
Southwest Community Health System and Subsidiaries

**Consolidated Financial Report
with Supplemental Information
December 31, 2019**

Southwest Community Health System and Subsidiaries

Contents

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Balance Sheet	3-4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-34
Supplemental Information	35
Independent Auditor's Report on Supplemental Information	36
Consolidating Balance Sheet	37-40
Consolidating Statement of Operations	41-42

Independent Auditor's Report

To the Board of Trustees
Southwest Community Health System
and Subsidiaries

We have audited the accompanying consolidated financial statements of Southwest Community Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of operations, changes in net assets, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Southwest Community Health System and Subsidiaries as of December 31, 2019 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the consolidated financial statements, on January 1, 2019, the System adopted the provisions of Accounting Standards Codification (ASC) 842, *Leases*. Our opinion is not modified with respect to this matter.

As described in Note 2 to the consolidated financial statements, on January 1, 2019, the System adopted the provisions of Accounting Standards Codification 825, *Financial Instruments*. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Southwest Community Health System
and Subsidiaries

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Southwest Community Health System and Subsidiaries as of December 31, 2018 were audited by other auditors, whose report dated April 19, 2019 expressed an unmodified opinion on those statements.

Plante & Moran, PLLC

April 1, 2020

Southwest Community Health System and Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,744	\$ 29,898
Patient accounts receivable (Note 3)	41,403	34,793
Other receivables - Net	2,242	4,435
Inventories	5,338	9,401
Investments for current use (Note 4)	7,907	5,731
Prepaid expenses	9,770	9,007
Total current assets	90,404	93,265
Investments - Board-designated and Other (Note 4)	256,333	219,034
Investments - Self-insurance Reserve Funds (Note 4)	10,829	9,852
Property, Plant, and Equipment - Net (Note 6)	172,046	182,207
Right-of-use Operating Lease Assets (Note 15)	15,438	-
Finance Lease Assets (Note 15)	555	-
Other Assets	6,073	6,284
Total assets	<u>\$ 551,678</u>	<u>\$ 510,642</u>

Southwest Community Health System and Subsidiaries

Consolidated Balance Sheet (Continued)

December 31, 2019 and 2018
(In Thousands)

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 18,681	\$ 23,081
Current portion of long-term debt (Note 9)	2,777	2,948
Current portion of lease liabilities - Operating (Note 15)	6,006	-
Current portion of lease liabilities - Financing (Note 15)	254	-
Estimated third-party payor settlements	3,473	3,144
Accrued liabilities and other:		
Accrued compensation and related liabilities	31,632	27,846
Drawable credited earnings due to UHHS	16,797	9,169
Other accrued liabilities	12,633	10,451
Total current liabilities	92,253	76,639
Long-term Debt (Note 9)		
Revenue bonds - Net of unamortized debt issuance costs and premiums	147,001	149,748
Capital lease obligation	-	1,594
Total long-term debt	147,001	151,342
Lease Liabilities - Operating (Note 15)	9,815	-
Lease Liabilities - Finance (Note 15)	1,340	-
Other Liabilities		
Accrued retirement benefits (Note 12)	31,501	34,737
Other long-term liabilities	18,524	15,844
Total liabilities	300,434	278,562
Net Assets		
Without donor restrictions	246,552	227,779
With donor restrictions	4,692	4,301
Total net assets	251,244	232,080
Total liabilities and net assets	\$ 551,678	\$ 510,642

Southwest Community Health System and Subsidiaries

Consolidated Statement of Operations

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Unrestricted Net Revenue		
Net patient service revenue (Note 13)	\$ 395,009	\$ 370,887
Other revenue	13,336	12,861
Total unrestricted net revenue	408,345	383,748
Expenses		
Salaries, wages, and benefits	184,814	174,303
Supplies, insurance, and other	185,000	169,470
Depreciation and amortization (Note 6)	21,215	22,635
Interest expense	6,290	6,265
Total expenses (Note 18)	397,319	372,673
Operating Income	11,026	11,075
Nonoperating Income (Expense)		
Tax levy receipts	870	786
Investment income (Note 4)	35,492	9,640
Other - Net (Note 14)	(12,280)	(2,398)
Total nonoperating income - Net	24,082	8,028
Excess of Revenue Over Expenses - Before drawable credited earnings due to UHHS	35,108	19,103
Drawable Credited Earnings Due to UHHS	(16,797)	(9,169)
Excess of Revenue Over Expenses	18,311	9,934
Change in Unrealized Gains and Losses on Investments - Net	-	(17,528)
Pension Adjustment	-	1,846
Net Assets Released from Restrictions for Capital	462	399
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 18,773	\$ (5,349)

Southwest Community Health System and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Without Donor Restrictions		
Excess of revenue over expenses	\$ 18,311	\$ 9,934
Change in unrealized losses on investments - Net	-	(17,528)
Pension adjustment	-	1,846
Net assets released from restrictions for capital	462	399
	<u>18,773</u>	<u>(5,349)</u>
Increase (decrease) in without donor restrictions	18,773	(5,349)
With Donor Restrictions		
Restricted contributions	814	808
Net investment income (loss) (Note 4)	59	(195)
Net assets released from restrictions	(482)	(425)
	<u>391</u>	<u>188</u>
Increase in with donor restrictions	391	188
Increase (Decrease) in Net Assets	19,164	(5,161)
Net Assets - Beginning of year	<u>232,080</u>	<u>237,241</u>
Net Assets - End of year	<u><u>\$ 251,244</u></u>	<u><u>\$ 232,080</u></u>

Southwest Community Health System and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 19,164	\$ (5,161)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	21,953	23,301
Net realized and unrealized (gains) losses on investments	(28,839)	19,890
Loss on derivative instruments	508	-
Pension related changes other than net periodic benefit cost	-	(1,846)
Restricted contributions	(814)	(808)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Patient accounts receivable	(4,417)	(1,002)
Other current assets	3,299	(1,741)
Other noncurrent assets	6,392	353
Accrued retirement benefits	(3,235)	(4,977)
Accounts payable	(4,400)	5,297
Other current liabilities	6,296	2,867
Other long-term liabilities	(3,118)	(3,903)
Net cash and cash equivalents provided by operating activities	12,789	32,270
Cash Flows from Investing Activities		
Purchases of property, plant, and equipment	(12,347)	(14,812)
Purchases of investments	(59,793)	(187,140)
Proceeds from sales and maturities of investments	47,672	174,910
Net cash and cash equivalents used in investing activities	(24,468)	(27,042)
Cash Flows from Financing Activities		
Principal payments on debt	(2,671)	(2,919)
Principal payments on financing lease liability	(246)	-
Restricted contributions	814	808
Drawable credited earnings due to/from UHHS - Net	7,628	4,042
Net cash and cash equivalents provided by financing activities	5,525	1,931
Net (Decrease) Increase in Cash and Cash Equivalents	(6,154)	7,159
Cash and Cash Equivalents - Beginning of year	29,898	22,739
Cash and Cash Equivalents - End of year	\$ 23,744	\$ 29,898
Significant Noncash Transactions		
Right-of-use assets and operating lease liability recognized due to adoption of ASC 842 as of January 1, 2019	\$ 13,911	\$ -
Right-of-use assets and operating lease liability recognized during the year	7,708	-

