

SSM Health

Consolidated Financial Statements as of and for the
Years Ended December 31, 2019 and 2018,
Additional Information as of and for the Years
Ended December 31, 2019 and 2018, and
Independent Auditors' Report

SSM HEALTH

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018:	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4-5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-54
SSM HEALTH SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018:	55
Consolidating Schedules—Balance Sheet Information	56-57
Consolidating Schedules—Statement of Operations Information	58-59
Notes to Consolidating Additional Information	60

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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2019 and 2018, 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, SSMH changed its method of accounting for leases to comply with new accounting guidance. 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 56-60 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 25, 2020

SSM HEALTH

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2018 (In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 226,310	\$ 116,931
Investments	36,664	65,063
Current portion of assets limited as to use	394,813	490,822
Patient accounts receivable	786,631	781,726
Pharmacy claims and rebates receivable	354,540	322,768
Other receivables	144,580	93,721
Assets held for sale	-	22,330
Inventories, prepaid expenses, and other	156,654	170,837
Estimated third-party payor settlements	<u>36,948</u>	<u>28,933</u>
Total current assets	<u>2,137,140</u>	<u>2,093,131</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	3,518,828	3,146,554
PROPERTY AND EQUIPMENT—Net	2,890,788	2,661,317
OPERATING RIGHT-OF-USE ASSETS	248,618	-
OTHER ASSETS:		
Goodwill	121,191	121,191
Intangible assets—net	169,268	196,610
Investments in unconsolidated entities	99,674	116,631
Other	<u>23,658</u>	<u>23,636</u>
Total other assets	<u>413,791</u>	<u>458,068</u>
TOTAL	<u>\$ 9,209,165</u>	<u>\$ 8,359,070</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Revolving line of credit	\$ 60,000	\$ 60,067
Current portion of long-term debt and finance lease obligations	24,267	20,847
Accounts payable and accrued expenses	1,611,784	1,398,479
Short-term borrowings	452,230	454,005
Estimated third-party payor settlements	157,026	160,977
Other current liabilities	<u>252,222</u>	<u>266,605</u>
Total current liabilities	2,557,529	2,360,980
LONG-TERM DEBT—Excluding current portion	1,865,796	1,883,148
ESTIMATED SELF-INSURANCE OBLIGATIONS	106,203	98,282
OPERATING LEASE OBLIGATIONS—Excluding current portion	210,232	-
FINANCE LEASE OBLIGATIONS—Excluding current portion	20,945	22,851
PENSION LIABILITY	792,409	715,158
OTHER LIABILITIES	<u>379,516</u>	<u>321,608</u>
Total liabilities	<u>5,932,630</u>	<u>5,402,027</u>
NET ASSETS:		
Without donor restrictions:		
SSM Health net assets without donor restrictions	3,020,615	2,710,314
Noncontrolling interest in subsidiaries	<u>147,564</u>	<u>148,869</u>
Total net assets without donor restrictions	3,168,179	2,859,183
With donor restrictions	<u>108,356</u>	<u>97,860</u>
Total net assets	<u>3,276,535</u>	<u>2,957,043</u>
TOTAL	<u>\$ 9,209,165</u>	<u>\$ 8,359,070</u>

See notes to consolidated financial statements.

SSM HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In thousands)

	2019	2018
OPERATING REVENUES AND OTHER SUPPORT:		
Net patient service revenues	\$ 5,222,972	\$ 5,146,211
Premiums revenue	1,443,007	1,456,745
Pharmacy benefit management revenue	602,756	494,240
Investment income (loss)	96,099	(22,648)
Income from unconsolidated entities—net	19,984	15,563
Other revenue	539,057	454,066
Net assets released from restrictions	<u>10,679</u>	<u>7,479</u>
Total operating revenues and other support	<u>7,934,554</u>	<u>7,551,656</u>
OPERATING EXPENSES:		
Salaries and benefits	3,374,627	3,239,917
Medical claims	556,510	557,558
Supplies	1,797,218	1,646,005
Professional fees and other	1,672,944	1,594,185
Interest	78,369	82,677
Depreciation and amortization	<u>304,708</u>	<u>307,316</u>
Total operating expenses	<u>7,784,376</u>	<u>7,427,658</u>
INCOME FROM OPERATIONS BEFORE OTHER ITEMS	150,178	123,998
OTHER ITEMS—Nonrecurring items	<u>-</u>	<u>112,847</u>
OPERATING INCOME AFTER OTHER ITEMS	<u>150,178</u>	<u>11,151</u>
NONOPERATING GAINS AND (LOSSES):		
Investment income (loss)	337,447	(81,756)
Inherent contribution	-	598,817
Loss from early extinguishment of debt	(410)	(13,038)
Net periodic pension cost, less service cost	(17,354)	(30,800)
Change in fair value of interest rate swaps	(54,553)	29,225
Other—net	<u>278</u>	<u>(109)</u>
Total nonoperating gains—net	<u>265,408</u>	<u>502,339</u>
EXCESS OF REVENUES OVER EXPENSES	415,586	513,490
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>8,907</u>	<u>8,242</u>
EXCESS OF REVENUES OVER EXPENSES—Net of noncontrolling interest	<u>\$ 406,679</u>	<u>\$ 505,248</u>

(Continued)

SSM HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In thousands)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenues over expenses	\$ 415,586	\$ 513,490
Pension-related changes other than net periodic pension cost	(102,414)	77,876
Net assets released from restrictions for property acquisitions	1,337	4,772
Distributions to noncontrolling owners	(6,085)	(5,435)
Purchase of subsidiary from noncontrolling owner	-	(3,391)
Other—net	<u>572</u>	<u>1,970</u>
Increase in net assets without donor restrictions	<u>308,996</u>	<u>589,282</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions for charity care, property acquisitions, and other programs	15,294	16,327
Gains (losses) on investments—net	7,778	(1,688)
Net assets with donor restrictions released from restrictions for operations	(10,679)	(7,479)
Net assets with donor restrictions released from restrictions for property acquisitions	(1,337)	(4,772)
Net assets with donor restrictions contributed from acquisition	-	13,552
Other—net	<u>(560)</u>	<u>159</u>
Increase in net assets with donor restrictions	<u>10,496</u>	<u>16,099</u>
CHANGE IN NET ASSETS	319,492	605,381
NET ASSETS—Beginning of year	<u>2,957,043</u>	<u>2,351,662</u>
NET ASSETS—End of year	<u>\$ 3,276,535</u>	<u>\$ 2,957,043</u>

See notes to consolidated financial statements.

(Concluded)

SSM HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 319,492	\$ 605,381
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	102,414	(77,876)
Purchase of subsidiary from noncontrolling owner	-	3,391
Depreciation and amortization	304,708	307,306
Loss on early extinguishment of debt	410	13,038
Loss on impairment	-	112,847
Contributions for long-term investment	(5,484)	(6,751)
Distributions to noncontrolling owners—net	6,085	5,435
Inherent contributions related to acquisitions	-	(612,369)
Gains and losses on investments—net	(380,718)	176,258
Equity in earnings of unconsolidated entities	(19,984)	(15,563)
Change in fair value of interest rate swaps	54,553	(29,225)
Gain on disposal of assets	(1,017)	(887)
Distributions from unconsolidated entities	15,047	11,236
Changes in assets and liabilities:		
Investments	444	4,146
Patient accounts receivable	364	(55,648)
Pharmacy claims and rebates receivable	(31,772)	(56,414)
Other receivables, inventories, prepaid expenses, and other	(20,121)	61,457
Operating right-of-use assets	70,199	-
Accounts payable, accrued expenses, and other liabilities	184,777	71,918
Other changes to pension liability	(23,574)	(3,003)
Operating lease obligations	(75,054)	-
Estimated self-insurance obligations	4,257	1,110
Net cash provided by operating activities	<u>505,026</u>	<u>515,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(459,914)	(347,689)
Proceeds from disposal of property and equipment and sales of other assets	707	2,394
Purchase of assets limited as to use or restricted and short-term investments	(9,517,507)	(8,968,822)
Proceeds from sales of assets limited as to use or restricted and short-term investments	9,626,404	8,915,588
Contributions to unconsolidated entities	(476)	(4,708)
Acquisitions, net of cash acquired	(25,481)	(48,553)
Proceeds from divestitures	21,112	-
Purchases of other assets	(19,145)	(40,593)
Net cash used in investing activities	<u>(374,300)</u>	<u>(492,383)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	240,650	760,184
Payments on long-term debt	(260,283)	(788,755)
Debt issuance costs	-	(6,877)
Contributions for long-term investment	5,484	6,751
Distributions to noncontrolling owners—net	(6,085)	(5,435)
Purchase of subsidiary from noncontrolling owner	-	(3,391)
Proceeds from patient loans	13,802	14,148
Payments on patient loans	(13,073)	(13,563)
Proceeds from short-term borrowings and commercial paper	-	154,005
Payments on short-term borrowings and commercial paper	(1,775)	(25,000)
Proceeds from revolving line of credit	-	105,000
Payments on revolving line of credit	(67)	(230,483)
Net cash used in financing activities	<u>(21,347)</u>	<u>(33,416)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	109,379	(10,012)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>116,931</u>	<u>126,943</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 226,310</u>	<u>\$ 116,931</u>

See notes to consolidated financial statements.

