retirement obligations at December 31, 2018 and 2017:

	2018	2017
Balance—beginning of the year	\$8,072	\$8,197
Retirements	(313)	(421)
Additions	385	-
Accretion expense	<u>292</u>	<u>296</u>
Balance—end of the year	<u>\$8,436</u>	<u>\$8,072</u>

16. ENDOWMENTS

Endowments consist of approximately 50 individual funds established for a variety of purposes. They include both donor-restricted endowment funds and funds designated by the boards of trustees or governors of each of its foundations to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions and the nature of the restrictions, if any.

Endowment Net Asset Composition by Type of Fund as of December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 40,439	\$40,439
Board-designated endowment funds	<u>16,420</u>	<u>-</u>	<u>16,420</u>
Total funds	<u>\$ 16,420</u>	<u>\$ 40,439</u>	<u>\$56,859</u>
Endowment Net Asset Composition by Type of Fund as of December 31, 2017	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$38,699	\$38,699
Board-designated endowment funds	<u>9,327</u>	<u>-</u>	<u>9,327</u>
Total funds	<u>\$ 9,327</u>	<u>\$38,699</u>	<u>\$48,026</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	\$ 9,327	\$38,699	\$48,026
Investment return, net	(736)	(1,458)	(2,194)
Contributions	49	1,884	1,933
Transfers to create board designated endowment funds	8,092	-	8,092
Acquisition of healthcare entities	-	1,883	1,883
Appropriation of endowment assets for expenditure	<u>(312)</u>	<u>(569)</u>	<u>(881)</u>
Endowment net assets—end of year	<u>\$16,420</u>	<u>\$40,439</u>	<u>\$56,859</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	\$8,622	\$35,314	\$43,936
Investment return, net	945	2,841	3,786
Contributions	63	1,031	1,094
Appropriation of endowment assets for expenditure	<u>(303)</u>	<u>(487)</u>	(790)
Endowment net assets—end of year	<u>\$9,327</u>	<u>\$38,699</u>	<u>\$48,026</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires SSMH to retain as a fund of perpetual duration (underwater endowments). SSMH has interpreted applicable law to permit spending from underwater funds in accordance with the prudent measures required under the law. SSMH’s policy allows spending from underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations. At December 31, 2018, funds with original gifts of \$10,758, fair values of \$10,129 and deficiencies of \$629 were reported in net assets with donor restrictions. There were no such deficiencies as of December 31, 2017.

Return Objectives and Risk Parameters—SSMH has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that SSMH must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. SSMH expects its endowment funds to

provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives—To satisfy its long-term rate-of-return objectives, SSMH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. SSMH uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and how the Investment Objectives Relate to Spending Policy—SSMH has a practice of distributing the major portion of current-year earnings on the endowment funds, if the restrictions have been met. Some of the donor-restricted endowments require a portion of the earnings to increase the corpus of the endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

17. DERIVATIVE INSTRUMENTS

SSMH utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. None of these swaps has been designated as hedges of the interest payments on outstanding debt obligations for accounting purposes. At December 31, 2018 and 2017, SSMH had six floating-to-fixed interest rate swaps, four fixed spread basis swaps and one total return swap. In addition, at December 31, 2018, SSMH had two fixed-to-floating interest rate swaps.

Under the outstanding floating-to-fixed swaps, SSMH receives LIBOR or a percentage of LIBOR plus a spread of 0.12% and pays a fixed rate. Under the fixed spread basis swaps, SSMH pays SIFMA and receives a percentage of LIBOR plus a spread ranging from 0.40% and 0.62%. Under the total return swap, SSMH pays both a fixed rate equal to the coupon interest rate on the Series 2012A bonds (4.78%) and SIFMA plus a spread, then receives the same fixed rate equal to the coupon interest rate on the Series 2012A bonds (4.78%). Under the fixed-to-floating interest rate swaps, SSMH receives a fixed rate and pays three month LIBOR or SIFMA

Certain swap agreements require SSMH to provide collateral if SSMH's liability, determined on a mark-to-market basis, exceeds a specified threshold. At December 31, 2018 and 2017, no collateral was required to be provided related to this liability.