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 1 - Nature of Business

Southwest Community Health System and Subsidiaries' (the "System") purpose is to participate in and promote activities related to the delivery of healthcare services and other services related to or supportive of these activities. The System is a not-for-profit corporation under federal income tax laws. A brief summary of each of the organizations for which the System is the sole member and parent organization follows:

- *Southwest General Health Center* - Southwest General Health Center (the "Health Center") is a not-for-profit corporation that was organized to establish, operate, and maintain a hospital and other healthcare facilities. The Health Center offers a full range of services at its main campus located in Middleburg Heights, Ohio and a wide variety of outpatient services at its nearby medical centers in Brunswick and Strongsville. The Health Center is the sole shareholder of Southwest General Medical Group, a physician corporation. A wholly owned subsidiary of the Health Center, Southwest General Holdings, Inc. (Holdings), was incorporated to engage in for-profit activities. Holdings' main activities are the operation of a retail pharmacy on the hospital campus and the provision of wellness services.
- *Southwest Community Health Foundation* - Southwest Community Health Foundation (the "Foundation") is a not-for-profit corporation that was organized to develop and operate fundraising activities, capital-giving programs, and deferred-giving programs and to support community healthcare projects.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the System have been prepared on the basis of generally accepted accounting principles (GAAP).

The consolidated financial statements include the accounts of the Health Center (the "Obligated Group") and the Foundation (the "Non-Obligated Group"), which has no liability under the master trust indenture, which was amended and restated as of December 1, 2012, between the Health Center and the Huntington National Bank, as trustee. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts limited as to use by board designation or other arrangements under trust agreements. Cash balances held in the bank exceed the federal depository insurance limit. The System's cash is only insured up to the federal depository insurance limit.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of the financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience, adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Investments - Board Designated and Other

Investments - board designated and other include assets designated by the board of trustees for future capital improvement over which the board retains control, and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified in the consolidated balance sheet. Investments - board designated and other also include assets that are restricted or by donors.

Investments

In 2019, investments in equity securities are reported at fair value, with unrealized gains and losses included in earnings.

Investments in equity securities and mutual funds and all investments in debt securities are measured at fair value in the consolidated balance sheet. For the year ended December 31, 2019, investment income or loss (including realized and unrealized gains and losses on investments determined by the average cost method, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. For the year ended December 31, 2018, changes in the unrealized gains and losses on investments which are classified as other than trading are excluded from the excess of revenue over expenses.

The System reviews other-than-trading investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred and an unrealized investment loss should be recognized. In conducting this review, various factors are considered, which, individually or in combination, indicate that a decline is other than temporary. These factors include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, the recommendations of advisors, the length of time and extent to which the market value has been less than cost, and the intent and ability of management to hold such investments until value returned. Losses recorded for other-than-temporary decline in the value of investments were \$0 and \$8,392 for the years ended December 31, 2019 and 2018, respectively.

As part of its investment portfolio, the System had an ownership interest of approximately 3.47 percent at January 1, 2018 in a limited partnership (LP) that invests in publicly traded equity equities with readily determinable values. The System's investment in the LP was \$7,929 at January 1, 2018. The System divested of the investment during 2018. The System accounted for its investment in the LP using the equity method of accounting based on net asset value information provided by the LP and recorded its share of the LP's net loss of \$214 during the year ended December 31, 2018 in investment income.

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Investments - Equity Method

Investments in jointly owned companies and other investees in which the System has 20 percent to 50 percent interest or otherwise exercises significant influence are carried at cost, adjusted for the System's proportionate share of its undistributed earnings or losses and distributions.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

Derivative Financial Instruments

The System recognizes all derivative instruments in the financial statements at fair value. The System participates in interest rate swap contracts that are considered derivative financial instruments and are included in other assets and other long-term liabilities on the consolidated balance sheet. The interest rate swap contracts are not designated as hedges. Changes in fair value of the derivative financial instruments are recognized in the consolidated statement of operations as a component of investment income.

Inventories

Inventories, which consist primarily of supplies and pharmaceutical products, are stated at the lower of cost or net realizable value, on a first-in, first-out basis.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives, which ranges from 3 to 40 years. Expenditures that substantially increase the useful lives of existing assets are capitalized. Costs of routine maintenance and repairs are charged to expense when incurred. Leased equipment is amortized using the straight-line method over the shorter period of the lease term or the established useful life of the equipment.

Right-of-use Operating Lease Asset

The System recognized leases for assets meeting certain criteria as right-of-use operating lease assets. The System has made an accounting policy election to keep leases with an initial term of 12 months or less off the consolidated balance sheet and recognize those lease payments in the consolidated statement of operations on a straight-line basis over the lease term.

Concentration of Credit Risk

The Health Center provides patient care services primarily to residents of Cuyahoga and Medina counties in Ohio. Concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of patients and payors. Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private-pay patients, and other insurance programs.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the term of the related financing.

Classification of Net Assets

Net assets of the System are classified based on the presence or absence of donor-imposed restrictions.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the System or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

The Health Center provides healthcare services in healthcare facilities, which include inpatient, outpatient, and ambulatory care facilities; physician practices; and other sites. Net patient service revenue is reported at the amount that reflects the consideration to which the Health Center expects to be entitled in exchange for providing care. These amounts are due from patients, third-party payors, and others, including retroactive adjustments under reimbursement agreements with third-party payors.

Generally, the Health Center bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Performance obligations satisfied over time relate to patients in the Health Center receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods and services are provided and the Health Center does not believe it is required to provide additional goods and services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

As a result of all its performance obligations relating to patient contracts being less than a year in duration, the Health Center has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a), this exemption does not require the Health Center to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period.

The Health Center uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analysis, the Health Center believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Health Center determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The Health Center determines the transaction price associated with services provided to patients who have third-party payors based on reimbursement terms per contractual agreements, discount policies, and historical experience. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, per diem rates, and value-based payments. Reported costs and/or services provided under certain arrangements are subject to retroactive audit adjustments.

The Health Center is paid a prospectively determined rate for the majority of inpatient acute care, transitional care, and certain outpatient services provided. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Provision for estimated retroactive adjustments, if any, resulting from changes in diagnostic related group assignment, regulatory matters, or other retroactive adjustments under reimbursement agreements are accrued on an estimated basis in the period the related services are provided. Any changes in these estimated amounts are recorded in operations as final settlements are determined.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

Certain other Medicare and Medicaid outpatient services are reimbursed at established fee schedules. The Health Center is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual costs reports by the Health Center and audits thereof by the Medicare and Medicaid administrative contractors.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Health Center also enters into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Provision for estimated retroactive adjustments, if any, resulting from regulatory matters or other adjustments under payment agreements is estimated in the period the related services are provided.

For uninsured patients who do not qualify for charity care, the Health Center recognizes revenue based on established rates, subject to certain discounts, and implicit price concessions, as determined by the Health Center. Implicit price concessions are based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverages, and other collection indicators.