SSM HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (Dollars in thousands)

1. ORGANIZATION

SSM Health (SSMH) is a centrally managed, fully integrated health care delivery system with its headquarters based in St. Louis, Missouri. SSM Health Care Corporation (SSMHCC) (doing business as SSMH) is the principal not-for-profit corporation and has been established as the parent corporation. SSMH owns and operates 22 adult hospitals, one pediatric hospital, ten post-acute care facilities, a health maintenance organization, a national pharmacy benefit management company, an extensive network of physician practice operations, and other health care businesses. SSMH's hospital operations are located primarily in Missouri, Wisconsin, Oklahoma and Illinois, and its related businesses provide health related services in 39 states. SSMH's mission statement is as follows:

Through our exceptional health care services, we reveal the healing presence of God.

SSMHCC and most of its affiliated subsidiary corporations have been granted exemption from federal income tax as charitable organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). 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

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of SSMH and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States (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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents consist primarily of cash and liquid marketable securities with an original maturity of three months or less and carrying amounts approximate their fair value.

Inventories—Inventories, primarily consisting of supplies and pharmaceuticals, are stated at the lower of cost or net realizable value, determined principally using the first-in, first-out method. SSMH held inventories in the amount of \$110,889 and \$109,999 at December 31, 2019 and 2018, respectively. These amounts are included in inventories, prepaid expenses, and other.

Investments—Investments are measured at fair value 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 (See Note 7—Fair Value Measurements for additional information). Due to the volatility of the U.S. economy and the financial markets, there is uncertainty regarding the long-term impact market conditions will have on SSMH’s investment portfolio.

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 (See Note 11—Business Acquisitions and Divestitures for additional information).

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 long-term purposes, including 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. Additionally, under the terms of the indentures for various bond issues, funds held by trustees have been established and legally designated for debt service.

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 market value of the securities on loan, and is subsequently adjusted daily for market fluctuations. SSMH must return to the borrower the 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 within assets limited as to use. 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.

Centralized Investment Program—SSMH holds the majority of its investments in a Centralized Investment Program (CIP), which also includes the investments of its defined benefit plans. The earnings are allocated proportionately according to ownership percentages as defined in CIP agreements.

SSMH has elected the fair value option for financial investments in limited partnerships and limited liability corporations made through its CIP that would otherwise be recorded using the equity method. SSMH made this election 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.

Alternative investments are generally not marketable and many alternative investments have underlying investments that may not have quoted market values. The estimated value of such investments is subject to uncertainty. SSMH's risk is limited to its capital investment in each investment and capital call commitments (See Note 7—Fair Value Measurements for additional information).

Derivative Instruments—SSMH's policy seeks 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. 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 (See Note 7—Fair Value measurements for additional information). The estimated fair value of all derivative instruments has been determined using available market information and valuation methodologies, primarily discounted cash flows. Interest rate swap derivatives are reported in other noncurrent liabilities and investment asset derivatives are disclosed within assets whose use is limited. 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—Derivative Instruments for additional information).

Investments in Unconsolidated Entities—Investments in unconsolidated entities, other than limited partnerships and limited liability corporations in CIP, are accounted for under the equity method of accounting, as appropriate. If SSMH has at least 20%, but not more than 50%, or has the ability to exercise significant influence over the investee, the investment is accounted for under the equity method, and the income or loss is reflected in income from unconsolidated entities—net (See Note 10—Investments in Unconsolidated Entities for additional information).

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 2019 or 2018.

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 (See Note 7—Fair Value Measurements for additional information). Gains and losses on these investments are included in nonoperating investment income unless restricted by donors.

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. Such analyses include comparing the estimates of undiscounted future cash flows to the carrying values of the related assets.(See Note 8—Property and Equipment for additional information).

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 2019 or 2018.

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 2019 or 2018.

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.

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 annually as of December 31 (See 13—Pension and Other Postretirement benefit plans for additional information).

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

Net Patient Service Revenues and Patient Accounts Receivable—Net patient service revenue relates to contracts with patients and in most cases involves a third-party payor (Managed care insurance companies, Medicare and Medicaid) in which SSMH's performance obligations are to provide patient care. Net patient service revenues are recorded at expected collectible amounts over the time in which obligations to provide patient care are satisfied. Revenues are accrued to estimate the amount of revenue earned to date for patients who have not been discharged and whose care services are not complete as of the reporting period. Substantially all of SSMH's performance obligations are satisfied within one year.

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 and underinsured patients in accordance with SSMH's policies, and implicit price concessions provided to patients. Patients who have health care insurance may also have discounts applied related to their copayment or deductible. 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 and records these as a direct reduction to net patient service revenue. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in managed care and commercial contractual terms resulting from contract negotiations and renewals.

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. Medicaid pays for most services at prospective rates which are determined by the regulations of the state in which the beneficiaries reside. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. Laws and regulations governing Medicare and Medicaid programs 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, 2019, SSMH recognized \$336,701 in revenue and \$190,833 in expenses relating to these programs. For the year ended December 31, 2018, SSMH recognized \$294,739 in revenue and \$192,472 in expenses relating to these programs.

Further, 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 (i.e. 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 2019 and 2018, net patient service revenues increased by \$13,416 and \$23,246, respectively, relating to changes in estimates for prior years' settlements from Medicare, Medicaid and other programs.

SSMH also provides services to uninsured patients and offers discounts from standard charges. The discount varies by geographical location, primarily based on the discounts negotiated with the local private third-party payors. The total discounts provided to uninsured patients under this policy were \$351,174 and \$301,881 for the years ended December 31, 2019 and 2018, respectively.

Consistent with SSMH's mission, care is provided to patients regardless of their ability to pay. Therefore, SSMH has determined it will provide implicit price concessions to uninsured patients and patients with other uninsured balances (e.g. 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.

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.

Estimated Third-Party Payor Receivable and Payable Settlements—SSMH has agreements with payors that provide for payments at amounts different from established charges. These estimated amounts are subject to further adjustments upon review by third-party payors (See Note 21—Commitments and Contingent Liabilities for additional information).

Premiums Revenue—Premiums are recognized in the period for which services are covered. Premiums billed and due in advance of a coverage period are included in unearned premiums.

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 \$1,323,355 and \$1,342,499 for the years ended December 31, 2019 and 2018, respectively. Capitation revenue is included in premiums revenue. Premiums revenue also includes administration fees recognized on a per-member, per-month basis earned by SSMH's national pharmacy benefit management company of \$105,634 and \$97,718 for the years ended December 31, 2019 and 2018, respectively, as well as other administrative fees.

Pharmacy Benefit Management Revenue, Pharmacy Claims and Rebates

Receivable—Pharmacy product revenue and other revenues are recognized by SSMH's national pharmacy benefit management company which provides pharmacy benefit administration services to a variety of clients. Revenue is recognized when the product is shipped.

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 Revenue and Other Receivables—Other revenue is recorded at amounts SSMH expects to collect in exchange for providing goods or services not directly associated with patient care and recorded over time in which obligations are satisfied. Other receivables consist primarily of amounts due from retail pharmacies, premium receivables and accrued interest receivable.

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 \$67,783 and \$36,863 for the years ended December 31, 2019 and 2018, respectively. Recoveries consist mainly of drug company volume discounts, reinsurance, and government program risk-sharing and subsidies.

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.

Contributions—Contributions, including unconditional promises to give, are recognized at their fair value at the time of receipt. Certain contributions have restrictions placed on their use by the donors. For example, if the gift is restricted to property and equipment purchases, it is recorded initially within 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 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 retains in perpetuity the original value of initial and

subsequent gift amounts donated to the Endowment and any accumulations to the endowment made in accordance with the applicable donor gift instrument. 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 ministry 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 within SSMH's communities;
- d. General economic conditions, including the possible effects of inflation and deflation;
- e. The expected total return from income and the appreciation of investments;
- f. The investment policies of the ministry; and
- g. Other resources available to the ministry and its beneficiary, if applicable.

