

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Saint Elizabeth Medical Center, Inc.
For the Year Ended December 31, 2018

Saint Elizabeth Medical Center, Inc.

Consolidated Financial Statements
and Supplementary Information

For the Year Ended December 31, 2018

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Independent Auditor's Report

To the Board of Trustees
Saint Elizabeth Medical Center, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Saint Elizabeth Medical Center, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of December 31, 2018 and 2017 and the related consolidated statements of operations and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saint Elizabeth Medical Center, Inc. and its subsidiaries as of December 31, 2018 and 2017 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, on January 1, 2018, the Organization adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, using the modified retrospective adoption method. On December 31, 2018, the Organization adopted the provisions of ASC Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*, using the retrospective adoption method. Our opinion is not modified with respect to these matters.

To the Board of Trustees
Saint Elizabeth Medical Center, Inc.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise Saint Elizabeth Medical Center, Inc. and its subsidiaries' consolidated financial statements. The additional information consisting of the consolidating balance sheet and consolidating statements of operations and changes in net assets is presented for the purpose of additional analysis and is not a required part of the basic 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the basic 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 basic consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2019 on our consideration of Saint Elizabeth Medical Center, Inc. and its subsidiaries internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saint Elizabeth Medical Center, Inc. and its subsidiaries internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 2, 2019

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

	December 31	December 31
	2018	2017
	<i>(in thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,569	\$ 40,465
Short-term investments <i>(Note 3)</i>	10,136	9,970
Patient accounts receivable <i>(Note 1)</i>	133,094	133,346
Inventories and supplies	30,627	28,003
Prepaid expenses and other current assets	22,773	20,339
Total current assets	<u>253,199</u>	<u>232,123</u>
Cash and cash equivalents - Restricted <i>(Note 1)</i>	7,701	34,917
Assets limited as to use <i>(Note 3)</i>	1,065,779	1,035,947
Property, plant and equipment, net <i>(Note 5)</i>	449,861	448,645
Goodwill <i>(Note 6)</i>	17,651	17,651
Intangible assets <i>(Note 6)</i>	9,032	9,045
Foundation pledge receivables	6,103	3,602
Other assets	<u>65,407</u>	<u>22,766</u>
Total assets	<u><u>\$ 1,874,733</u></u>	<u><u>\$ 1,804,696</u></u>

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

	December 31	December 31
	2018	2017
	<i>(in thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 64,304	\$ 79,236
Accrued employee compensation	126,030	84,668
Accrued interest	980	929
Accrued third-party settlements	27,294	12,629
Deferred revenue	4,178	5,191
Other current liabilities	7,052	9,264
Current portion of long-term debt <i>(Note 8)</i>	6,665	6,490
Long-term debt subject to short-term remarketing arrangements <i>(Note 8)</i>	–	27,225
Total current liabilities	236,503	225,632
Long-term debt <i>(Note 8)</i>	203,341	184,231
Liability for self-insurance	56,499	58,354
Accrued pension liability <i>(Note 11)</i>	20,635	26,474
Fair value of interest rate swap <i>(Note 8)</i>	5,265	3,451
Other long-term liabilities	29,928	7,007
Total liabilities	552,171	505,149
Net assets:		
Net assets without donor restriction	1,309,467	1,292,097
Net assets with donor restriction <i>(Note 1)</i>	13,002	7,450
Total net assets excluding noncontrolling interest	1,322,469	1,299,547
Noncontrolling interest	93	–
Total net assets	1,322,562	1,299,547
Total liabilities and net assets	\$ 1,874,733	\$ 1,804,696

Saint Elizabeth Medical Center, Inc.