Charity Care and Community Benefit

The Health Center treats all patients requiring hospital care regardless of their ability to pay. The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The Health Center estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. The Health Center estimates that it provided \$1,717 and \$1,743 of services to indigent patients during 2019 and 2018, respectively. The System received gross distributions of approximately \$3,034 and \$2,460 and paid gross assessments of approximately \$2,163 and \$1,931 for the State of Ohio's Hospital Care Assurance Program (HCAP) during 2019 and 2018, respectively. These amounts are reported within patient service revenue in the consolidated statement of operations. The amount of net HCAP distributions related to charity care totaled approximately \$37 and \$59 during 2019 and 2018, respectively.

In addition to providing direct charity care to patients in furtherance of its exempt purpose to benefit the community, the Health Center operates an Emergency Trauma Center 24 hours a day, provides various community screenings for detection of disease and to promote health and wellness, and operates a community outreach program to bring healthcare services and support to homes. In addition, the Health Center has a second emergency department in Brunswick, Ohio that is open 24 hours a day.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

Excess of Revenue Over Expenses

The consolidated statement of operations includes excess of revenue over expenses, which is the System's performance indicator.

For the year ended December 31, 2019, changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include pension-related changes other than net periodic benefit cost and 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).

For the year ended December 31, 2018, changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, pension-related changes other than net periodic benefit cost, and 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).

Contributions

Unconditional promises to give cash and other assets to the System are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 18. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, depreciation, insurance, and supplies, are considered to be management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, and training, are also allocated on the basis of square footage, time, and space. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

Income Taxes

All entities of the System, except for Holdings, a for-profit corporation, are not-for-profit corporations (the "System not-for-profits") and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System not-for-profits and recognize a tax liability if the System not-for-profits have taken any uncertain positions that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS) or other applicable taxing authorities. Management has analyzed the tax positions taken by the System not-for-profits and has concluded that, as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The System not-for-profits are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2015.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU improves the effectiveness of the notes to financial statements through changes in the disclosure requirements for fair value measurement. The ASU is effective for the System for annual reporting periods ending after December 15, 2019 and will be applied using a retrospective approach. The System is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for the System for annual reporting periods ending after December 15, 2021, with early adoption permitted, and will be applied using a retrospective approach. The System is currently assessing the impact that ASU No. 2018-14 will have on its consolidated financial statements.

Adoption of Accounting Policies

In February 2016, the FASB established Topic 842, *Leases*, by issuing Accounting Standards Update No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines included within the classification criteria.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 2 - Significant Accounting Policies (Continued)

The System adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. The System has elected the package of practical expedients permitted under the transition guidance, which, among other things, allows the System to carry forward the historical lease classification. The new standard also provides practical expedients for an entity's ongoing accounting. The System has made an accounting policy to keep leases with an initial term of 12 months or less off the consolidated balance sheet and recognize those lease payments in the consolidated statement of operations on a straight-line basis over the lease term. The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of \$13,911 on the System's consolidated balance sheet as of January 1, 2019, with no impact on net assets.

As of January 1, 2019, the System adopted Accounting Standard Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in excess of revenue over expenses. The System adopted this standard on a prospective basis. As a result of adoption of the ASU, the System is required to recognize changes in the fair value of equity securities within the performance indicator. Previously, the unrealized gains or losses on equity securities were recognized outside of the performance indicator.

Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2019 through April 1, 2020, which is the date of issuance of the consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements, except for the disclosure noted below.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Subsequent to the consolidated balance sheet date, patient volumes related to elective procedures have declined, a shortage of supplies and certain personal protective equipment (PPE) is being sourced at higher than normal cost, and significant reductions in the fair value of investments in long-term and pension assets are occurring. The System has responded to the outbreak by drawing on its line of credit (see Note 11 for more details). No impairments were recorded as of the consolidated balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the System's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Note 3 - Patient Accounts Receivable

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements.

The composition of receivables from patients and third-party payors was as follows:

	2019	2018
Medicare	32 %	30 %
Medicaid	4	3
Managed care, commercial, and other	64	67
Total	100 %	100 %

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 3 - Patient Accounts Receivable (Continued)

Included in the managed care, commercial, and other category is one commercial payor representing approximately 17 and 15 percent for the years ended December 31, 2019 and 2018, respectively, and another commercial payor representing approximately 10 percent for the years ended December 31, 2019 and 2018.

Note 4 - Investments

The details of the System's investments at December 31 are as follows:

	2019	2018
Investments:		
Cash	\$ 2,869	\$ 451
Money market funds	8,672	8,436
Fixed-income securities:		
U.S. government agencies	43,783	40,752
U.S. corporate	36,940	37,193
Common stocks - U.S.	5,060	4,077
Mutual funds:		
Fixed income	31,792	30,630
Equity	130,902	101,452
Commingled funds	15,051	11,626
Total investments	<u>\$ 275,069</u>	<u>\$ 234,617</u>

Total investment return is composed of the following for the years ended December 31:

	2019	2018
Nonoperating gains (losses):		
Interest income and dividends	\$ 7,161	\$ 10,718
Net realized (losses) gains on sales of investments	(235)	8,097
Equity method investment income	609	346
Change in unrealized gains (losses) on investments	28,465	(1,636)
Other-than-temporary impairment on other-than-trading investments	-	(8,392)
Derivative (loss) gain	(508)	507
Total investment income	35,492	9,640
Other changes in net assets - Net change in unrealized losses on restricted investments and restricted investment income	59	(17,723)
Total investment income	<u>\$ 35,551</u>	<u>\$ (8,083)</u>

With the exception of certain board-designated mutual funds, all investments are managed by professional asset managers.

Declines in Investment Values

Subsequent to year end, the System's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets.

Fair values determined by Level 2 inputs for U.S. government agencies and U.S. corporate securities are valued on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair values for Level 2 money market funds are valued using broker quotes that utilize observable inputs.

Commingled investment funds are valued using, as a practical expedient, the net asset value provided by the respective investment companies and partnerships. There are no significant redemption restrictions or unfunded commitments on the commingled investment funds.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability that may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 5 - Fair Value Measurements (Continued)

The following tables present information about the System's assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the System to determine those fair values:

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Investments:				
Money market funds	\$ -	\$ 8,672	\$ -	\$ 8,672
Fixed-income securities - U.S. government agencies	-	43,783	-	43,783
Fixed-income securities - U.S. corporate	-	36,940	-	36,940
Common stock - U.S.	5,060	-	-	5,060
Mutual funds - Fixed income	31,792	-	-	31,792
Mutual funds - Equity	130,902	-	-	130,902
Deferred compensation - Mutual funds (included in other assets)	4,649	-	-	4,649
Total investments at fair value	<u>\$ 172,403</u>	<u>\$ 89,395</u>	<u>\$ -</u>	261,798
Investments measured at net asset value - Commingled funds				<u>15,051</u>
Total assets				<u>\$ 276,849</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 2,302</u>	<u>\$ -</u>	<u>\$ 2,302</u>

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 5 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at
December 31, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets				
Investments:				
Money market funds	\$ -	\$ 8,436	\$ -	\$ 8,436
Fixed-income securities - U.S. government agencies	-	40,752	-	40,752
Fixed-income securities - U.S. corporate	-	37,193	-	37,193
Common stock - U.S.	4,077	-	-	4,077
Mutual funds - Fixed income	30,630	-	-	30,630
Mutual funds - Equity	101,452	-	-	101,452
Interest rate swap	-	1,314	-	1,314
Total investments at fair value	<u>\$ 136,159</u>	<u>\$ 87,695</u>	<u>\$ -</u>	<u>223,854</u>
Investments measured at net asset value - Commingled funds				<u>11,626</u>
Total investments				<u>\$ 235,480</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 3,107</u>	<u>\$ -</u>	<u>\$ 3,107</u>

Cash included in investments on the consolidated balance sheet totaled \$2,869 and \$451 at December 31, 2019 and 2018, respectively.