Performance Indicator—The performance indicator is excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from the performance indicator 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.

Net Assets—Resources are classified for reporting purposes as net assets without donor restrictions and net assets with donor restrictions, according to the absence or existence of donor-imposed restrictions. The Board of Directors has designated, from net assets without donor restrictions, net assets for future use as described (See Note 6—Assets Limited As to Use or Restricted for additional information). Net assets with donor restrictions are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period or are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Noncontrolling Interests—The consolidated financial statements include all assets, liabilities, revenues and expenses of entities, controlled by SSMH and less than 100% owned, and therefore consolidated. 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.

Consolidated Statements of Operations—For the purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of patient 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. See Note 8—Property and Equipment and Note 11—Business Acquisitions and Divestitures for additional information.

Advertising Costs—SSMH expenses advertising costs as they are incurred. Advertising expenses were \$22,851 and \$22,174 for the years ended December 31, 2019 and 2018, respectively, and are included in professional fees and other.

Income Taxes—SSMH 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. For the years ended December 31, 2019 and 2018, management has determined that no significant income tax provisions have been recorded in the consolidated financial statements.

SSMH’s 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, if any, are included in nonoperating gains and (losses) other—net.

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. SSMH did not record uncertain tax positions in 2019 or 2018.

Non-Cash Transactions—During the years ended December 31, 2019 and 2018, SSMH had the following non-cash transactions:

	2019	2018
Decrease (increase) in securities lending program	\$ 22,611	\$(13,156)
Property and equipment purchases financed through accounts payable and other purchases	63,266	58,003
Capital leases	3,884	6,766

Premium Stabilization and Cost-Sharing Reduction Programs—During 2014, under the Affordable Care Act (ACA), three programs (Premium Stabilization Programs) designed to stabilize health insurance markets and an additional program (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 2019 and 2018. 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, 2019, SSMH adopted the Financial Accounting Standards Board (FASB) new guidance on leases (Topic 842), which replaced most existing lease accounting guidance in GAAP (See Note 15— Leases for additional information).

In January 2016, the FASB issued Accounting Standards Update (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 adopted ASU 2016-01 as of January 1, 2019 and it did not have a material impact on the consolidated financial statements.

Effective January 1, 2019, SSMH adopted ASU 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts shown on the consolidated statements of cash flows, and it did not have a material impact on the consolidated financial statements.

Effective January 1, 2019, SSMH adopted ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which relates to implementation costs incurred in a cloud computing arrangement that is a service contract. The update aligns the requirements for capitalizing implementation costs incurred under such arrangements with the requirements for capitalizing costs incurred to develop or obtain internal-use software. The adoption did not have a material impact on the consolidated financial statements.

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.

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 it is not expected to 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 or discounted 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.

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, 2019 and 2018 are as follows:

	2019	2018
Financial Assistance and Means-tested Government Programs:		
Charity care at cost	\$129,082	\$117,090
Unpaid costs of Medicaid	128,318	152,672
Costs of other means-tested government programs	<u>13,161</u>	<u>10,964</u>
 Total Financial Assistance and Means-tested Government Programs	 <u>270,561</u>	 <u>280,726</u>
 Other community benefits:		
Community health improvement services	16,763	8,567
Health professions education	123,054	136,273
Subsidized health services	11,236	14,866
Research	103	77
Financial contributions	2,335	2,314
Community building activities	<u>1,662</u>	<u>2,414</u>
 Total other community benefits	 <u>155,153</u>	 <u>164,511</u>
 Total community benefit ministry	 <u>\$425,714</u>	 <u>\$445,237</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 (See Note 5—Concentration of Credit Risk for additional information). 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 profession 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 SSMH provides 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 include funds donated to community organizations or to the community at large for a community benefit purpose as well as 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

The composition of net patient service revenue by payor and service line for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Medicare	27 %	28 %
Medicare managed care	10	9
Medicaid	12	11
Medicaid managed care	6	7
Managed care	34	35
Commercial and other	<u>11</u>	<u>10</u>
Total net patient service revenue percentage by payor	<u>100 %</u>	<u>100 %</u>
	2019	2018
Hospital operations	\$ 4,208,367	\$ 4,140,040
Physician operations	883,232	875,933
Skilled nursing	53,511	51,896
Home health	<u>77,862</u>	<u>78,342</u>
Total net patient service revenue by service line	<u>\$ 5,222,972</u>	<u>\$ 5,146,211</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 \$641,024 and \$584,596 for the years ended December 31, 2019 and 2018, 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).

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.

The mix of net receivables from patients and third-party payors as of December 31, 2019 and 2018, is as follows:

	2019	2018
Medicare	17 %	16 %
Medicare managed care	12	11
Medicaid	8	9
Medicaid managed care	6	6
Managed care	39	36
Commercial and other	<u>18</u>	<u>22</u>
Total net receivables from patients and third-party payors percentage	<u>100 %</u>	<u>100 %</u>

6. ASSETS LIMITED AS TO USE OR RESTRICTED

A summary of assets limited as to use or restricted as of December 31, 2019 and 2018, is as follows:

	2019	2018
Assets limited as to use:		
Board designated for property and equipment, long-term employee benefit programs, and other	<u>\$ 3,530,271</u>	<u>\$ 3,250,809</u>
Securities on deposit as required by state regulators	<u>21,654</u>	<u>21,760</u>
Held by trustee:		
Project and bond funds	123	7,997
Self-insurance (Note 14)	210,169	195,929
Collateral held under securities lending agreements	41,088	63,699
Collateral held under swap agreements	<u>1,980</u>	<u>-</u>
Total held by trustee	<u>253,360</u>	<u>267,625</u>
Assets restricted by donor as to use	<u>108,356</u>	<u>97,182</u>
Total assets limited as to use or restricted	3,913,641	3,637,376
Less current portion	<u>394,813</u>	<u>490,822</u>
Noncurrent portion	<u>\$ 3,518,828</u>	<u>\$ 3,146,554</u>

A summary of investment income for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Interest and dividends, net of investment fees	\$ 71,083	\$ 85,433
Realized and unrealized gains (losses) on investments—net	<u>370,241</u>	<u>(191,525)</u>
Total	<u>\$ 441,324</u>	<u>\$(106,092)</u>

The change in net unrealized gain (loss) on investments held at December 31, 2019 and 2018, was \$327,780 and (\$236,458), respectively.

Investment income (loss) is reported as follows:

	2019	2018
Operating investment income (losses)	\$ 96,099	\$ (22,648)
Nonoperating investment income (losses)	337,447	(81,756)
Gains (losses) on investments—net—net assets with donor restrictions	<u>7,778</u>	<u>(1,688)</u>
Total	<u>\$ 441,324</u>	<u>\$(106,092)</u>

The securities on loan are included in the following classifications:

	2019	2018
Equity securities	\$32,588	\$49,205
Government securities	488	2,805
Corporate obligations	<u>7,188</u>	<u>9,809</u>
Total	<u>\$40,264</u>	<u>\$61,819</u>

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 ministry. 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—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 these 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 underlying net assets owned by the fund 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.

Trading Derivatives and Interest Rate Swaps—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.

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.

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.

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.

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:

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.

Assets Held for Sale—The fair value of assets held for sale is determined based on valuation methodologies using management assumptions, including estimates of future cash flows and would generally be considered Level 3 inputs.

Impaired Property and Equipment—The fair value of impaired property and equipment is determined based on valuation methodologies as described in Note 2—SSMH Summary of Significant Accounting Policies which would generally be considered Level 3 inputs. See Note 8—Property and Equipment for additional information.