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended	
	December 31 2018	December 31 2017
	<i>(in thousands)</i>	
Patient service revenue, net of contractual provisions and discounts	\$ —	\$ 1,277,373
Provision for bad debts	—	(48,730)
Patient service revenue <i>(Note 7)</i>	<u>1,272,997</u>	1,228,643
Net assets released from restriction for operations	702	672
Other revenue	<u>48,895</u>	37,537
Total revenue	<u>1,322,594</u>	1,266,852
Expenses:		
Salaries and wages	611,254	577,674
Employee benefits	160,451	138,270
Purchased services	89,798	81,396
Interest	5,964	5,633
Depreciation and amortization	70,467	69,338
Supplies	228,399	219,165
Other	<u>97,600</u>	90,280
Total expenses	<u>1,263,933</u>	1,181,756
Operating income	58,661	85,096
Unrestricted contributions	348	375
Other (losses) gains, net <i>(Note 3)</i>	<u>(34,492)</u>	118,865
Excess of revenue over expenses	24,517	204,336
Excess of expenses over revenue attributable to noncontrolling interest	<u>(126)</u>	497
Excess of revenue over expenses attributable to St. Elizabeth Medical Center, Inc.	24,643	203,839
Net assets without donor restriction:		
Pension change other than net periodic costs <i>(Note 11)</i>	(7,582)	71,078
Other	(79)	(80)
Net assets released from restriction for capital	<u>388</u>	605
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	17,370	275,442
Net assets with donor restrictions:		
Net increase in cash, cash equivalents, and restricted cash	6,642	2,861
Net assets released from restriction	<u>(1,090)</u>	(1,277)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	5,552	1,584
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	22,922	277,026
Non-controlling interest:		
Excess of expenses over revenue attributable to noncontrolling interest	(126)	497
Paid in capital/distributions to equity owners	<u>219</u>	—
Decrease in net assets attributable to noncontrolling interest	<u>93</u>	497
Increase in net assets	23,015	277,523
Net assets at beginning of period	<u>1,299,547</u>	1,022,024
Net assets at end of period	<u>\$ 1,322,562</u>	<u>\$ 1,299,547</u>

Saint Elizabeth Medical Center, Inc.

Consolidated Statements of Cash Flows

	December 31	December 31
	2018	2017
	<i>(in thousands)</i>	
Operating activities		
Increase in net assets	\$ 23,015	\$ 277,523
Adjustments to reconcile increase in net assets to net cash provided by operating activities and (gains) losses:		
Depreciation and amortization	70,467	69,338
Amortization of bond premium/discount and issuance costs	(1,237)	(1,341)
Provision for bad debts	–	48,730
Interest and dividends received on long-term investments	(20,345)	(20,407)
Net unrealized and realized losses (gains) on long-term investments	65,666	(97,431)
Change in pension other than net periodic costs	7,581	(71,078)
Change in fair value of interest rate swap	1,814	(743)
Changes in operating assets and liabilities:		
Patient accounts receivable	252	(57,116)
Inventory, supplies, prepaid expenses and other current assets	(5,059)	(3,075)
Other assets	(45,143)	(8,672)
Accounts payable	(14,931)	17,149
Other liabilities	60,271	(66,425)
Net cash provided by operating activities	<u>142,351</u>	<u>86,452</u>
Investing activities		
Change in short-term investments, net	(166)	(9,970)
Change in assets limited to use, net	(23,930)	(12,654)
Expenditures for property, plant, and equipment	(68,097)	(81,277)
Asset purchase acquisitions	(3,558)	–
Net cash used in investing activities	<u>(95,751)</u>	<u>(103,901)</u>
Financing activities		
Proceeds from long-term debt	–	20,000
Payments on long-term debt	(6,490)	(5,035)
Net cash (used) provided by financing activities	<u>(6,490)</u>	<u>14,965</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	40,110	(2,484)
Cash, cash equivalents, and restricted cash at beginning of period	91,108	93,592
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 131,218</u>	<u>\$ 91,108</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies

Organization and Mission

Saint Elizabeth Medical Center, Inc. (St. Elizabeth Healthcare or SEH) is a Kentucky Corporation founded by the Franciscan Sisters of the Poor in 1861. Sponsorship of St. Elizabeth Healthcare was transferred in 1973 to the Roman Catholic Diocese of Covington, Kentucky. St. Elizabeth Healthcare is comprised of St. Elizabeth Hospitals and Summit Medical Group, doing business as St. Elizabeth Physicians (SEP). St. Elizabeth Hospitals includes all hospital facilities of St. Elizabeth Healthcare, which are located in Covington, Edgewood, Florence, Fort Thomas, Williamstown, and Falmouth (through early 2018) Kentucky. St. Elizabeth Healthcare's primary mission is to provide comprehensive and compassionate care that improves the health of the people we serve. All significant intercompany balances and transactions have been eliminated in consolidation.

SEP has approximately 180 full-time equivalent primary care physicians, 133 full-time equivalent specialty physicians, and 122 advanced practice providers operating in 107 offices throughout Northern Kentucky, Ohio, and Indiana. SEP performs most of the physician billings for St. Elizabeth Healthcare's hospital facilities.