As part of its pooled investment program, SSMH holds investments in interest rate swaps and options, credit default swaps and currency futures. This economic hedging is based on investment portfolio exposure to long-only equities, foreign exchange and fixed income. No leverage is utilized for this hedging activity.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other liabilities and assets whose use is limited in the consolidated balance sheets as of December 31, 2018 and 2017:

December 31, 2018	Recorded on Balance Sheet	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
Derivatives not designated as hedges—interest rate swaps	Other liabilities	2034–2044	2.81%–5.22%	<u>\$ 937,400</u>	<u>\$(109,830)</u>
Derivatives not designated as hedges—interest rate swaps	Other assets	2023–2034		<u>\$ 253,000</u>	<u>\$ 3,963</u>
Derivatives not designated as hedges—trading derivatives:	Assets limited as to use or restricted				
Credit default swaps		2019–2058		39,700	298
Futures		2019–2020		871,199	932
Interest rate swaps		2020–2048	1.00%–3.00%	328,539	2,917
Options		2019		<u>35,799</u>	<u>(1,741)</u>
				<u>1,275,237</u>	<u>2,406</u>
Total				<u>\$ 2,465,637</u>	<u>\$(103,461)</u>
December 31, 2017	Recorded on Balance Sheet	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
Derivatives not designated as hedges—interest rate swaps	Other liabilities	2034–2044	2.81%–5.22%	<u>\$ 1,004,740</u>	<u>\$(134,800)</u>
Derivatives not designated as hedges—trading derivatives:	Assets limited as to use or restricted				
Credit default swaps		2019–2058		49,580	1,497
Futures		2018		222,474	668
Interest rate swaps		2019–2048	0.75%–2.75%	99,311	862
Options		2018–2019		<u>247,901</u>	<u>542</u>
				<u>619,266</u>	<u>3,569</u>
Total				<u>\$ 1,624,006</u>	<u>\$(131,231)</u>

Fair value is based on significant other observable inputs (Level 2) at December 31, 2018 and 2017. The gains and losses related to derivative instruments have been included in the disclosures reported in Note 6.

SSMH's credit derivative instruments are under a master agreement that provides the ability to close out and net the total exposure to a counterparty in the event of a default or other termination events. Counterparty risk is managed by requiring high credit standards for SSMH's counterparties as well as collateral posting requirements. As of December 31, 2018 and 2017, SSMH posted \$6,800 and \$3,769, respectively, of collateral for the credit derivative instruments allocated to SSMH from the pooled investment program. SSMH's interest rate swap agreements allow for net settlements of payment in the normal course

as well as offsetting of all contracts with a given counterparty in the event of default or bankruptcy of one of the two parties of the transaction. As of December 31, 2018 and 2017, there was no collateral posted for the interest rate swaps.

The net presentation of SSMH's financial instruments subject to rights of offset are summarized as follows:

Offsetting of Financial and Derivative Assets

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
As of December 31, 2018					
Asset Derivatives—					
Interest rate swaps	\$ 3,963	\$ -	\$ 3,963	\$ -	\$ 3,963
Trading derivatives:					
Credit Default Swap	445	(147)	298	-	298
Futures	932		932	-	932
Interest rate swaps	3,234	(317)	2,917	-	2,917
Options	4,041	(5,782)	(1,741)	-	(1,741)
	<u>\$ 8,652</u>	<u>\$ (6,246)</u>	<u>\$ 2,406</u>	<u>\$ -</u>	<u>\$ 2,406</u>
As of December 31, 2017					
Asset Derivatives—					
Trading derivatives:					
Credit Default Swap	\$ 1,497	\$ -	\$ 1,497	\$ -	\$ 1,497
Futures	182,320	(181,652)	668	-	668
Interest rate swaps	1,291	(429)	862	-	862
Options	3,013	(2,471)	542	-	542
	<u>\$ 188,121</u>	<u>\$ (184,552)</u>	<u>\$ 3,569</u>	<u>\$ -</u>	<u>\$ 3,569</u>