The System's policy is to recognize transfers into and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event. There were no significant transfers between levels for the years ended December 31, 2019 and 2018.

Note 6 - Property, Plant, and Equipment

Property, plant, and equipment as of December 31 are summarized as follows:

	2019	2018	Depreciable Life - Years
Land and land improvements	\$ 15,472	\$ 15,381	0-15
Buildings and fixed equipment	320,753	317,362	5-40
Movable equipment	157,533	147,160	2-10
Construction in progress	7,169	12,092	-
Total cost	<u>500,927</u>	<u>491,995</u>	
Accumulated depreciation	<u>328,881</u>	<u>309,788</u>	
Net property, plant, and equipment	<u>\$ 172,046</u>	<u>\$ 182,207</u>	

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 6 - Property, Plant, and Equipment (Continued)

Depreciation and amortization expense for 2019 and 2018 was \$21,215 and \$22,635, respectively. Depreciation on the Health Center's medical office buildings of \$738 in 2019 and \$666 in 2018 is classified as a component of nonoperating gains (losses) in the consolidated statement of operations.

Note 7 - Liquidity and Availability of Resources

The following reflects the System's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2019	2018
Cash and cash equivalents	\$ 23,744	\$ 29,898
Patient accounts receivable	41,403	34,793
Other receivables - Net	2,242	4,435
Investments for current use	7,907	5,731
Investments - Board designated and other	256,333	219,034
Investments - Self-insurance reserve funds	10,829	9,852
	<hr/>	<hr/>
Financial assets - At year end	342,458	303,743
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Restricted investments	5,106	3,843
Investments for current use	7,907	5,731
Investments - Self-insurance reserve funds	10,829	9,852
	<hr/>	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 318,616</u>	<u>\$ 284,317</u>

The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the System invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

The Organization has a committed line of credit in the amount of \$10,000 at December 31, 2019 and 2018, which it could draw upon if needed, as further described in Note 11.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 8 - Partnering Agreement with University Hospitals Health System, Inc.

Effective July 1, 1997, the System (excluding the Foundation) entered into a partnering agreement (the "Partnering Agreement") with University Hospitals Health System, Inc. (UHHS). UHHS owns and operates a large integrated delivery system. Under the five-year Partnering Agreement, UHHS brought the Rainbow Babies and Children, MacDonald Women's, and Seidman Cancer programs (the "UHHS Programs") to the Health Center's facilities. Upon the closing of the Partnering Agreement in 1997, UHHS transferred \$20 million of unrestricted funds to the Health Center. At the end of the initial five-year term, the Partnering Agreement was automatically extended for an additional 10-year term. Under the Partnering Agreement, UHHS obtained 50 percent representation on the Health Center's board of directors, and the System obtained two seats on UHHS' board of directors. If at such time the System (excluding the Foundation) votes to merge with UHHS, an additional \$20 million, as adjusted (the "Additional Commitment Amount"), shall be transferred to the System even if the community delegates reject the merger recommendation. Effective January 1, 2011, the System's Partnering Agreement with UHHS was renewed for an additional 10 years. In June 2019, a second renewal was executed for another 10-year term commencing on January 1, 2021. At the end of the 10-year renewal term, 2031, UHHS or the System may terminate the Partnering Agreement. Upon termination of the Partnering Agreement, the System is required to return all funds transferred by UHHS or provide certain assets of equal value, pay any outstanding drawable credited earnings, and cease using the names associated with the UHHS Programs.

On an annual basis, UHHS shares 50 percent of the annual net income or loss of the Health Center (exclusive of tax levy receipts), one-half of which is immediately due and payable. The remaining one-half of earnings is credited against (losses added to) the Additional Commitment Amount. The Additional Commitment Amount bears interest at a rate of 6 percent per annum, compounded annually. In 2017, the Additional Commitment Amount was fully funded, and, as a result, the full 50 percent is immediately due and payable to UHHS starting in 2018. UHHS no longer has any additional commitment owed under the Partnering Agreement.

Drawable credited earnings due to UHHS were \$16,797 and \$9,169 at December 31, 2019 and 2018, respectively.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2019	2018
Series 2012A Bonds	\$ 49,295	\$ 50,140
Series 2012B Bonds	9,578	10,535
Series 2012C Bonds	14,641	15,110
Series 2012D Bonds	7,605	7,605
Series 2012E Bonds	7,240	7,240
Series 2011 Bonds	61,544	61,975
Capital lease obligations with various interest rates ranging from 1.5 to 3 percent	-	1,841
Unamortized premium	1,035	1,076
Less unamortized debt issuance costs	<u>(1,160)</u>	<u>(1,232)</u>
Long-term debt less unamortized premium and debt issuance costs	149,778	154,290
Less current portion	<u>2,777</u>	<u>2,948</u>
Long-term portion	<u>\$ 147,001</u>	<u>\$ 151,342</u>

In November 2012, the Health Center, through the City of Middleburg Heights, Ohio, issued \$54,355 of Hospital Facilities Revenue and Refunding Bonds, Series 2012A (the "Series 2012A Bonds"). The Series 2012A Bonds are payable from the general revenue of the Health Center. A portion of the proceeds from the issuance of the Series 2012A Bonds was used to reimburse the Health Center for prior capital expenditures. The remaining portion of the proceeds from the sale of the Series 2012A Bonds was used to partially fund the second phase of the master facility project to build a private-room patient bed tower. At December 31, 2019, the interest rate was 4.47 percent. The Series 2012A Bonds have a final maturity in 2047.

In November 2012, the Health Center, through the City of Middleburg Heights, Ohio, issued \$16,282 of Series 2012B Bonds (the "Series 2012B Bonds"). The Series 2012B Bonds are payable from the general revenue of the Health Center. The private placement bonds were purchased by a bank. The proceeds from the issuance of the Series 2012B Bonds were used to extinguish the outstanding variable-rate Series 2009 Bonds. The Series 2012B Bonds bear variable interest rates based on the London Interbank Offered Rate (LIBOR) and have interest payments due semiannually and principal payments due annually. At December 31, 2019, the interest rate was 2.36 percent. The Series 2012B Bonds have a final maturity in 2028 and are subject to a mandatory tender date of August 1, 2022.