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 CIP, 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 CIP as well as investments in non-CIP 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, 2019	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents	\$ 468,358	\$ 37,675	\$ -	\$ 506,033
Corporate obligations	-	504,331	-	504,331
Government securities	-	544,605	-	544,605
Mutual funds:				
Domestic equities	230,320	-	-	230,320
International equities	80,926	-	-	80,926
Fixed income	52,012	-	-	52,012
Equities—domestic	740,319	-	-	740,319
Trading derivatives	-	3,816	-	3,816
Interest rate swaps	-	10,955	-	10,955
LLC and LP interests	-	134,955	303,618	438,573
Guaranteed fixed funds	-	56,120	-	56,120
Cash surrender value of life insurance	-	47,626	-	47,626
Subtotal	<u>\$ 1,571,935</u>	<u>\$ 1,340,083</u>	<u>\$ 303,618</u>	<u>\$ 3,215,636</u>
Investments measured at net asset value:				
Commingled funds:				
Securities lending	-	-	-	41,088
International equities	-	-	-	293,016
Fixed income	-	-	-	150,849
Hedge funds	-	-	-	138,359
LLC, LP, and REIT interests	-	-	-	<u>108,457</u>
Total assets				<u>\$ 3,947,405</u>
Liabilities—interest rate swaps	<u>\$ -</u>	<u>\$ 169,395</u>	<u>\$ -</u>	<u>\$ 169,395</u>

December 31, 2018	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents	\$ 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>	<u>\$ 2,848,960</u>
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>

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, 2019 and 2018:

	2019	2018
Assets:		
Investments	\$ 36,664	\$ 65,063
Assets limited as to use or restricted—current portion	394,813	490,822
Assets limited as to use or restricted—excluding current portion	3,518,828	3,146,554
Interest rate swaps recorded as other assets—other	8,975	3,963
Less items not recorded at fair value:		
Unconditional promises to give—net	(5,687)	(6,588)
Other	<u>(6,188)</u>	<u>(6,041)</u>
Total assets	<u>\$ 3,947,405</u>	<u>\$ 3,693,773</u>

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

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 15,102	\$ 1,802	\$ -	\$ 16,904
Corporate obligations	-	130,501	-	130,501
Government securities	-	157,396	-	157,396
Mutual funds—international equities	61,351	-	-	61,351
Equities—domestic	475,511	-	-	475,511
Trading derivatives	-	1,252	-	1,252
LLC and LP interests	-	108,580	242,913	351,493
Subtotal	<u>\$551,964</u>	<u>\$399,531</u>	<u>\$242,913</u>	<u>\$1,194,408</u>
Investments measured at net asset value:				
Commingled funds:				
Securities lending				28,001
International equities				235,750
Fixed income				47,041
Hedge funds				103,631
LLC, LP and REIT interests				<u>87,231</u>
Total assets				1,696,062
Accrued income				2,581
Payable under security lending agreement				<u>(28,001)</u>
Fair value of plan assets				<u>\$1,670,642</u>

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	<u>\$435,384</u>	<u>\$311,522</u>	<u>\$184,412</u>	<u>\$ 931,318</u>
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>

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

The allocated shares of level 3 CIP assets for the years ended December 31, 2019 and 2018 are as follows:

	SSMH Investments	SSMH's Defined Benefit Plan Assets	Total
December 31, 2019	\$303,618	\$242,913	\$546,531
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 2019 or 2018.

Changes related to the fair values based on Level 3 inputs for the years ended December 31, 2019 and 2018, are summarized as follows:

	LLC and LP Interests	Hedge Funds	Total
Beginning balance as of January 1, 2018	\$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>
Realized gains	(990)	4,124	3,134
Unrealized gains	33,622	(3,813)	29,809
Purchases	196,665	62	196,727
Sales	<u>(81,346)</u>	<u>(11,925)</u>	<u>(93,271)</u>
Ending balance as of December 31, 2019	<u>\$546,531</u>	<u>\$ -</u>	<u>\$546,531</u>

The allocated shares of CIP assets measured at net asset value for the years ended December 31, 2019 and 2018 are as follows:

	SSMH Investments	SSMH's Defined Benefit Plan Assets	Total
December 31, 2019:			
Commingled funds	\$484,953	\$310,792	\$ 795,745
Hedge funds	138,359	103,631	241,990
LLC, LP and REIT interests	<u>108,457</u>	<u>87,231</u>	<u>195,688</u>
Total	<u>\$731,769</u>	<u>\$501,654</u>	<u>\$1,233,423</u>
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>

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, 2019 and 2018, are as follows:

December 31, 2019	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$ 795,745	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	241,990	Monthly, quarterly, annually	30–90 days
LLC, LP and REIT interests ^(c)	<u>195,688</u>	Quarterly	45–60 days
Total	<u>\$ 1,233,423</u>		

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>		

(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.

SSMH has unfunded commitments to purchase limited partnership interests is reported as follows:

	Unfunded Commitments	SSMH Investments	SSMH's Defined Benefit Plan Assets
December 31, 2019	\$ 386,485	55%	45%
December 31, 2018	371,560	56%	44%

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2019 and 2018 is as follows:

	2019	2018
Land and improvements	\$ 213,682	\$ 203,706
Buildings	3,160,031	3,010,223
Equipment	<u>1,528,481</u>	<u>1,370,168</u>
Total gross depreciable property and equipment	4,902,194	4,584,097
Less accumulated depreciation	<u>2,552,028</u>	<u>2,261,932</u>
Total net depreciable property and equipment	2,350,166	2,322,165
Real estate held for future development	6,331	6,456
Construction in process	<u>534,291</u>	<u>332,696</u>
Total	<u>\$ 2,890,788</u>	<u>\$ 2,661,317</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$258,810 and \$256,540, respectively.

The book value of equipment under finance lease obligations at December 31, 2019 and 2018 totaled \$35,874 and \$34,231, respectively. The related accumulated depreciation totaled \$15,394 and \$9,715, respectively, at December 31, 2019 and 2018. These amounts are included in the above summary of property and equipment.

During 2019, SSMH had no property and equipment impairment. 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

Goodwill for the years ended December 31, 2019 and 2018 totaled \$159,494 on a gross basis or \$121,191 net of \$38,303 accumulated impairment charges, that occurred during the years 2013 through 2015.

The following table provides information regarding other intangible assets for the years ended December 31, 2019 and 2018:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Software	\$389,888	\$326,479	\$373,174	\$293,913
Trade name	119,742	54,649	119,742	46,145
Customer contracts	60,600	20,395	60,100	16,973
Other	<u>1,061</u>	<u>500</u>	<u>3,354</u>	<u>2,729</u>
Total	<u>\$571,291</u>	<u>\$402,023</u>	<u>\$556,370</u>	<u>\$359,760</u>

The weighted-average amortization period for the intangible assets subject to amortization acquired during the year ended December 31, 2019, is approximately 3.9 years. There are no expected residual values related to these intangible assets.

Amortization expense on these intangible assets was \$46,453 and \$51,545 during the years ended December 31, 2019 and 2018, respectively.

The estimated future amortization of intangible assets with finite useful lives as of December 31, 2019, is as follows:

Years Ending December 31	
2020	\$36,084
2021	26,961
2022	21,137
2023	18,376
2024	17,183

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES

Investments in entities where SSMH does not have operating control are recorded under the equity method of accounting. SSMH included the following income from operations from equity method investments for the years ended December 31, 2019 and 2018, as operating revenues:

	2019	2018
Income from operations	\$20,129	\$16,023
Losses from operations	<u>(145)</u>	<u>(460)</u>
Net income from operations	<u>\$19,984</u>	<u>\$15,563</u>

11. BUSINESS ACQUISITIONS AND DIVESTITURES

SSMH entered into the following significant acquisition activities during the years ended December 31, 2019 and 2018:

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 for the year ended December 31, 2018 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 revenues over expenses of \$27,412.

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. 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 for additional information.

SSMH entered into the following significant divestiture activities during the years ended December 31, 2019 and 2018:

St. Francis Hospital Maryville—On April 1, 2019, SSMH closed on the divestiture of its ministries in Northwest Missouri with Mosaic Life Care and recognized a gain of \$1,016. This included SSMH St. Francis Hospital – Maryville and affiliated outpatient, home care, hospice, medical group, and other ministries in the area. At the same time, SSMH was removed as a nonmember affiliate of the St. Francis Hospital Foundation.