Offsetting of Financial and Derivative Liabilities

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
As of December 31, 2018:					
Asset Derivatives—					
Trading derivatives					
Credit Default Swap	\$ 147	\$ (147)	\$ -	\$ -	\$ -
Futures	-	-	-	-	-
Interest rate swaps	317	(317)	-	-	-
Options	5,782	(5,782)	-	-	-
	<u>\$ 6,246</u>	<u>\$ (6,246)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liability Derivatives—interest rate swaps	113,051	(3,221)	109,830	-	109,830
As of December 31, 2017:					
Asset Derivatives—					
Trading derivatives:					
Futures	\$ 181,652	\$ (181,652)	\$ -	\$ -	\$ -
Interest rate swaps	429	(429)	-	-	-
Options	2,471	(2,471)	-	-	-
	<u>\$ 184,552</u>	<u>\$ (184,552)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liability Derivatives—interest rate swaps	134,800	-	134,800	-	134,800

18. INCOME TAXES

The components of income tax expense for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Current tax expense:		
Federal	\$ 444	\$ 1,270
State	<u>414</u>	<u>421</u>
Income tax expense	<u>\$ 858</u>	<u>\$ 1,691</u>

Deferred income taxes reflect the tax impact of carryforwards and temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The components of deferred taxes are as follows:

	2018	2017
Assets:		
Net operating loss and credit carryforwards	\$ 269,541	\$ 256,580
Accrued employee compensation	11,387	9,250
Other nondeductible liabilities	17,911	10,040
Uncollectible accounts	1,429	1,610
Other	<u>9,276</u>	<u>8,240</u>
Assets	<u>309,544</u>	<u>285,720</u>
Liabilities:		
Depreciable and amortizable assets	(49,131)	(46,970)
Investment in subsidiaries	(5,483)	(6,290)
Other	<u>(648)</u>	<u>(4,750)</u>
Liabilities	<u>(55,262)</u>	<u>(58,010)</u>
Valuation allowance	<u>(254,282)</u>	<u>(227,710)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2018 and 2017, the deferred income tax benefits were recorded net of a valuation allowance of \$254,282 and \$227,710, respectively, primarily due to net operating loss carryforwards available related to its for-profit subsidiaries, which expire between 2019 and 2036. A valuation allowance was provided because it is more likely than not that the net operating losses will expire unutilized. During the year ended December 31, 2018, SSMH increased the valuation allowance by \$26,572 based on 2018 net losses. During the year ended December 31, 2017, SSMH increased the valuation allowance by an additional \$32,137 based on 2017 net losses. SSMH decreased the allowance by \$115,623 as a result of the remeasurement of the valuation allowance from

34% to 21% as a result of the Tax Cuts and Jobs Act which was approved by Congress on December 22, 2017.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 21% to net income before taxes. The significant items causing this difference are the net income of tax exempt subsidiaries, changes in valuation allowances on deferred tax assets, and nondeductible compensation.

SSMH files income tax returns in the US federal jurisdiction and in various state jurisdictions. SSMH is no longer subject to US or state income tax examinations by tax authorities for the years before 2014.

Cash Paid for Income Taxes—Cash paid for income taxes totaled \$985 and \$1,706 for the years ended December 31, 2018 and 2017, respectively.

19. NET ASSETS

Net assets with donor restrictions were available for the following purposes for the years ended December 31, 2018 and 2017:

	2018	2017
Subject to expenditure for healthcare operations	\$57,421	\$43,062
Endowments subject to the SSMH's endowment spending policy and appropriation	<u>40,439</u>	<u>38,699</u>
Net assets with donor restrictions	<u>\$97,860</u>	<u>\$81,761</u>

Net assets without donor restrictions were as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Undesignated	\$ 2,598,994	\$ 2,006,709
Board-designated for:		
Foundation assets designated for hospital operations and other	94,900	107,803
Endowments	<u>16,420</u>	<u>9,327</u>
	<u>111,320</u>	<u>117,130</u>
SSMH net assets without donor restrictions	<u>\$ 2,710,314</u>	<u>\$ 2,123,839</u>

SSMH reports the noncontrolling interest in the net assets of consolidated subsidiaries as a separate component of the appropriate class of net assets. The reconciliation of noncontrolling interest reported in net assets without donor restrictions is as follows:

	Total	SSMH Net Assets Without Donor Restrictions	Noncontrolling Interest
Net assets without donor restrictions—January 1, 2017	<u>\$2,028,844</u>	<u>\$1,873,787</u>	<u>\$ 155,057</u>
Excess (deficit) of revenues over expenses	242,974	246,060	(3,086)
Pension-related changes	6,204	6,204	-
Distributions to noncontrolling owners	(5,909)	-	(5,909)
Net assets with donor restrictions released from restrictions	1,595	1,595	-
Purchase of subsidiary from noncontrolling owner	(4,450)	(4,450)	-
Other—net	<u>643</u>	<u>643</u>	<u>-</u>
Change in net assets without donor restrictions	<u>241,057</u>	<u>250,052</u>	<u>(8,995)</u>
Net assets without donor restrictions—December 31, 2017	<u>2,269,901</u>	<u>2,123,839</u>	<u>146,062</u>
Excess of revenues over expenses	513,490	505,248	8,242
Pension-related changes	77,876	77,876	-
Distributions to noncontrolling owners	(5,435)	-	(5,435)
Net assets with donor restrictions released from restrictio	4,772	4,772	-
Purchase of subsidiary from noncontrolling owner	(3,391)	(3,391)	-
Other—net	<u>1,970</u>	<u>1,970</u>	<u>-</u>
Change in net assets without donor restrictions	<u>589,282</u>	<u>586,475</u>	<u>2,807</u>
Unrestricted net assets—December 31, 2018	<u>\$2,859,183</u>	<u>\$2,710,314</u>	<u>\$ 148,869</u>

20. FUNCTIONAL EXPENSES

SSMH provides general health care services to residents within its geographic locations. Expenses by functional classification for the year ended December 31, 2018, are as follows:

	Health Care Services	General / Administrative	Fund-raising	Insurance Plan	Pharmacy Benefit Mgmt	Total
Salaries and benefits	\$ 2,352,709	\$ 753,055	\$ 3,545	\$ 58,230	\$ 72,378	\$ 3,239,917
Medical claims	-	-	-	557,558	-	557,558
Supplies	1,115,780	71,204	190	1,330	457,501	1,646,005
Professional fees and other	1,197,973	269,508	2,287	100,141	24,276	1,594,185
Interest	14,102	68,422	-	124	29	82,677
Depreciation and amortization	264,505	23,061	13	13,063	6,674	307,316
Impairment and other losses	<u>112,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,847</u>
	<u>\$ 5,057,916</u>	<u>\$ 1,185,250</u>	<u>\$ 6,035</u>	<u>\$ 730,446</u>	<u>\$ 560,858</u>	<u>\$ 7,540,505</u>

Expenses related to providing these services for the year ended December 31, 2017 are as follows:

	2017
Health care services	\$ 5,878,112
General and administrative	577,686
Fundraising	<u>10,377</u>
Total expenses	<u>\$ 6,466,175</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include human resources, finance and treasury, legal, technology services and other functions. These expenses are allocated to healthcare services and general and administrative services based on the functional department for which they are incurred. Departmental expenses may include allocations of costs based on direct assignment, expenses or other methods.

21. COMMITMENTS AND CONTINGENT LIABILITIES

Leases for property and equipment that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expense on a straight-line basis over the term of the lease.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2018, that have initial or remaining lease terms in excess of one year:

2019	\$ 69,702
2020	56,627
2021	47,959
2021	39,890
2022	35,325
Thereafter	<u>75,153</u>
Total minimum lease payments	<u>\$324,656</u>

Total rental and lease expense was approximately \$95,307 and \$81,623 in 2018 and 2017, respectively.

SSMH has outstanding letters of credit of \$3,711 and \$3,709 at December 31, 2018 and 2017, respectively. There were no outstanding draws on these letters of credit.

As of December 31, 2018, SSMH has entered into construction projects for new facilities and capital improvements to existing facilities. As of December 31, 2018, SSMH has unmet commitments of approximately \$247,807, which will be financed with board-designated assets, project funds, or cash generated from operations. As part of acquisition agreements in Wisconsin and Missouri, SSMH has committed an additional \$569,373 for facility improvements to be paid out from 2015 to 2020; of this amount \$217,944 has been spent as of December 31, 2018.

SSMH has entered into certain other guarantees with outside entities to be paid out from 2019 through 2020, which totaled \$90,403 at December 31, 2018.