SEP Maysville Diagnostic Center (SEP MDC) was a radiological services joint venture between SEP and 15 physicians that was formed on September 4, 2012. SEP was the 51 percent majority partner of this joint venture and had a controlling interest in SEP MDC; therefore, SEP MDC was consolidated in SEP. SEP MDC was closed in 2017 and the joint venture was dissolved.

Bioskills Lab, LLC (Bioskills) is an orthopedic bioskills laboratory for surgical training joint venture between SEH and OrthoCincy Orthopaedics & Sports Medicine, P.S.C., that was formed on June 20, 2018. SEH is the 75 percent majority partner of this joint venture and has a controlling interest in Bioskills; therefore, Bioskills is consolidated in SEH.

The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) as of December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include investments with a maturity of three months or less when acquired or purchased, excluding amounts whose use is limited by Board designation or other arrangements under trust agreements. Cash and money market accounts are covered by the FDIC up to \$250,000, mutual funds by the SPIC up to \$500,000, and all treasury securities are automatically backed by the United States Government; however, the majority of St. Elizabeth Healthcare funds are not covered by these.

Restricted Cash

The bonds issued by St. Elizabeth Healthcare during the year ended December 31, 2015 required amounts to be set aside for the purpose of financing acquisition, construction, installation and equipping of facilities suitable for use by SEH as healthcare and health related facilities. These amounts were classified as restricted cash on the consolidated balance sheets in 2017. All funds have been utilized as of December 2018. The remaining amount in restricted cash is for restricted contributions.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows for years ended December 31:

	2018	2017
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 56,569	\$ 40,465
Cash and cash equivalents - Restricted	7,701	34,917
Cash and cash equivalents included in assets limited as to use	66,948	15,726
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 131,218	\$ 91,108

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 our 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 St. Elizabeth Healthcare's ability to collect outstanding amounts.

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, St. Elizabeth Healthcare 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.

Patient accounts receivable is based on the estimated transaction price for completed contracts, which total \$133,094,000 at December 31, 2018. Prior to the adoption of ASU 2014-09, patient accounts receivable at December 31, 2017 were \$143,615,000 less allowances for uncollectible accounts of \$10,269,000.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

The composition of receivables from patients and third-party payors at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	22%	25%
Medicaid	13	13
Anthem Blue Cross	16	17
Humana	3	3
United Healthcare	16	13
Other insurance and workers' compensation	17	14
Self-pay and residual self-pay	13	15
Total	<u>100%</u>	<u>100%</u>

Short-term Investments

Short term investments primarily include U.S. government obligations, corporate bonds, and asset-backed securities with weighted average maturities of one year or less.

Inventories

Inventories, which consist of medical, pharmaceutical, and other supplies, are stated at the lower of cost or net realizable value, on a first-in, first-out method. Quantities are determined by physical count.

Assets Limited as to Use and Investments

Assets limited as to use include assets designated by the Board for future capital improvement, over which the Board retain control, and may, as its discretion, subsequently use for other purposes. Assets limited as to use also include amounts designated for operating needs and amounts designated for self-insurance needs.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. The fair value of the hedge fund of funds, real estate funds, defensive equity funds, emerging markets funds,

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

infrastructure funds, and venture capital funds has been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the fund managers or general partners. Investment income or loss (including unrealized gains and losses on trading securities, realized gains and losses on investments, interest, and dividends) is included within excess of revenue over expenses unless the income or loss is restricted by donor or law. Substantially all investments are classified as trading securities.

Fair Value Measurements

St. Elizabeth Healthcare follows the provisions of Accounting Standard Codification (ASC) 820, *Fair Value Measurement and Disclosure*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement; therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities that St. Elizabeth Healthcare has the ability to access.

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

- Level 3 – Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances whereby the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. St. Elizabeth Healthcare's assessment of the significance of a

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, St. Elizabeth Healthcare utilized three basic valuation approaches to determine fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of St. Elizabeth Healthcare, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of St. Elizabeth Healthcare's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as the cash flow approach).

Derivative Instruments

St. Elizabeth Healthcare has entered into certain interest rate swap arrangements in connection with its debt. Under ASC 815, *Derivatives and Hedging*, St. Elizabeth Healthcare records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. The remaining derivative balance in net assets to be amortized on previously designated hedges excluded from the excess of revenue over expenses was \$998,000 and \$1,068,000 at December 31, 2018 and 2017, respectively. The accumulated derivative asset on previously designated hedges is being amortized as a reduction to interest expense through 2033, which is when the swap agreement expires. As of December 31, 2018 and 2017, St. Elizabeth Healthcare reduced its interest expense by \$70,000 each period for amortization of the accumulated derivative asset on previously designated hedges.