Prior to the 2019 transaction, on December 7, 2018, SSMH entered into a definitive agreement with Mosaic Life Care to transfer ownership. As a result, certain assets met the criteria to be classified as held for sale at their carrying amount as that was 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 FINANCE LEASE OBLIGATIONS

Debt at December 31, 2019 and 2018, consists of the following:

	2019	2018
Under the Master Indenture:		
Fixed rate:		
Series 2012A, 2014A, 2017A, 2017 Agnesian, 2018, 2018A, 2018B, 2018C, 2019A, and 2019B Bonds fixed rate debt, due through 2048, interest rates from 3.68% to 5.00% plus net unamortized premium of \$25,501 and \$27,753 at December 31, 2019 and 2018, respectively.	<u>\$ 1,798,826</u>	<u>\$ 1,608,408</u>
Total fixed rate debt	<u>1,798,826</u>	<u>1,608,408</u>
Variable rate:		
Series 2019C Variable Rate Direct Loans issued July 2019, 1.78% at December 31, 2019, maturing June 2029.	39,890	-
Series 2014B-G and Series 2018D-F Variable Rate Demand Bonds, 1.27% to 1.75% at December 31, 2019, due serially through 2044	452,230	454,005
Series 2012B and Series 2014H-K Variable Rate Direct Loans, paid in full July 2019	-	243,400
Series 1998B Auction Rate Bonds, paid in full June 2019	-	3,000
Series 2002B, Auction Rate Bonds, 2.22% at December 31, 2019, due serially through 2020	<u>3,550</u>	<u>6,950</u>
Total variable rate debt	<u>495,670</u>	<u>707,355</u>
Revolving line of credit	<u>60,000</u>	<u>60,067</u>
Commercial paper, 1.75% to 1.90% at December 31, 2019	<u>175,000</u>	<u>175,000</u>
Total Under the Master Indenture	<u>2,529,496</u>	<u>2,550,830</u>
Deferred financing costs	<u>(10,782)</u>	<u>(12,945)</u>
Note payable to Felician Services, Inc.	45,818	44,678
Surplus notes, 2.60% at December 31, 2019, due in 2022	6,663	6,663
Notes payable, due at various dates through 2029, interest at 4.50 to 8.00%, unsecured	404	283
Finance lease obligations, at varying rates from 2.17% to 8.62% collateralized by leased equipment and property	<u>26,639</u>	<u>26,409</u>
Total other debt and finance lease obligations	<u>79,524</u>	<u>78,033</u>
Total debt and finance lease obligations	2,598,238	2,615,918
Less commercial paper	175,000	175,000
Less revolving line of credit	60,000	60,067
Less finance lease obligations, excluding current portion	20,945	22,851
Less short-term borrowings	452,230	454,005
Less current portion of long-term debt and finance lease obligations	<u>24,267</u>	<u>20,847</u>
Total long-term debt	<u>\$ 1,865,796</u>	<u>\$ 1,883,148</u>

SSM Health Master Indenture—SSMHCC is a member of the SSM Health Credit Group (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 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 July 17, 2019, SSMH closed on the issuance of the tax-exempt Series 2019 Bonds. This transaction included the issuance of \$239,340 in principal of debt placed in private transactions that was used to refinance the direct placement Series 2012B (\$62,485), 2014H (\$100,000), and 2014K (\$76,855) with various financial institutions.

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.

Variable Auction Rate Bonds—The debt includes \$3,550 and \$9,950 at December 31, 2019 and 2018, 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 the outstanding bonds can be sold. This rate varies based on market conditions. If there are insufficient orders to purchase all 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 \$492,120 and \$697,405 at December 31, 2019 and 2018, respectively, of variable rate bonds. The interest rates on these bonds are reset at daily or longer intervals. The Series 2014B-G and the Series 2018D-F variable rate demand bonds are supported through self-liquidity. The remaining variable rate bonds were issued as funded direct placements that do not require liquidity support. These series are classified as short-term borrowings based upon these accelerated terms. The contingent payments in the Contractual and Contingent Principal Repayments table 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.

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

	Debt Contractual Payments	Contingent Payments	Finance Lease Obligations
2020	\$ 18,574	\$ 470,804	\$ 7,468
2021	16,981	16,981	3,934
2022	17,733	17,733	3,834
2023	545,293	545,293	3,133
2024	22,851	22,851	2,787
Thereafter	<u>1,700,448</u>	<u>1,248,218</u>	<u>18,051</u>
	2,321,880	2,321,880	39,207
Plus amount representing net premium	25,501	25,501	
Less amount representing interest under finance lease obligations			<u>12,568</u>
Plus finance lease principal payments	26,639	26,639	<u>\$26,639</u>
Plus commercial paper	175,000	175,000	
Plus revolving line of credit	60,000	60,000	
Less deferred financing costs	<u>(10,782)</u>	<u>(10,782)</u>	
Total debt and finance lease obligations	<u>\$ 2,598,238</u>	<u>\$ 2,598,238</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, 2019 and 2018, \$175,000 of commercial paper was issued and is included in other current liabilities on the consolidated balance sheets.

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 on April 5, 2019 and is secured under SSMH’s existing master trust indenture.

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 \$78,835 and \$82,497 for the years ended December 31, 2019 and 2018, respectively. SSMH capitalized interest costs in the amounts of \$12,620 and \$5,672 in the years ended December 31, 2019 and 2018, 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, 2019 and 2018:

	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation—beginning of period	\$ 2,203,104	\$ 2,373,769
Service cost, benefits earned during the period	42,491	49,353
Interest costs on projected benefit obligation	96,169	86,477
Plan change	3,450	598
Actuarial loss (gain)	265,205	(192,632)
Settlements	(1,682)	(2,193)
Benefits paid	<u>(140,592)</u>	<u>(112,268)</u>
Projected benefit obligation—end of period	<u>2,468,145</u>	<u>2,203,104</u>
Change in plan assets:		
Fair value of plan assets—beginning of period	1,484,441	1,574,227
Actual return (loss) on plan assets	245,056	(58,481)
Employer contributions	83,419	83,156
Settlements	(1,682)	(2,193)
Benefits paid	<u>(140,592)</u>	<u>(112,268)</u>
Fair value of plan assets—end of period	<u>1,670,642</u>	<u>1,484,441</u>
Net amount recognized at end of period and funded status	<u>\$ (797,503)</u>	<u>\$ (718,663)</u>
Accumulated benefit obligation—end of period	<u>\$ 2,454,480</u>	<u>\$ 2,180,003</u>

SSMH holds the majority of the plan's financial assets in CIP, 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 CIP, 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 \$50,573 and \$46,158 as of December 31, 2019 and 2018, 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, 2019 and 2018:

	2019	2018
Amounts recognized in the consolidated balance sheets consist of:		
Accounts payable and accrued expenses	\$ (5,094)	\$ (3,505)
Long-term pension liability	<u>(792,409)</u>	<u>(715,158)</u>
Net amount recognized	<u><u>\$ (797,503)</u></u>	<u><u>\$ (718,663)</u></u>
Amounts recognized in unrestricted net assets consist of:		
Beginning of year balance	\$ 732,108	\$ 809,984
Arising during current year—net actuarial loss (gain)	139,043	(17,018)
Actuarial loss recognized due to settlement	(425)	(480)
Reclassified into net periodic benefit cost:		
Net actuarial loss	(50,797)	(72,192)
Current year prior service cost	3,450	598
Prior service credit	<u>11,143</u>	<u>11,216</u>
End-of-year balance	<u><u>\$ 834,522</u></u>	<u><u>\$ 732,108</u></u>

Over the next fiscal year, 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 are \$92,152 and \$(9,284), respectively.

The following is a summary of the components of net periodic pension cost for the years ended December 31, 2019 and 2018:

	2019	2018
Service cost, benefits earned during the period	\$ 42,491	\$ 49,353
Interest costs on projected benefit obligation	96,169	86,477
Expected return on plan assets	(118,894)	(117,133)
Amortization of unrecognized:		
Prior service credits	(11,143)	(11,216)
Net loss	<u>50,797</u>	<u>72,192</u>
Net periodic pension cost	59,420	79,673
Settlement	<u>425</u>	<u>480</u>
Total cost	<u><u>\$ 59,845</u></u>	<u><u>\$ 80,153</u></u>
SSMH recognized costs as follows:		
Cost recognized in salaries and benefits	\$ 42,491	\$ 49,353
Cost recognized in nonoperating net periodic pension cost, less service cost	<u>17,354</u>	<u>30,800</u>
Total cost	<u><u>\$ 59,845</u></u>	<u><u>\$ 80,153</u></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, 2019 and 2018:

	2019	2018
Discount rates	4.40 %	3.65 %
Rates of salary increase	3.00	3.00
Return on plan assets	7.50	7.50

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, 2019 and 2018:

	2019	2018
Discount rates	3.40 %	4.40 %
Rates of salary increase	3.00	3.00

SSMH expects to contribute a minimum of \$80,618 to its pension plans in 2020.