During a periodic cost report audit performed by the Medicare Administrative Contractor (MAC) in Oklahoma, the MAC identified potential issues with the calculation of the disproportionate share hospital (DSH) payments paid to SSMH's Oklahoma facility (the Hospital). The issue is related to the Medicare DSH calculation of Medicaid days for child and adolescent patients who received inpatient behavioral health services in acute licensed beds at SAH. The MAC determined that the services provided to those patients were "residential treatment services" (non-acute) and the associated DSH payments should therefore be adjusted accordingly. In 2013, the Centers for Medicare and Medicaid Services (CMS) rendered a ruling for full repayment of the DSH payments received and recognized as revenue attributable to the adolescent psychiatric program for the year ended December 31, 2006. Management anticipated that this ruling would be applied to Cost Report years 2004 to 2013. As of December 31, 2018 and 2017, \$37,698 and \$44,511, respectively, is included in estimated third-party payor settlements payables related to this ruling. During 2018, SSMH paid \$10,456 to CMS relating to the 2009 Cost Report year. Of this, \$6,813 was a reduction of estimated third-party payor settlement payables and \$3,642 was recorded as a reduction of net patient service revenues.

SSMH has engaged external counsel to assist in an appeal process related to the ruling. The Provider Reimbursement Review Board (PRRB) heard the appeal and, in January 2018, ruled in favor of the Hospital for the 2006 DSH settlement. The decision is still under review and SSMH is continuing the litigation process. Although this new information is in SSMH's favor, the criteria to derecognize the liability has not been met as of December 31, 2018.

In early 2018, the current MAC communicated preliminary audit adjustments related to 2013 and 2014 that indicate they are disallowing additional acute days relating to the DSH calculation. These days were previously accepted by CMS. Given the previous acceptance by CMS of such days and the positive developments in the 2006 DSH matter described above, SSMH does not believe a potential payment related to this issue is probable and therefore, no additional liability has been recorded as of December 31, 2018.

Outside of the matters described above, SSMH is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on SSMH's consolidated financial position or consolidated results of operations.

22. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capital expenditures not financed with debt were as follows:

Financial assets:	
Cash and cash equivalents	\$ 116,931
Investments	65,063
Patient accounts receivable	781,726
Premium receivable	5,043
Pharmacy claims and rebates receivable	322,768
Other receivables	88,678
Assets limited as to use	<u>2,519,196</u>
	3,899,405
Liquidity resources:	
Unused commercial paper	225,000
Unused line of credit	<u>440,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 4,564,405</u>

SSMH considers board designated assets limited as to use to be available within one year for general expenditure with the exception of those assets designated for health plan and pharmacy benefit claims, long-term employee benefit plans and board designated endowments.

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

On a quarterly basis, SSMH calculates the amount of its unrestricted cash and investments that are available within certain time frames. As of December 31, 2018, the majority of

SSMH's unrestricted cash and short-term investments was available in three days or less. Of the remainder availability to receive proceeds ranges from one month or less to a year.

23. SUBSEQUENT EVENTS

For the year ended December 31, 2018, SSMH has evaluated subsequent events for potential recognition and disclosure through March 27, 2019, the date the financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

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SSM HEALTH CONSOLIDATING SCHEDULES