In November 2012, the Health Center, through the City of Middleburg Heights, Ohio, issued \$16,878 of Series 2012C Bonds (the "Series 2012C Bonds"). The Series 2012C Bonds are payable from the general revenue of the Health Center. The private placement bonds were purchased by a bank. The proceeds from the issuance of the Series 2012C Bonds were used to partially fund the second phase of the master facility project to build private-room patient tower. The Series 2012C Bonds bear variable interest rates based upon LIBOR. At December 31, 2019, the interest rate was 2.09 percent. The Series 2012C Bonds have a final maturity in 2042 and are subject to a mandatory tender date of August 1, 2022.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 9 - Long-term Debt (Continued)

In November 2012, the Health Center, through the County of Medina, Ohio, executed \$7,605 of Series 2012D Bonds (the "Series 2012D Bonds") and \$7,240 of Series 2012E Bonds (the "Series 2012E Bonds") to refinance the Variable Rate Demand Revenue Bonds, Series 2007A (the "Series 2007A Bonds") and the Variable Rate Demand Taxable Revenue Bonds, Series 2007B (the "Series 2007B Bonds"), which were used to finance construction of the Brunswick Medical Center. The Series 2012D Bonds and Series 2012E Bonds are payable from the general revenue of the Health Center, as were the Series 2007A Bonds and the Series 2007B Bonds. The private placement bonds were purchased by a bank. The Series 2012D Bonds and Series 2012E Bonds bear variable interest rates that are based on LIBOR. The Series 2012D Bonds and Series 2012E Bonds have a semiannual interest payable schedule and an annual principal payment schedule. The 15 annual principal payments commence on August 1, 2023. At December 31, 2019, the interest rates for the Series 2012D Bonds and Series 2012E Bonds were 2.40 percent and 3.30 percent, respectively. The Series 2012D Bonds and Series 2012E Bonds have a final maturity in 2037 and are subject to a mandatory tender date of August 1, 2022.

In December 2011, the Health Center, through the City of Middleburg Heights, Ohio, issued \$63,045 of Hospital Facilities Revenue and Refunding Bonds, Series 2011 (the "Series 2011 Bonds"). The Series 2011 Bonds are payable from the general revenue of the Health Center. A portion of the proceeds from the issuance of the Series 2011 Bonds were used to refund the outstanding fixed-rate Series 1995 bonds. The remaining portion of the proceeds from the sale of the Series 2011 Bonds were used to fund the facility project to expand the emergency department and critical care unit. The Series 2011 Bonds bear fixed interest rates that will average 5.19 percent and have a final maturity of 2041.

The balance of the above debt matures as follows:

<u>Years Ending</u>	<u>Amount</u>
2020	\$ 2,777
2021	2,965
2022	3,072
2023	3,200
2024	3,322
Thereafter	134,567
Unamortized debt issuance costs	(1,160)
Unamortized premium	1,035
Total	<u>\$ 149,778</u>

Interest paid for 2019 and 2018 was \$6,324 and \$6,182, respectively.

Under the provisions of the master trust indenture for the bonds, the System is subject to certain restrictive covenants, including provisions relating to maintaining certain debt ratios and other matters. The System is in compliance with debt covenants at December 31, 2019.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 10 - Interest Rate Swap

The System utilizes interest rate swaps to manage the overall cost of debt and risk profile related to its long-term debt. The swaps utilized include (i) fixed payor swaps whereby the System received a floating rate and pays a fixed rate to either hedge against rising interest rates or achieve a lower overall cost of debt relative to traditional fixed-rate structures and (ii) basis swaps whereby the System receives a floating rate based on a taxable index (LIBOR) and pays a floating rate based on a tax-exempt index (Securities Industry and Financial Markets Association (SIFMA)) designed to reduce interest costs associated with its traditional fixed-rate debt. The fair value of all interest rate swap agreements is determined by relevant factors such as dealer price quotations and valuation pricing models. The swap agreements are not designated as hedging instruments.

The following table summarizes the System's interest rate swap agreements:

Swap Type	Expiration Date	System Pays	System Receives	Notational Amount at December 31, 2019	Notational Amount at December 31, 2018
Fixed payor	2037	1.2100%	70% of LIBOR	\$ 7,605	\$ 7,605
Fixed payor	2037	4.925%	100% of LIBOR	7,240	7,240
Fixed spread basis	2041	SIFMA Index	67% of LIBOR + 0.72596%	-	30,988
Total				<u>\$ 14,845</u>	<u>\$ 45,833</u>

The following table summarizes the location and fair value for the System's interest rate swap agreements at December 31:

	Location on Consolidated Balance Sheet	2019	2018
Derivates not designed as hedging instruments:			
Interest rate swap agreement	Other long-term liabilities	\$ (2,302)	\$ (3,107)
Interest rate swap agreement	Other assets	-	1,314

The following table summarizes the location and amounts of cash settlements and changes in fair value on the System's interest rate swap agreements for the years ended December 31:

	Location of Gain (Loss) Recognized	2019	2018
Derivates not designed as hedging instruments:			
Payments to counterparty	Other net nonoperating losses	\$ (110)	\$ (160)
Changes in fair value	Investment (loss) income	(508)	507

During 2019, the System terminated the fixed spread basis swap and used the proceeds to reduce the interest rate on one fixed payor swap.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 11 - Line of Credit

Under a line of credit agreement with a bank, the System has available borrowings of approximately \$10,000, which will expire on December 31, 2022. There have not been any draws on the line of credit, and the amount due under the line of credit is \$0 at both December 31, 2019 and 2018. At December 31, 2019, the interest rate for the line of credit was 2.48 percent.

Subsequent to the end of the year (in March 2020), the entire amount of the line of credit of \$10,000 was drawn down to ensure liquidity during the COVID-19 pandemic.

Note 12 - Pension

The System has a noncontributory defined benefit pension plan that covers substantially all of its employees. The plan provides defined benefits based on percentage of annual compensation and years of service. The System's funding policy is to contribute amounts sufficient to provide for future benefits and to meet minimum Employee Retirement Income Security Act of 1974 (ERISA) funding requirements.

Effective January 1, 2015, the plan benefit formula changed from a final average compensation formula to a cash balance for participants whose age plus years of service is 75 or more as of January 1, 2009 (grandfathered group). The grandfathered group employees' final average compensation benefit was frozen at December 31, 2014, with the cash balance formula starting on January 1, 2015. As of December 31, 2015, the plan was completely frozen (i.e., no future cash balance compensation credits will be provided to participants).

The System applies a spot rate approach by applying the specific spot rates along the yield curve to the relevant projected cash flows in the estimation of the interest components of benefit cost. The spot rates used to determine interest costs range from 1.98 percent to 4.90 percent for the plan.

Included in net assets without donor restrictions are unrecognized actuarial losses that have not yet been recognized in the net periodic benefit cost of \$71,910 at December 31, 2019 and 2018.

Changes Recognized in Net Assets without Donor Restriction

Changes in plan assets and benefit obligations recognized in other - net expense in the consolidated statement of operations during the year ended December 31 included:

	2019	2018
Current year actuarial loss	\$ 10,886	\$ 536
Settlement loss	(8,397)	-
Amortization of actuarial loss	(2,489)	(2,382)
Total changes recognized in net assets without donor restrictions	\$ -	\$ (1,846)

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 12 - Pension (Continued)

A summary of the changes in the benefit obligations and plan assets and the resulting funded status of the pension plan for the year ended December 31 are as follows:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of the year	153,359	168,179
Interest cost	6,266	5,573
Actuarial losses (gains)	23,422	(14,153)
Benefits paid	(4,815)	(6,240)
Settlements	(18,637)	-
Benefit obligation at end of year	159,595	153,359
Change in plan assets:		
Fair value of plan assets at beginning of year	118,622	126,619
Actual return on plan assets	20,023	(6,757)
Employer contributions	12,901	5,000
Benefits paid	(4,815)	(6,240)
Settlements	(18,637)	-
Fair value of plan assets at end of year	128,094	118,622
Underfunded status of the plan	(31,501)	(34,737)
Accrued retirement benefits	(31,501)	(34,737)
Accumulated benefit obligation	159,595	153,359
	2019	2018
Components of net periodic benefit costs:		
Interest cost	\$ 6,266	\$ 5,573
Expected return on assets	(7,487)	(7,935)
Amortization of net actuarial loss	2,489	2,382
Settlements	8,397	-
Total	\$ 9,665	\$ 20

The components of net periodic benefit cost are included in other nonoperating income and expenses in the consolidated statement of operations.