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

	Pension Benefits
2020	\$143,300
2021	147,321
2022	151,137
2023	152,520
2024	151,793
Years 2025–2029	723,454

The actual plan asset allocations and the allocation goals comprise the following investment classifications at December 31, 2019 and 2018:

	2019	2018	Allocation Goals
Cash, cash equivalents, and short-term investments	0 %	1 %	1 %
Equities	53	46	43
Fixed income	20	19	16
Real asset investments	12	13	12
Hedge funds	9	18	18
Private equity	<u>6</u>	<u>3</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 \$49,815 and \$30,847 for 2019 and 2018, 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 \$43,718 and \$57,524 for 2019 and 2018, 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:

	July 20, 2019 to December 31, 2019	January 1, 2018 to July 19, 2019
Per occurrence limits —Missouri, Oklahoma and Illinois	\$7,000	\$5,000
Annual aggregate —Missouri, Oklahoma and Illinois	none	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:

	2019	2018
Per occurrence limits —Missouri, Oklahoma, Wisconsin and Illinois	\$3,000	\$3,000
Annual aggregate —Missouri, Oklahoma, Wisconsin and Illinois	none	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, 2019, 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	July 20, 2019 to December 31, 2019	January 1, 2018 to July 19, 2019
Each loss event	\$ 140,000	\$ 135,000
Annual aggregate, per location	140,000	135,000
Annual aggregate all locations	165,000	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, 2019 and 2018. 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 \$131,779 and \$101,187 at December 31, 2019 and 2018, respectively, of which \$45,693 and \$22,354 is recorded in accounts payable and accrued expenses at December 31, 2019 and 2018, 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 \$10,169 and \$10,346 at December 31, 2019 and 2018, respectively, of which \$1,319 and \$1,396 is recorded in accounts payable and accrued expenses at December 31, 2019 and 2018, 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, 2019 and 2018.

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 ministries of \$159,585 and \$140,138 for the years ended December 31, 2019 and 2018, respectively. SSM of Wisconsin members, excluding the CSA ministries, are fully insured under Dean Health Plan.

15. LEASES

Effective January 1, 2019, SSMH adopted Topic 842, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, with durations greater than twelve months to be recognized on the balance sheet and enhanced disclosures on key quantitative and qualitative information about leasing. SSMH elected the optional transition method that permits the option to use the effective date as the date of initial application on transition, and as a result, SSMH did not adjust its comparative period financial information or make the new required lease disclosures for periods before the effective date.

SSMH elected certain practical expedients, including the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs as well as an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. SSMH also elected the accounting policy election for short-term leases. Consequently, short-term leases will be recorded as an expense on a straight-line basis over the lease term. SSMH did not elect the hindsight practical expedient.

SSMH's leases relate primarily to medical and office spaces. For leases with terms greater than 12 months, SSMH records the related asset and obligation at the present value of lease payments over the term. Most office leases have a five to ten-year base period and include renewal options to extend the lease term beyond the initial base period. The renewal options are not included in the measurement of the right of use assets and right of use liabilities unless SSMH is reasonably certain to exercise the optional renewal periods. SSMH's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

SSMH's leases typically contain rent escalations over the lease term. These leases are expensed on a straight-line basis over the lease term. Additionally, certain leases contain incentives, such as tenant improvement allowances from landlords and/or rent abatements after taking possession of the leased property. These incentives reduce SSMH's right-of-use asset related to the lease and are amortized through the right-of-use asset as reductions of expense over the lease term. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses.

For leases entered or reassessed after the adoption of the new standard, SSMH elected the practical expedient allowed by Topic 842 to account for all fixed consideration in a lease as a single lease component. Therefore, the lease payments used to measure the lease

liability for these leases include fixed minimum rentals along with fixed operating costs such as common area maintenance and utilities.

SSMH's leases generally do not provide a readily available implicit rate. Therefore, SSMH estimates the incremental borrowing discount rate based on the remaining lease term upon adoption date and information available at lease commencement for new or modified leases after the adoption date. The discount rates used were based on collateralized basis for similar terms and economic environments.

On the date of adoption, January 1, 2019, the following table presents the non-cash transaction for operating lease assets and liabilities recorded on the balance sheet.

Assets	January 1, 2019
Operating right-of-use assets	\$263,333
Reconciling transaction:	
Removal of accounts payable and accrued expenses (1)	<u>10,690</u>
	<u>\$274,023</u>
Liabilities	
Current portion operating lease obligations	\$ 61,655
Operating lease obligations—excluding current portion	<u>212,368</u>
	<u>\$274,023</u>

(1) Primarily deferred lease liabilities

The following table presents certain information related to the lease costs for operating leases for the year ended December 31, 2019.

	2019
Operating lease costs	\$ 77,052
Short-term lease costs	13,431
Variable lease costs	<u>9,952</u>
Total operating lease costs	<u>\$100,435</u>

The following table presents supplemental cashflow information to leases for the year ended December 31, 2019.

	2019
Operating cashflows for operating lease obligations	\$75,054
Operating right-of-use assets obtained in exchange for new operating lease obligations	55,484

As of December 31, 2019, the weighted average remaining operating lease term was 7.0 years with a weighted average discount rate of 3.8%.

Commitments related to noncancelable operating lease obligations for each of the next five years and thereafter are as follows:

2020	\$ 65,326
2021	54,716
2022	42,505
2023	35,759
2024	29,760
Thereafter	<u>77,955</u>
Total undiscounted minimum lease payments	306,021
Less amount of lease payments representing interest	<u>39,453</u>
Present value of future minimum lease payments	266,568
Less current obligations under leases	<u>56,336</u>
Long-term lease obligations	<u>\$210,232</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).

Endowment Net Asset Composition by Type of Fund	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
As of December 31, 2019	\$21,306	\$45,580	\$ 66,886
As of December 31, 2018	16,420	40,439	56,859

Changes in Endowment Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—			
January 1, 2018	\$ 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—			
December 31, 2018	\$16,420	\$40,439	\$56,859
Investment return—net	3,834	3,280	7,114
Contributions	2,023	2,451	4,474
Transfers to create board designated endowment funds	278	-	278
Appropriation of endowment assets for expenditure	<u>(1,249)</u>	<u>(590)</u>	<u>(1,839)</u>
Endowment net assets—			
December 31, 2019	<u>\$21,306</u>	<u>\$45,580</u>	<u>\$66,886</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. There were no such deficiencies as of December 31, 2019. 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.

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, 2019 and 2018, SSMH had six floating-to-fixed interest rate swaps, two fixed-to-floating interest rate swaps, four fixed spread basis swaps and three total return swaps.

Under the outstanding floating-to-fixed interest rate swaps, SSMH receives LIBOR or a percentage of LIBOR plus a spread of 0.12% and pays a fixed rate. Under the fixed-to-floating interest rate swaps, SSMH receives a fixed rate and pays three-month LIBOR or Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) plus a spread. Under the fixed spread basis swaps, SSMH pays a rate based on SIFMA and receives a percentage of LIBOR plus a spread ranging from 0.40% and 0.62%. Under the total return swaps, SSMH pays both a fixed rate equal to the coupon interest rate on the underlying bond or direct placement loan, as well as a variable rate based on SIFMA plus a spread, then receives the same fixed rate equal to the coupon interest rate on the underlying bond or direct placement loan. Counterparties to SSMH's swaps are diversified and include Goldman Sachs, JP Morgan, Citibank, Wells Fargo, Union Bank, Deutsche Bank, Barclays and PNC Bank.

Certain swap agreements require SSMH to provide collateral if SSMH's liability, determined on a mark-to-market basis, exceeds a specified threshold. SSMH's interest rate swap agreements allow for net settlements of payment in the normal course of business 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, 2019 SSMH had posted \$1,980 in collateral for the benefit of the counterparties; as of December 31, 2018 no collateral was posted.

As part of CIP, 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, 2019 and 2018:

December 31, 2019	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>\$ 1,130,750</u>	<u>\$(169,395)</u>
Derivatives not designated as hedges—interest rate swaps	Other assets	2023–2034		<u>253,000</u>	<u>8,975</u>
Derivatives not designated as hedges—trading derivatives:	Assets limited as to use or restricted				
Credit default swaps		2020–2024		36,821	48
Futures		2020		129,052	808
Interest rate swaps		2020–2046	1.25%–3.00%	429,015	3,192
Options		2020		<u>32,081</u>	<u>(232)</u>
				<u>626,969</u>	<u>3,816</u>
Total				<u>\$ 2,010,719</u>	<u>\$(156,604)</u>
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>

Fair value is based on significant other observable inputs (Level 2) at December 31, 2019 and 2018. The gains and losses related to derivative instruments have been included in the disclosures reported in Note 6—assets limited as to use or restricted.

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, 2019 and 2018, SSMH posted \$1,991 and \$6,800, respectively, of collateral for the credit derivative instruments allocated to SSMH from CIP.