SSM HEALTH

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2018 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 50,830	\$ 66,101	\$ -	\$ 116,931
Investments	6,872	58,191	-	65,063
Current portion of assets limited as to use	325,021	165,801	-	490,822
Patient accounts receivable	754,365	27,361	-	781,726
Pharmacy claims and rebates receivable	322,768	-	-	322,768
Premium receivable—less allowance for uncollectible accounts	-	5,043	-	5,043
Other receivables	88,617	11,060	(10,999)	88,678
Assets held for sale	22,330	-	-	22,330
Inventories, prepaid expenses, and other	166,118	5,929	(1,210)	170,837
Estimated third-party payor settlements	28,933	-	-	28,933
Total current assets	1,765,854	339,486	(12,209)	2,093,131
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	2,801,760	344,794	-	3,146,554
PROPERTY AND EQUIPMENT—Net	2,612,540	48,777	-	2,661,317
OTHER ASSETS:				
Goodwill	96,899	24,292	-	121,191
Intangible assets—net	167,745	28,865	-	196,610
Investments in unconsolidated entities	309,812	1,295	(194,476)	116,631
Other	25,693	363	(2,420)	23,636
Total other assets	600,149	54,815	(196,896)	458,068
TOTAL	<u>\$ 7,780,303</u>	<u>\$ 787,872</u>	<u>\$(209,105)</u>	<u>\$ 8,359,070</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 60,000	\$ 67	\$ -	\$ 60,067
Current portion of long-term debt and capital lease obligations	20,602	245	-	20,847
Accounts payable, accrued expenses, and other current liabilities	1,164,801	245,742	(12,064)	1,398,479
Commercial paper	175,000	-	-	175,000
Short-term borrowings	454,005	-	-	454,005
Unearned premiums	-	27,906	-	27,906
Payable under securities lending agreements	62,953	746	-	63,699
Estimated third-party payor settlements	119,184	41,793	-	160,977
Total current liabilities	2,056,545	316,499	(12,064)	2,360,980
LONG-TERM DEBT—Excluding current portion	1,876,252	6,896	-	1,883,148
ESTIMATED SELF-INSURANCE OBLIGATIONS	79,371	18,911	-	98,282
CAPITAL LEASE OBLIGATIONS—Excluding current portion	17,105	5,746	-	22,851
PENSION LIABILITY	715,158	-	-	715,158
OTHER LIABILITIES	312,200	11,826	(2,418)	321,608
Total liabilities	<u>5,056,631</u>	<u>359,878</u>	<u>(14,482)</u>	<u>5,402,027</u>
NET ASSETS:				
Without donor restrictions:				
Noncontrolling interest in subsidiaries	144,935	3,934	-	148,869
SSM Health net assets without donor restrictions	2,486,947	335,690	(112,323)	2,710,314
Total net assets without donor restrictions	2,631,882	339,624	(112,323)	2,859,183
With donor restrictions	91,790	88,370	(82,300)	97,860
Total net assets	<u>2,723,672</u>	<u>427,994</u>	<u>(194,623)</u>	<u>2,957,043</u>
TOTAL	<u>\$ 7,780,303</u>	<u>\$ 787,872</u>	<u>\$(209,105)</u>	<u>\$ 8,359,070</u>

See notes to consolidating schedules.