Weighted-average assumptions used to determine benefit obligation at December 31 are as follows:

	2019	2018
Discount rate	4.11	3.37
Expected return on plan assets	6.25	6.25

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	2019	2018
Discount rate	3.40%	3.68%
Expected return on plan assets	6.25	6.25

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 12 - Pension (Continued)

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of return of the respective asset classes. Adjustments to historical returns have been made to reflect market fluctuations in order to reflect expectations of future return.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the plan, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and ensures timely payment of retirement benefits.

The plan's investment strategy is long-term oriented, which the plan manages through target investment allocation. Plan assets are selected by various professional asset managers following plan investment guidelines. The plan's investment guidelines target allocation ranges of the investment pool to various asset classes, including equity investments (40 percent to 70 percent target), fixed-income investments (20 percent to 40 percent target), alternative investments (5 percent to 25 percent target), and cash and cash equivalents (0 percent target) and are designated to diversify the portfolio in a manner that achieves an efficient trade-off between long-term return and risk while providing adequate liquidity to meet near-term expenses and obligations. The plan's expected long-term rate of return is determined based upon its historical returns and expected future returns based upon targeted long-term returns of 9 percent to 11 percent for equity securities and 3 percent to 5 percent for debt securities. The System expects to contribute approximately \$5,000 to the plan in 2020.

Plan assets by investment category are as follows:

	2019	2018
Asset category:		
Equity investments	52.00 %	51.00 %
Fixed-income investments	32.00	38.00
Alternative investments	16.00	11.00
Total	<u>100.00 %</u>	<u>100.00 %</u>

Future expected benefit payments during the years ending December 31 are as follows:

Years Ending	Amount
2020	\$ 5,865
2021	6,495
2022	7,020
2023	7,484
2024	7,904
2025-2029	<u>44,585</u>
Total	<u>\$ 79,353</u>

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 12 - Pension (Continued)

The fair values of the System's pension plan assets at December 31 by major asset classes are as follows:

	Fair Value Measurements at December 31, 2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash and investments:				
Money market funds	\$ -	\$ 2,479	\$ -	\$ 2,479
Fixed-income securities:				
U.S. treasuries	3,742	-	-	3,742
U.S. government agencies	-	21,492	-	21,492
U.S. corporate	-	16,421	-	16,421
Mutual funds - Equity	62,996	-	-	62,996
Total	<u>\$ 66,738</u>	<u>\$ 40,392</u>	<u>\$ -</u>	107,130
Investments measured at NAV:				
Commingled funds				7,797
Alternative investments				<u>13,168</u>
Total investments measured at NAV				<u>20,965</u>
Total investments at fair value				<u>\$ 128,095</u>

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 12 - Pension (Continued)

	Fair Value Measurements at December 31, 2018			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash and investments:				
Money market funds	\$ -	\$ 827	\$ -	\$ 827
Fixed-income securities:				
U.S. treasuries	484	-	-	484
U.S. government agencies	-	25,482	-	25,482
U.S. corporate	-	19,530	-	19,530
Mutual funds - Equity	52,513	-	-	52,513
Total	<u>\$ 52,997</u>	<u>\$ 45,839</u>	<u>\$ -</u>	98,836
Investments measured at NAV:				
Commingled funds				6,733
Alternative investments				13,053
Total investments measured at NAV				<u>19,786</u>
Total investments at fair value				<u>\$ 118,622</u>

The tables above present information about the pension plan assets measured at fair value at December 31, 2019 and 2018 and the valuation techniques used by the System to determine those fair values.

Fair value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 5.

Fixed-income securities include debt obligations of the U.S. government and various agencies and U.S. corporations. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined fixed-income indexes, such as Barclays Capital U.S. Aggregate Index.

Equity securities include investments of publicly traded common stocks of U.S. corporations, the majority of which represent actively traded and liquid securities that are traded on many of the world's major exchanges and include large-, mid-, and small-capitalization securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined equity indexes, such as the Russell 1000 Index, the Russell 2500 Index, and the Morgan Stanley Capital International (MSCI) EAFE (Europe, Australia, and Far East) Index. Commingled investment funds are valued using, as a practical expedient, net asset value provided by the respective investment companies and partnerships. There are no significant redemption restrictions on the commingled investment funds.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 12 - Pension (Continued)

Alternative investments include hedge funds that are meant to provide equity-like returns with fixed-income-like levels of risk. Included in this category are investments that are diversified across various strategies and may consist of long/short equity funds and other opportunistic funds. The underlying investments in such funds may include publicly and privately held equity and debt instruments issued by the U.S. and international corporations and various derivatives based on these securities. No significant redemption restrictions or remaining investment commitments apply to the plan's investments in these funds; however, the fund manager would evaluate such features or restrictions, as applicable, to estimate fair value.

In December 2019, the System purchased a group annuity contract from an insurance company to transfer \$15,400 of the outstanding pension benefit obligations related to certain retirees and beneficiaries. As a result of the transaction, the insurance company is now required to pay and administer the retirement benefits owed to the approximately 483 U.S. retirees and beneficiaries, with no change to their monthly retirement benefit payment amounts. In connection with this transaction, the System recognized a pension settlement charge of \$8,397 as a nonoperating expense, primarily related to the accelerated recognition of actuarial losses included in net assets for the plan.

Note 13 - Net Patient Service Revenue

The System had determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected primarily by payor. The System recognizes patient service revenue over time, as patients simultaneously receive and consume benefits provided as care is administered. The composition of net patient service revenue by primary payor for the years ended December 31 is as follows:

	2019	2018
Medicare	\$ 157,952	\$ 149,842
Medicaid	16,687	20,090
Managed care and commercial	218,318	199,988
Self-pay	2,052	967
Total	<u>\$ 395,009</u>	<u>\$ 370,887</u>

Revenue from patients' deductibles and coinsurance is included in the categories presented above based on primary payor.

Note 14 - Nonoperating Losses - Net

Gains and losses not directly related to the ongoing operations of the System are reported as nonoperating. Other net nonoperating losses are summarized as follows:

	2019	2018
Medical office buildings, net of rental revenue of \$1,529 in 2019 and \$1,569 in 2018	\$ (1,959)	\$ (1,693)
Pension expense	(9,665)	(20)
Payments to counterparty on swap agreements	(110)	(160)
Community outreach services	(546)	(525)
Total	<u>\$ (12,280)</u>	<u>\$ (2,398)</u>

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 15 - Leases

The System is obligated under operating leases primarily for equipment and buildings, expiring at various dates through 2026. The weighted-average remaining lease term at December 31, 2019 is three years for operating leases. The weighted-average discount rate for operating leases is 2.10 percent at December 31, 2019. The lease require the System to pay taxes, insurance, utilities, and maintenance costs.