The derivative obligation at December 31, 2018 and 2017 was \$5,265,000 and \$3,451,000, respectively. The change in the fair market value of interest rate swaps is included within other gains (losses), net within excess of revenue over expenses.

Property, Plant, and Equipment and Depreciation

Property, plant, and equipment is recorded at historical cost, or if donated, impaired, or acquired under a business combination, at fair market value at the date of receipt or determination. The assets are depreciated over their estimated useful lives using the straight-line method. Buildings, building services, and land improvements are depreciated over 3 to 40 years and equipment is depreciated over 3 to 20 years. Useful lives of assets are estimated by management in

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

conjunction with the American Hospital Association's *Estimated Useful Lives of Depreciable Hospital Assets*.

Goodwill and Intangible Assets

Identifiable intangible assets subject to amortization consist primarily of exclusivity and non-competition agreements. Amortization of the intangible assets is calculated using the straight-line method over estimated lives of the exclusivity and non-compete agreements ranging from one to twenty years.

St. Elizabeth Healthcare annually performs an evaluation of goodwill for impairment considering qualitative and quantitative factors.

Foundation Pledges Receivables

Pledges received for unconditional promises to give are recorded as revenue in the year made by the donor. Pledges to give cash, marketable securities, and other assets are reported at fair value and discounted to present value at the date the pledge is made to the extent estimated to be collectible. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as net assets with donor restrictions until the donor restriction expires.

Other Assets

Other assets include investments in joint ventures and limited liability partnerships, which are accounted for on the equity method of accounting. These investments were \$13,369,000 and \$4,730,000 as of December 31, 2018 and 2017, respectively. Other assets also include the plan assets of a 457(b) plan, as well as a non-qualified welfare benefit plan, both available to certain employees of St. Elizabeth Healthcare. Each of these balances are included in other assets on the consolidated balance sheet.

Unamortized Bond Issue Costs

Debt issuance costs are recorded as a reduction in the recorded balance of outstanding debt. The costs are amortized over the term of the related debt and reported as a component of interest expense.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Malpractice and General Liability Contingencies

St. Elizabeth Healthcare maintains a policy of self-insuring its professional liability risks for individual losses up to specified amounts per claim. In addition, the self-insurance plan has specified annual aggregate limits. St. Elizabeth Healthcare carries insurance coverage for incidents that would exceed coverages specified by the self-insurance program.

Because of the nature of its operations, St. Elizabeth Healthcare is, at all times, subject to pending and threatened legal actions, which arise in the normal course of its activities.

Malpractice and general liability claims for incidents that may give rise to litigation have been asserted against St. Elizabeth Healthcare by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2018 that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients; however, because the annual excess insurance policy covers only claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by excess insurance. The liability for medical malpractice at December 31, 2018 and 2017 includes estimated amounts for claims and related legal expenses for these unreported incidents.

At December 31, 2018 and 2017, St. Elizabeth Healthcare's management recorded its best estimate of these contingent losses based upon recommendations of professional actuaries. Recorded malpractice and general liability self-insurance liabilities, discounted at 1.10 percent, are adequate in management's opinion. As the actuarially determined accrual for professional and general liability is an estimate, the possibility exists that the estimate could be revised by a material amount.

St. Elizabeth Healthcare established a trust for the purpose of malpractice and general liability self-insurance liability, setting aside assets based on actuarial funding recommendations; this amount is included in assets limited as to use.

St. Elizabeth Healthcare is also self-insured for workers' compensation, unemployment compensation, and employee medical insurance coverage. At December 31, 2018 and 2017, St. Elizabeth Healthcare's management recorded its best estimates of known and incurred, but not reported claims for losses. Recorded self-insured liabilities are adequate in management's opinion.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by St. Elizabeth Healthcare has been limited by donors to a specific time period or purpose. Some of the larger restricted assets are for the Clinical Research Institute, heart and vascular care, cancer care, women's wellness, hospice, and Vision (an associate led campaign to give back to their community and fellow associates in crisis). These funds are to cover facilities, equipment, research, education, supplies, and other specified expense.

At December 31, 2018 and 2017, net assets with donor restrictions of \$13,002,000 and \$7,450,000, respectively, were subject to expenditure for specified purpose.