SSM HEALTH

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2017 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 92,391	\$ 34,552	\$ -	\$ 126,943
Investments	32,707	55,645	-	88,352
Current portion of assets limited as to use	221,433	164,178	-	385,611
Patient accounts receivable—less allowance for uncollectible accounts	605,681	22,258	-	627,939
Pharmacy claims and rebates receivable	266,354	-	-	266,354
Premium receivable—less allowance for uncollectible accounts	-	9,549	-	9,549
Other receivables	67,243	6,075	(18,757)	54,561
Inventories, prepaid expenses, and other	222,180	1,345	(982)	222,543
Estimated third-party payor settlements	<u>36,607</u>	<u>1,625</u>	<u>-</u>	<u>38,232</u>
Total current assets	<u>1,544,596</u>	<u>295,227</u>	<u>(19,739)</u>	<u>1,820,084</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	<u>2,628,565</u>	<u>261,993</u>	<u>-</u>	<u>2,890,558</u>
PROPERTY AND EQUIPMENT—Net	2,153,503	63,657	-	2,217,160
OTHER ASSETS:				
Goodwill	96,867	24,324	-	121,191
Intangible assets—net	172,550	34,471	-	207,021
Investments in unconsolidated entities	289,850	1,079	(183,259)	107,670
Other	<u>12,784</u>	<u>341</u>	<u>-</u>	<u>13,125</u>
Total other assets	<u>572,051</u>	<u>60,215</u>	<u>(183,259)</u>	<u>449,007</u>
TOTAL	<u>\$ 6,898,715</u>	<u>\$ 681,092</u>	<u>\$(202,998)</u>	<u>\$ 7,376,809</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 185,462	\$ 88	\$ -	\$ 185,550
Current portion of long-term debt and capital lease obligations	31,277	213	-	31,490
Accounts payable, accrued expenses, and other current liabilities	1,083,028	151,594	(19,592)	1,215,030
Commercial paper	200,000	-	-	200,000
Short-term borrowings	300,000	-	-	300,000
Unearned premiums	-	30,212	-	30,212
Payable under securities lending agreements	50,076	467	-	50,543
Estimated third-party payor settlements	<u>131,352</u>	<u>32,680</u>	<u>-</u>	<u>164,032</u>
Total current liabilities	1,981,195	215,254	(19,592)	2,176,857
LONG-TERM DEBT—Excluding current portion	1,621,018	6,945	-	1,627,963
ESTIMATED SELF-INSURANCE OBLIGATIONS	86,807	16,998	-	103,805
CAPITAL LEASE OBLIGATIONS—Excluding current portion	15,046	5,942	-	20,988
PENSION LIABILITY	795,395	-	-	795,395
OTHER LIABILITIES	<u>286,907</u>	<u>13,232</u>	<u>-</u>	<u>300,139</u>
Total liabilities	<u>4,786,368</u>	<u>258,371</u>	<u>(19,592)</u>	<u>5,025,147</u>
NET ASSETS:				
Without donor restrictions:				
Noncontrolling interest in subsidiaries	142,179	3,883	-	146,062
SSMH net assets without donor restrictions	<u>1,895,150</u>	<u>346,518</u>	<u>(117,829)</u>	<u>2,123,839</u>
Total net assets without donor restrictions	2,037,329	350,401	(117,829)	2,269,901
With donor restrictions	<u>75,018</u>	<u>72,320</u>	<u>(65,577)</u>	<u>81,761</u>
Total net assets	<u>2,112,347</u>	<u>422,721</u>	<u>(183,406)</u>	<u>2,351,662</u>
TOTAL	<u>\$ 6,898,715</u>	<u>\$ 681,092</u>	<u>\$(202,998)</u>	<u>\$ 7,376,809</u>

See notes to consolidating schedules.

SSM HEALTH

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues	\$ 5,342,921	\$ 387,887	\$ (584,597)	\$ 5,146,211
Premiums earned	103,665	1,426,586	(73,506)	1,456,745
Pharmacy benefit management revenue	494,240	-	-	494,240
Investment loss	(11,596)	(11,052)	-	(22,648)
Income from unconsolidated entities—net	15,565	(2)	-	15,563
Other revenue	473,014	318,989	(337,937)	454,066
Net assets released from restrictions	93	7,386	-	7,479
	<u>6,417,902</u>	<u>2,129,794</u>	<u>(996,040)</u>	<u>7,551,656</u>
OPERATING EXPENSES:				
Salaries and benefits	2,894,766	608,711	(263,560)	3,239,917
Medical claims	-	1,203,048	(645,490)	557,558
Supplies	1,587,917	58,088	-	1,646,005
Professional fees and other	1,370,016	323,866	(99,697)	1,594,185
Interest	74,477	8,200	-	82,677
Depreciation and amortization	282,383	24,933	-	307,316
	<u>6,209,559</u>	<u>2,226,846</u>	<u>(1,008,747)</u>	<u>7,427,658</u>
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER ITEMS	208,343	(97,052)	12,707	123,998
OTHER ITEMS—Nonrecurring items	112,847	-	-	112,847
OPERATING INCOME AFTER OTHER ITEMS	95,496	(97,052)	12,707	11,151
NONOPERATING GAINS AND (LOSSES):				
Investment loss	(81,547)	(209)	-	(81,756)
Inherent contribution	598,817	-	-	598,817
Loss from early extinguishment of debt	(13,038)	-	-	(13,038)
Net periodic pension cost, less service cost	(30,800)	-	-	(30,800)
Change in fair value of interest rate swaps	28,933	292	-	29,225
Other—net	732	17	-	749
	<u>503,097</u>	<u>100</u>	<u>-</u>	<u>503,197</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	598,593	(96,952)	12,707	514,348
INCOME TAX (BENEFIT) EXPENSE	(17,034)	17,892	-	858
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	615,627	(114,844)	12,707	513,490
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	7,290	952	-	8,242
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest	<u>\$ 608,337</u>	<u>\$ (115,796)</u>	<u>\$ 12,707</u>	<u>\$ 505,248</u>

See notes to consolidating schedules.