The System leases equipment under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments ranging from \$21 to \$44 are due monthly through 2024.

The System assesses whether it is reasonably certain to exercise an option to extend or terminate a lease at the lease commencement date. In this assessment, the System considers all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

When readily determinable, the System utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the System uses the risk-free rate and the term of the lease.

Expenses recognized under these leases consist of the following:

Years Ending December 31	Operating Leases	Finance Leases		Total
	Lease Expense	Amortization Expense	Interest Expense	Total Expense
2019	\$ 5,733	\$ 183	\$ 247	\$ 6,163

Operating lease expense, including items rented on a month-to-month basis, under operating leases was \$2,542 for the year ended December 31, 2018.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 15 - Leases (Continued)

Future minimum rent on noncancelable leases as of December 31, 2019 for each of the next five years, and in the aggregate, are as follows:

Years Ending December 31	Operating Leases	Financing Leases	Total Payments
2020	\$ 6,262	\$ 254	\$ 6,516
2021	4,744	262	5,006
2022	2,782	270	3,052
2023	1,739	278	2,017
2024	416	530	946
Thereafter	<u>388</u>	<u>-</u>	<u>388</u>
Total	16,331	1,594	17,925
Less amount representing interest	<u>510</u>	<u>-</u>	<u>510</u>
Present value of net minimum lease payments	15,821	1,594	17,415
Less current obligations	<u>6,006</u>	<u>254</u>	<u>6,260</u>
Long-term obligations under leases	<u>\$ 9,815</u>	<u>\$ 1,340</u>	<u>\$ 11,155</u>

Supplemental consolidated balance sheet information related to leases was as follows for 2019:

Finance lease assets	\$ 2,322
Finance lease assets accumulated amortization	<u>(1,767)</u>
Total	<u>\$ 555</u>

Note 16 - Retirement Plan

The System sponsors a defined contribution plan to which employees voluntarily contribute a percentage of their annual salary. In 2019 and 2018, the System matched 50 percent of the employee's contributions up to an additional 6 percent of the employee's annual salary. Benefit expense totaled \$2,809 and \$2,582 for the years ended December 31, 2019 and 2018, respectively.

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 17 - Professional, General, and Other Liability Insurance

Prior to August 1, 2011, the System provided coverage for professional, general liability, and workers' compensation through a combination of self-insured retentions and commercial insurance policies. Effective August 1, 2011, the System entered into a participation agreement with Western Reserve Assurance Co., Ltd. (Western Reserve), a multiprovider offshore captive insurance company that is a wholly owned subsidiary of UHHS. The System consolidates the assets and liabilities held in its segregated portfolio operated by Western Reserve on the System's behalf. Segregated portfolios, by law, do not have access or rights of any other segregated portfolio operated by Western Reserve. The participation agreement with Western Reserve provides for primary professional liabilities and primary general liability insurance coverage on a claims-made basis for substantially all of the System. The System purchases commercial insurance policies for automobile liability, heliport operations liability, commercial property liability, and excess workers' compensation. Western Reserve provides excess liability for the above risks through reinsurance agreements in place with unrelated commercial insurance companies. The System has stop-loss insurance for workers' compensation and employee healthcare claims.

Through Western Reserve, the System has set aside investments for the payment of the Health Center's professional liability claims, expenses, and settlements based on actuarial funding recommendations. The investments are \$17,002 (\$6,173 included in investments for current use) and \$13,883 (\$4,031 included in investments for current use) at December 31, 2019 and 2018, respectively. The provision for estimated self-insured professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Liability claims have been asserted that are in various stages of processing or are in litigation and are discounted at a rate of 2.0 percent and 2.5 percent for 2019 and 2018, respectively. There may also be incurred but unreported incidents, which may result in the assertion of additional claims. The System's recorded reserve for professional liability, including both the Health Center and Southwest General Medical Group, was \$18,830 and \$13,336 at December 31, 2019 and 2018, respectively, and is included in other liabilities and other long-term liabilities on the consolidated balance sheet.

The System's recorded reserve for workers' compensation claims was \$621 and \$635 at December 31, 2019 and 2018, respectively, and is included in other accrued liabilities and other liabilities on the consolidated balance sheet. The System's recorded reserve for employee health care was \$1,868 and \$1,700 at December 31, 2019 and 2018, respectively, and is included in other accrued compensation and related liabilities on the consolidated balance sheet.

Note 18 - Functional Expenses

The System provides healthcare services to patients within its geographic location. Expenses related to providing these services are as follows as of December 31:

	2019		
	Healthcare Services	General and Administrative	Total
Salaries, wages, and benefits	\$ 165,383	\$ 29,823	\$ 195,207
Supplies, insurance, and other	145,763	41,915	187,678
Depreciation and amortization	11,219	10,735	21,953
Interest	-	6,290	6,290
Total	<u>\$ 322,365</u>	<u>\$ 88,763</u>	<u>\$ 411,128</u>

Southwest Community Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(\$ in Thousands)

Note 18 - Functional Expenses (Continued)

	2018		
	Healthcare Services	General and Administrative	Total
Salaries, wages, and benefits	\$ 157,425	\$ 16,878	\$ 174,303
Supplies, insurance, and other	135,445	34,025	169,470
Depreciation and amortization	12,107	10,528	22,635
Interest	-	6,265	6,265
Total	<u>\$ 304,977</u>	<u>\$ 67,696</u>	<u>\$ 372,673</u>

The consolidated financial statements report certain categories of expenses that are attributable to either healthcare services or general and administrative functions. Some categories of natural class expenses are attributable to both. Therefore, the expenses require allocation on a reasonable basis that is consistently applied. General and administrative functions consist of corporate functions, such as legal, accounting, and information systems. The expenses that are allocated include salaries, wages, and benefits, which include allocations on the basis of estimates of time and effort.

Included in the functional expense tables above is \$13,809 for the year ended December 31, 2019 of nonoperating expenses included in the consolidated statement of operations.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Trustees
Southwest Community Health System
and Subsidiaries

We have audited the consolidated financial statements of Southwest Community Health System and Subsidiaries as of and for the year ended December 31, 2019 and have issued our report thereon dated April 1, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2019 consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 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, the information is fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Southwest Community Health System and Subsidiaries as of December 31, 2018 were audited by other auditors, whose report dated April 19, 2019 expressed an unqualified opinion on those statements.