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, 2019—					
Asset derivatives:					
Interest rate swaps	\$ 8,975	\$ -	\$ 8,975	\$ -	\$ 8,975
Trading derivatives:					
Credit default swap	\$ 53	\$ (5)	\$ 48	\$ -	\$ 48
Futures	808	-	808	-	808
Interest rate swaps	3,962	(770)	3,192	-	3,192
Options	<u>2,982</u>	<u>(3,214)</u>	<u>(232)</u>	-	<u>(232)</u>
	\$ 7,805	\$ (3,989)	\$ 3,816	\$ -	\$ 3,816
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	<u>4,041</u>	<u>(5,782)</u>	<u>(1,741)</u>	-	<u>(1,741)</u>
	\$ 8,652	\$ (6,246)	\$ 2,406	\$ -	\$ 2,406

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, 2019—					
Asset derivatives—					
Trading derivatives:					
Credit default swap	\$ 5	\$ (5)	\$ -	\$ -	\$ -
Futures	-	-	-	-	-
Interest rate swaps	770	(770)	-	-	-
Options	<u>3,214</u>	<u>(3,214)</u>	-	-	-
	\$ 3,989	\$ (3,989)	\$ -	\$ -	\$ -
Liability derivatives—interest rate swaps	\$ 175,140	\$ (5,745)	\$ 169,395	\$ -	\$ 169,395
As of December 31, 2018—					
Asset derivatives—					
Trading derivatives:					
Credit default swap	\$ 147	\$ (147)	\$ -	\$ -	\$ -
Futures	-	-	-	-	-
Interest rate swaps	317	(317)	-	-	-
Options	<u>5,782</u>	<u>(5,782)</u>	-	-	-
	\$ 6,246	\$ (6,246)	\$ -	\$ -	\$ -
Liability derivatives—interest rate swaps	\$ 113,051	\$ (3,221)	\$ 109,830	\$ -	\$ 109,830

18. INCOME TAXES

The components of income tax expense included in other-net nonoperating gains and (losses) on the consolidated statements of operations and changes in net assets for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Current tax expense:		
Federal	\$ 177	\$ 444
State	<u>367</u>	<u>414</u>
Income tax expense	<u>\$ 544</u>	<u>\$ 858</u>

The components of deferred taxes are as follows:

	2019	2018
Assets:		
Net operating loss and credit carryforwards	\$ 301,617	\$ 269,541
Accrued employee compensation	6,662	11,387
Other nondeductible liabilities	12,979	17,911
Uncollectible accounts	1,942	1,429
Other	<u>1,682</u>	<u>9,276</u>
Total assets	<u>324,882</u>	<u>309,544</u>
Liabilities:		
Depreciable and amortizable assets	(45,434)	(49,131)
Investment in subsidiaries	(3,955)	(5,483)
Other	<u>(1,518)</u>	<u>(648)</u>
Total liabilities	<u>(50,907)</u>	<u>(55,262)</u>
Valuation allowance	<u>(273,975)</u>	<u>(254,282)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2019 and 2018, the deferred income tax benefits were recorded net of a valuation allowance of \$273,975 and \$254,282, respectively, primarily due to net operating loss carryforwards available related to its for-profit subsidiaries, which expire between 2020 and 2037. 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, 2019, SSMH increased the valuation allowance by \$19,693 based on 2019 net losses. During the year ended December 31, 2018, SSMH increased the valuation allowance by \$26,572 based on 2018 net losses.

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 U.S. federal jurisdiction and in various state jurisdictions. SSMH is no longer subject to U.S. or state income tax examinations by tax authorities for the years before 2015.

Cash Paid for Income Taxes—Cash paid for income taxes totaled \$1,430 and \$985 for the years ended December 31, 2019 and 2018, respectively.

19. NET ASSETS

Net assets with donor restrictions were available for the following purposes for the years ended December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for healthcare operations	\$ 62,776	\$57,421
Endowments subject to the SSMH's endowment spending policy and appropriation	<u>45,580</u>	<u>40,439</u>
Net assets with donor restrictions	<u>\$ 108,356</u>	<u>\$97,860</u>

Net assets without donor restrictions were as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Undesignated	<u>\$ 2,888,671</u>	<u>\$ 2,598,994</u>
Board-designated for:		
Foundation assets designated for hospital operations and other	110,638	94,900
Endowments	<u>21,306</u>	<u>16,420</u>
	<u>131,944</u>	<u>111,320</u>
SSMH net assets without donor restrictions	<u>\$ 3,020,615</u>	<u>\$ 2,710,314</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	Net Assets without Donor Restrictions	Noncontrolling Interest
Net assets without donor restrictions—January 1, 2018	<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 restrictions	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>
Net assets without donor restrictions—December 31, 2018	<u>2,859,183</u>	<u>2,710,314</u>	<u>148,869</u>
Excess of revenues over expenses	415,586	406,679	8,907
Pension-related changes	(102,414)	(102,414)	-
Distributions to noncontrolling owners	(6,085)	-	(6,085)
Net assets with donor restrictions released from restrictions	1,337	1,337	-
Purchase of subsidiary from noncontrolling owner	-	4,127	(4,127)
Other—net	<u>572</u>	<u>572</u>	<u>-</u>
Change in net assets without donor restrictions	<u>308,996</u>	<u>310,301</u>	<u>(1,305)</u>
Net assets without donor restrictions—December 31, 2019	<u>\$ 3,168,179</u>	<u>\$ 3,020,615</u>	<u>\$ 147,564</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, 2019, are as follows:

	Health Care Services	General/ Administrative	Insurance Plan	Pharmacy Benefit Mgmt	Total
Salaries and benefits	\$ 2,517,651	\$ 705,999	\$ 71,982	\$ 78,995	\$ 3,374,627
Medical claims	-	312	556,198	-	556,510
Supplies	1,022,903	219,313	1,066	553,936	1,797,218
Professional fees and other	1,346,348	218,425	75,282	32,889	1,672,944
Interest	14,159	63,918	248	44	78,369
Depreciation and amortization	<u>246,650</u>	<u>39,884</u>	<u>11,134</u>	<u>7,040</u>	<u>304,708</u>
	<u>\$ 5,147,711</u>	<u>\$ 1,247,851</u>	<u>\$ 715,910</u>	<u>\$ 672,904</u>	<u>\$ 7,784,376</u>

Expenses by functional classification for the year ended December 31, 2018, are as follows:

	Health Care Services	General/ Administrative	Insurance Plan	Pharmacy Benefit Mgmt	Total
Salaries and benefits	\$ 2,352,709	\$ 756,600	\$ 58,230	\$ 72,378	\$ 3,239,917
Medical claims	-	-	557,558	-	557,558
Supplies	1,115,780	71,394	1,330	457,501	1,646,005
Professional fees and other	1,197,973	271,795	100,141	24,276	1,594,185
Interest	14,102	68,422	124	29	82,677
Depreciation and amortization	264,505	23,074	13,063	6,674	307,316
Impairment and other losses	<u>112,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,847</u>
	<u>\$ 5,057,916</u>	<u>\$ 1,191,285</u>	<u>\$ 730,446</u>	<u>\$ 560,858</u>	<u>\$ 7,540,505</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

The schedule of future minimum lease payments under operating leases as of December 31, 2019 is disclosed in Note 15—Leases.

SSMH has outstanding letters of credit of \$3,258 and \$3,711 at December 31, 2019 and 2018, respectively. There were no outstanding draws on these letters of credit.

As of December 31, 2019, SSMH has entered into construction projects for new facilities and capital improvements to existing facilities. As of December 31, 2019, SSMH has unmet commitments of approximately \$82,451, 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 \$396,045 has been spent as of December 31, 2019.

SSMH has entered into certain other guarantees with outside entities to be paid out from 2019 through 2022, which totaled \$94,478 at December 31, 2019.

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, 2019 and 2018, \$29,160 and \$37,698, respectively, is included in estimated third-party payor settlements payables related to this ruling. During 2019, SSMH paid \$8,538 to CMS relating to the 2010 Cost Report year as a reduction of estimated third-party payor settlement liability.

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, 2019.

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, 2019.

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, 2019, 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	\$ 226,310
Investments	36,664
Patient accounts receivable	786,631
Pharmacy claims and rebates receivable	354,540
Other receivables	144,580
Assets limited as to use	<u>2,794,608</u>
Total financial assets	4,343,333
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>\$ 5,008,333</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 cash and investments that are available within certain time frames. As of December 31, 2019, the majority of SSMH's 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, 2019, SSMH has evaluated subsequent events for potential recognition and disclosure through March 25, 2020, the date the financial statements were issued. Effective February 27, 2020, Navitus Health Solutions, LLC and Lumicera Health Services, LLC ("PBM"), ceased to be designated as members of the Credit Group. Effective March 2, 2020, SSMH and Costco Wholesale Corporation (Costco) entered into an agreement whereby Costco purchased a noncontrolling interest in SSMH's PBM. As such, there will be no gain or loss recognized on the consolidated statements of operations and the change will be reflected in SSMH's net assets without donor restrictions.