SSM HEALTH

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues before provision for uncollectible accounts	\$ 4,909,068	\$ 229,378	\$ (481,919)	\$ 4,656,527
Less provision for uncollectible accounts	<u>(287,100)</u>	<u>(10,678)</u>	<u>-</u>	<u>(297,778)</u>
Net patient service revenues	4,621,968	218,700	(481,919)	4,358,749
Premiums earned	99,077	1,291,375	(71,178)	1,319,274
Pharmacy benefit management revenue	381,550			381,550
Investment income	45,650	29,064	-	74,714
Income from unconsolidated entities—net	15,224	3	-	15,227
Other revenue	395,183	296,735	(354,545)	337,373
Net assets released from restrictions	<u>113</u>	<u>10,006</u>	<u>-</u>	<u>10,119</u>
Total operating revenues and other support	<u>5,558,765</u>	<u>1,845,883</u>	<u>(907,642)</u>	<u>6,497,006</u>
OPERATING EXPENSES:				
Salaries and benefits	2,587,195	508,268	(259,282)	2,836,181
Medical claims	-	1,118,606	(534,094)	584,512
Supplies	1,315,753	25,755	-	1,341,508
Professional fees and other	1,203,104	236,527	(94,493)	1,345,138
Interest	65,983	1,744	-	67,727
Depreciation and amortization	<u>263,035</u>	<u>18,802</u>	<u>-</u>	<u>281,837</u>
Total operating expenses	<u>5,435,070</u>	<u>1,909,702</u>	<u>(887,869)</u>	<u>6,456,903</u>
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER ITEMS	123,695	(63,819)	(19,773)	40,103
OTHER ITEMS—Nonrecurring items	<u>9,272</u>	<u>-</u>	<u>-</u>	<u>9,272</u>
OPERATING INCOME AFTER OTHER ITEMS	114,423	(63,819)	(19,773)	30,831
NONOPERATING GAINS (LOSSES):				
Investment income	242,580	16	-	242,596
Loss from early extinguishment of debt	(8,318)	-	-	(8,318)
Net periodic pension cost, less service cost	(25,107)			(25,107)
Change in fair value of interest rate swaps	7,744	-	-	7,744
Other—net	<u>(3,087)</u>	<u>6</u>	<u>-</u>	<u>(3,081)</u>
Total nonoperating gains (losses)—net	<u>213,812</u>	<u>22</u>	<u>-</u>	<u>213,834</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	328,235	(63,797)	(19,773)	244,665
INCOME TAX (BENEFIT) EXPENSE	<u>(1,418)</u>	<u>3,109</u>	<u>-</u>	<u>1,691</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	329,653	(66,906)	(19,773)	242,974
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(3,705)</u>	<u>619</u>	<u>-</u>	<u>(3,086)</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest	<u>\$ 333,358</u>	<u>\$ (67,525)</u>	<u>\$ (19,773)</u>	<u>\$ 246,060</u>

See notes to consolidating schedules.

SSM HEALTH

NOTES TO CONSOLIDATING SCHEDULES AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. PRINCIPLES OF INCLUSION

The Credit Group is made up of SSMHCC and its wholly owned Designated Affiliates as defined in the Master Trust Indenture, including the activities, assets, and liabilities of wholly owned and partially owned subsidiaries that are consolidated under generally accepted accounting principles. The list of Credit Group members includes most DHS entities, but excludes DHP and DHI. The Credit Group does not include SSMH's physician group practices, charitable foundations, SSM-SLUH, and the interests of SSMH in various other minor subsidiaries and ancillary joint ventures that are referred to herein as "Other Entities". In 2018 and 2017, the assets of the Credit Group represented 91% of the consolidated total, and the total operating revenues represented 75% of the consolidated total.

2. PRESENTATION

Entities included in the Credit Group do not reflect their equity interest in Other Entities on their balance sheets, except for beneficial interest in foundations.

3. OBLIGATIONS

Included in Other Entities are certain entities with negative net assets totaling \$105,573 and \$63,828 at December 31, 2018 and 2017, respectively. The Credit Group may be required to provide operating capital to these entities to ensure their solvency.

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