Plante & Moran, PLLC

April 1, 2020

Southwest Community Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2019

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 23,136	\$ 608	\$ -	\$ 23,744
Patient accounts receivable	41,403	-	-	41,403
Other receivables - Net	2,194	48	-	2,242
Inventories	5,273	65	-	5,338
Due from affiliated organizations	69	15	(84)	-
Investments for current use	7,907	-	-	7,907
Prepaid expenses	9,761	9	-	9,770
Total current assets	89,743	745	(84)	90,404
Investments - Board-designated and Other	251,227	5,106	-	256,333
Investments - Self-insurance Reserve Funds	10,829	-	-	10,829
Property, Plant, and Equipment - Net	172,046	-	-	172,046
Right-of-use Operating Lease Assets	15,438	-	-	15,438
Finance Lease Assets	555	-	-	555
Other Assets	4,954	1,119	-	6,073
Total assets	\$ 544,792	\$ 6,970	\$ (84)	\$ 551,678

Southwest Community Health System and Subsidiaries

Consolidating Balance Sheet (Continued)

December 31, 2019

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Liabilities and Net Assets				
Current Liabilities				
Accounts payable:				
Accounts payable	\$ 18,660	\$ 21	\$ -	\$ 18,681
Due to affiliated organizations	15	69	(84)	-
Current portion of long-term debt	2,777	-	-	2,777
Current portion of lease liabilities - Operating	6,006	-	-	6,006
Current portion of lease liabilities - Financing	254	-	-	254
Estimated third-party payor settlements	3,473	-	-	3,473
Accrued liabilities and other:				
Accrued compensation and related liabilities	31,546	86	-	31,632
Drawable credited earnings due to UHHS	16,797	-	-	16,797
Other accrued liabilities	12,607	26	-	12,633
Total current liabilities	92,135	202	(84)	92,253
Long-term Debt - Net of unamortized debt issuance costs and premiums	147,001	-	-	147,001
Lease Liabilities - Operating	9,815	-	-	9,815
Lease Liabilities - Finance	1,340	-	-	1,340
Other Liabilities				
Accrued retirement benefits	31,501	-	-	31,501
Other long-term liabilities	18,524	-	-	18,524
Total liabilities	300,316	202	(84)	300,434
Net Assets				
Without donor restrictions	244,379	2,173	-	246,552
With donor restrictions	97	4,595	-	4,692
Total net assets	244,476	6,768	-	251,244
Total liabilities and net assets	<u>\$ 544,792</u>	<u>\$ 6,970</u>	<u>\$ (84)</u>	<u>\$ 551,678</u>

Southwest Community Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2018

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 29,123	\$ 775	\$ -	\$ 29,898
Patient accounts receivable	34,793	-	-	34,793
Other receivables - Net	4,189	246	-	4,435
Inventories	9,346	55	-	9,401
Due from affiliated organizations	5	128	(133)	-
Investments for current use	5,731	-	-	5,731
Prepaid expenses	9,006	1	-	9,007
Total current assets	92,193	1,205	(133)	93,265
Investments - Board-designated and Other	215,191	3,843	-	219,034
Investments - Self-insurance Reserve Funds	9,852	-	-	9,852
Property, Plant, and Equipment - Net	182,200	7	-	182,207
Other Assets	5,369	915	-	6,284
Total assets	\$ 504,805	\$ 5,970	\$ (133)	\$ 510,642

Southwest Community Health System and Subsidiaries

Consolidating Balance Sheet (Continued)

December 31, 2018

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Liabilities and Net Assets				
Current Liabilities				
Accounts payable:				
Accounts payable	\$ 23,069	\$ 12	\$ -	\$ 23,081
Due to affiliated organizations	128	5	(133)	-
Current portion of long-term debt	2,948	-	-	2,948
Estimated third-party payor settlements	3,144	-	-	3,144
Accrued liabilities and other:				
Accrued compensation and related liabilities	27,657	189	-	27,846
Drawable credited earnings due to UHHS	9,169	-	-	9,169
Other accrued liabilities	10,432	19	-	10,451
Total current liabilities	76,547	225	(133)	76,639
Long-term Debt				
Revenue bonds - Net of unamortized debt issuance costs and premiums	149,748	-	-	149,748
Capital lease obligation	1,594	-	-	1,594
Total long-term debt	151,342	-	-	151,342
Other Liabilities				
Accrued retirement benefits	34,737	-	-	34,737
Other long-term liabilities	15,844	-	-	15,844
Total liabilities	278,470	225	(133)	278,562
Net Assets				
Without donor restrictions	226,252	1,527	-	227,779
With donor restrictions	83	4,218	-	4,301
Total net assets	226,335	5,745	-	232,080
Total liabilities and net assets	<u>\$ 504,805</u>	<u>\$ 5,970</u>	<u>\$ (133)</u>	<u>\$ 510,642</u>

Southwest Community Health System and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2019

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Unrestricted Net Revenue				
Net patient service revenue	\$ 395,009	\$ -	\$ -	\$ 395,009
Other revenue	12,180	1,156	-	13,336
Total unrestricted net revenue	407,189	1,156	-	408,345
Expenses				
Salaries, wages, and benefits	184,471	343	-	184,814
Supplies, insurance, and other	184,837	163	-	185,000
Depreciation and amortization	21,208	7	-	21,215
Interest expense	6,290	-	-	6,290
Total expenses	396,806	513	-	397,319
Operating Income	10,383	643	-	11,026
Nonoperating Income (Expense)				
Tax levy receipts	870	-	-	870
Investment income	35,492	-	-	35,492
Other - Net	(12,280)	-	-	(12,280)
Total nonoperating income - Net	24,082	-	-	24,082
Excess of Revenue Over Expenses - Before drawable credited earnings due to UHHS	34,465	643	-	35,108
Drawable Credited Earnings Due to UHHS	(16,797)	-	-	(16,797)
Excess of Revenue Over Expenses	17,668	643	-	18,311
Net Assets Released from Restrictions for Capital	462	-	-	462
Increase in Net Assets without Donor Restrictions	<u>\$ 18,130</u>	<u>\$ 643</u>	<u>\$ -</u>	<u>\$ 18,773</u>

Southwest Community Health System and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2018

(In Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Eliminations	Consolidated Total
Unrestricted Net Revenue				
Net patient service revenue	\$ 370,887	\$ -	\$ -	\$ 370,887
Other revenue	12,168	693	-	12,861
Total unrestricted net revenue	383,055	693	-	383,748
Expenses				
Salaries, wages, and benefits	173,881	422	-	174,303
Supplies, insurance, and other	169,186	284	-	169,470
Depreciation and amortization	22,627	8	-	22,635
Interest expense	6,265	-	-	6,265
Total expenses	371,959	714	-	372,673
Operating Income (Loss)	11,096	(21)	-	11,075
Nonoperating Income (Expense)				
Tax levy receipts	786	-	-	786
Investment income	9,640	-	-	9,640
Other - Net	(2,398)	-	-	(2,398)
Total nonoperating income - Net	8,028	-	-	8,028
Excess of Revenue Over (Under) Expenses -				
Before drawable credited earnings due to UHHS	19,124	(21)	-	19,103
Drawable Credited Earnings Due to UHHS	(9,169)	-	-	(9,169)
Excess of Revenue Over (Under) Expenses	9,955	(21)	-	9,934
Contributions to the Foundation from Southwest General Health Center	(234)	234	-	-
Change in Unrealized Gains and Losses on Investments	(17,442)	(86)	-	(17,528)
Pension Adjustment	1,846	-	-	1,846
Net Assets Released from Restrictions for Capital	399	-	-	399
(Decrease) Increase in Net Assets without Donor Restrictions	\$ (5,476)	\$ 127	\$ -	\$ (5,349)