* * * * *

SSM HEALTH CONSOLIDATING SCHEDULES

SSM HEALTH

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2019 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 179,650	\$ 46,660	\$ -	\$ 226,310
Investments	45,014	(8,350)	-	36,664
Current portion of assets limited as to use	278,262	116,551	-	394,813
Patient accounts receivable	761,784	24,847	-	786,631
Pharmacy claims and rebates receivable	354,540	-	-	354,540
Other receivables	98,737	56,738	(10,895)	144,580
Inventories, prepaid expenses, and other	141,960	16,274	(1,580)	156,654
Estimated third-party payor settlements	36,948	-	-	36,948
Total current assets	<u>1,896,895</u>	<u>252,720</u>	<u>(12,475)</u>	<u>2,137,140</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	<u>3,109,888</u>	<u>408,940</u>	<u>-</u>	<u>3,518,828</u>
PROPERTY AND EQUIPMENT—Net	<u>2,840,049</u>	<u>50,739</u>	<u>-</u>	<u>2,890,788</u>
OPERATING RIGHT-OF-USE ASSETS	<u>215,470</u>	<u>33,148</u>	<u>-</u>	<u>248,618</u>
OTHER ASSETS:				
Goodwill	96,899	24,292	-	121,191
Intangible assets—net	144,590	24,678	-	169,268
Investments in unconsolidated entities	322,775	1,049	(224,150)	99,674
Other	25,403	387	(2,132)	23,658
Total other assets	<u>589,667</u>	<u>50,406</u>	<u>(226,282)</u>	<u>413,791</u>
TOTAL	<u>\$ 8,651,969</u>	<u>\$ 795,953</u>	<u>\$ (238,757)</u>	<u>\$ 9,209,165</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 60,000	\$ -	\$ -	\$ 60,000
Current portion of long-term debt and finance lease obligations	23,988	279	-	24,267
Accounts payable and accrued expenses	1,454,060	170,055	(12,331)	1,611,784
Short-term borrowings	452,230	-	-	452,230
Estimated third-party payor settlements	120,826	36,200	-	157,026
Other current liabilities	215,591	36,631	-	252,222
Total current liabilities	2,326,695	243,165	(12,331)	2,557,529
LONG-TERM DEBT—Excluding current portion	1,858,950	6,846	-	1,865,796
ESTIMATED SELF-INSURANCE OBLIGATIONS	86,514	19,689	-	106,203
OPERATING LEASE OBLIGATIONS—Excluding current portion	184,745	25,487	-	210,232
FINANCE LEASE OBLIGATIONS—Excluding current portion	15,428	5,517	-	20,945
PENSION LIABILITY	792,409	-	-	792,409
OTHER LIABILITIES	357,733	23,914	(2,131)	379,516
Total liabilities	<u>5,622,474</u>	<u>324,618</u>	<u>(14,462)</u>	<u>5,932,630</u>
NET ASSETS:				
Without donor restrictions:				
SSM Health net assets without donor restrictions	2,782,575	370,675	(132,635)	3,020,615
Noncontrolling interest in subsidiaries	145,346	2,218	-	147,564
Total net assets without donor restrictions	2,927,921	372,893	(132,635)	3,168,179
With donor restrictions	101,574	98,442	(91,660)	108,356
Total net assets	<u>3,029,495</u>	<u>471,335</u>	<u>(224,295)</u>	<u>3,276,535</u>
TOTAL	<u>\$ 8,651,969</u>	<u>\$ 795,953</u>	<u>\$ (238,757)</u>	<u>\$ 9,209,165</u>

See notes to 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
Other receivables	88,617	16,103	(10,999)	93,721
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	<u>1,765,854</u>	<u>339,486</u>	<u>(12,209)</u>	<u>2,093,131</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	<u>2,801,760</u>	<u>344,794</u>	<u>-</u>	<u>3,146,554</u>
PROPERTY AND EQUIPMENT—Net	<u>2,612,540</u>	<u>48,777</u>	<u>-</u>	<u>2,661,317</u>
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	<u>600,149</u>	<u>54,815</u>	<u>(196,896)</u>	<u>458,068</u>
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 finance lease obligations	20,602	245	-	20,847
Accounts payable and accrued expenses	1,164,801	245,742	(12,064)	1,398,479
Short-term borrowings	454,005	-	-	454,005
Estimated third-party payor settlements	119,184	41,793	-	160,977
Other current liabilities	237,953	28,652	-	266,605
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
FINANCE 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:				
SSM Health net assets without donor restrictions	2,486,947	335,690	(112,323)	2,710,314
Noncontrolling interest in subsidiaries	144,935	3,934	-	148,869
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—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2019

(In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues	\$ 5,627,927	\$ 235,506	\$ (640,461)	\$ 5,222,972
Premiums revenue	111,794	1,339,894	(8,681)	1,443,007
Pharmacy benefit management revenue	602,756	-	-	602,756
Investment income	37,250	58,849	-	96,099
Income from unconsolidated entities—net	19,982	1,765	(1,763)	19,984
Other revenue	605,239	427,245	(493,427)	539,057
Net assets released from restrictions	67	10,612	-	10,679
	<u>7,005,015</u>	<u>2,073,871</u>	<u>(1,144,332)</u>	<u>7,934,554</u>
Total operating revenues and other support				
OPERATING EXPENSES:				
Salaries and benefits	3,094,275	584,654	(304,302)	3,374,627
Medical claims	-	1,264,435	(707,925)	556,510
Supplies	1,770,091	27,127	-	1,797,218
Professional fees and other	1,520,215	258,724	(105,995)	1,672,944
Interest	72,640	5,729	-	78,369
Depreciation and amortization	291,780	12,928	-	304,708
	<u>6,749,001</u>	<u>2,153,597</u>	<u>(1,118,222)</u>	<u>7,784,376</u>
Total operating expenses				
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER ITEMS				
	256,014	(79,726)	(26,110)	150,178
OTHER ITEMS—Nonrecurring items				
	-	-	-	-
OPERATING INCOME (LOSS) AFTER OTHER ITEMS				
	<u>256,014</u>	<u>(79,726)</u>	<u>(26,110)</u>	<u>150,178</u>
NONOPERATING GAINS AND (LOSSES):				
Investment income	337,274	173	-	337,447
Loss from early extinguishment of debt	(410)	-	-	(410)
Net periodic pension cost, less service cost	(17,354)	-	-	(17,354)
Change in fair value of interest rate swaps	(54,553)	-	-	(54,553)
Other—net	7,092	(6,814)	-	278
	<u>272,049</u>	<u>(6,641)</u>	<u>-</u>	<u>265,408</u>
Total nonoperating gains (losses)—net				
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES				
	528,063	(86,367)	(26,110)	415,586
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST				
	<u>8,632</u>	<u>275</u>	<u>-</u>	<u>8,907</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest				
	<u>\$ 519,431</u>	<u>\$ (86,642)</u>	<u>\$ (26,110)</u>	<u>\$ 406,679</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 revenue	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 (loss) from unconsolidated entities—net	15,565	(2)	-	15,563
Other revenue	473,014	318,989	(337,937)	454,066
Net assets released from restrictions	<u>93</u>	<u>7,386</u>	<u>-</u>	<u>7,479</u>
Total operating revenues and other support	<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	<u>282,383</u>	<u>24,933</u>	<u>-</u>	<u>307,316</u>
Total operating expenses	<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				
OTHER ITEMS	208,343	(97,052)	12,707	123,998
OTHER ITEMS—Nonrecurring items	<u>112,847</u>	<u>-</u>	<u>-</u>	<u>112,847</u>
OPERATING INCOME (LOSS) AFTER OTHER ITEMS	<u>95,496</u>	<u>(97,052)</u>	<u>12,707</u>	<u>11,151</u>
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	<u>17,766</u>	<u>(17,875)</u>	<u>-</u>	<u>(109)</u>
Total nonoperating gains (losses)—net	<u>520,131</u>	<u>(17,792)</u>	<u>-</u>	<u>502,339</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES				
EXPENSES	615,627	(114,844)	12,707	513,490
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST				
INTEREST	<u>7,290</u>	<u>952</u>	<u>-</u>	<u>8,242</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest				
EXPENSES	<u>\$ 608,337</u>	<u>\$ (115,796)</u>	<u>\$ 12,707</u>	<u>\$ 505,248</u>

See notes to consolidating schedules.

SSM HEALTH

NOTES TO CONSOLIDATING SCHEDULES AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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 2019 and 2018, the assets of the Credit Group represented 92% and 91% of the consolidated total, respectively, and the total operating revenues represented 77% and 75% of the consolidated total, respectively.

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 \$87,400 and \$105,573 at December 31, 2019 and 2018, respectively. The Credit Group may be required to provide operating capital to these entities to ensure their solvency.

* * * * *