Revenue Recognition – Patient Service Revenue

St. Elizabeth Healthcare recognizes patient service revenue at the time in which performance obligations are satisfied. These amounts are due from patient, third-party payors, (including managed care and governmental programs), and others are subject to contractual adjustments, discounts, and implicit price concessions and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Patients are generally billed when discharged, though they may be billed on an interim basis for longer stays.

St. Elizabeth Healthcare determines performance obligations based on the nature of the services provided in both outpatient and inpatient settings. Revenue is recognized for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or other clinical settings. St. Elizabeth Healthcare measures the performance obligation from admission into the hospital, or the commencement of an outpatient services or other visit, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services or other visit.

Accordingly, because all of the St. Elizabeth Healthcare's performance obligations are part of a contract that is expected to have duration of one year or less, St. Elizabeth Healthcare has elected to apply the exemption provided by ASC 606-10-50-14(a) to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of period end.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

St. Elizabeth Healthcare determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided, and implicit price concessions provided primarily to uninsured patients. St. Elizabeth Healthcare determines its estimates of contractual adjustments and discounts based on the historical collection experience, adjusted for current environmental risks and trends for each major payor source.

In assessing collectability, management elected the portfolio approach as St. Elizabeth Healthcare has large volume of similar contracts with similar classes of customers. Management reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Revenue Recognition – Other Operating Revenue

Other operating revenue consists of income (loss) from equity ventures, pharmacy, gift shop, cafeteria sales, and sundry revenues related to the operations of St. Elizabeth Healthcare. These revenues are recorded at a point-in-time or over time based on the nature of the services provide. For the year ended December 31, 2018 and 2017, St. Elizabeth Healthcare recognized \$24,054,000 and \$14,975,000 of other operating revenues at a point-in-time.

Charity Care

St. Elizabeth Healthcare provides care, without charge or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Amounts determined to qualify as charity care are not reported as patient service revenue. The cost to St. Elizabeth Healthcare to provide charity care was approximately \$10,339,000 and \$12,365,000 for the years ended December 31, 2018 and 2017, respectively. The cost to St. Elizabeth Healthcare to provide charity care was determined through application of the ratio of patient costs to charges, per Schedule H of Form 990 filed with the Internal Revenue Service, to current-year charity care charges included as a deduction from gross patient revenue.

The Affordable Care Act (ACA) was passed to provide Americans better access to health care coverage. A major component of increasing access to coverage was new federal funding for

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

states to expand their Medicaid eligibility to 138 percent of the Federal Poverty Level. Previously these patients qualified under the Kentucky State Indigent Program and were included in St. Elizabeth Healthcare's charity care program. As a result of Kentucky choosing to participate in the Medicaid expansion program, charity care has been lower in 2018 and 2017 and the number of patients eligible for Medicaid has increased. The percent of Medicaid patient service revenue to total patient service revenue was 14 percent and 13 percent in 2018 and 2017, respectively.

Federal law requires that state Medicaid programs make Disproportionate Share Hospital (DSH) payments to qualifying hospitals that serve a large number of Medicaid and uninsured individuals. Uninsured individuals qualified under the Kentucky DSH/Indigent program are reported under hospital charity. St. Elizabeth Healthcare recognized \$8,077,000 and \$11,412,000 for the years ended December 31, 2018 and 2017, respectively, which were recognized as an offset to charity deductions. The lower 2018 DSH payment was the result of a change in the method of how the DSH funds are allocated to the hospitals. St. Elizabeth Healthcare also paid provider tax to the State in the amounts of \$12,550,000 and \$12,551,000 for the years ended December 31, 2018 and 2017, respectively, and recorded these amounts to other operating expense. Kentucky uses these taxes to draw matching DSH funds from the federal government. St. Elizabeth Healthcare's deferred revenue balance sheet amounts related to these DSH payments were \$3,595,000 and \$5,077,000 for years ended December 31, 2018 and 2017, respectively.

Tax Status

No provision has been made for income taxes since St. Elizabeth Healthcare is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation by the Internal Revenue Service. Management has analyzed the tax positions taken by St. Elizabeth Healthcare and has concluded that as of December 31, 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. St. Elizabeth Healthcare is not currently under examination by the Internal Revenue Service or any state or local tax authorities. St. Elizabeth Healthcare's federal tax returns for the year ended prior to December 31, 2015 and prior years are no longer subject to examination as the statute of limitations has expired for those years.

Contributions

Contributions are recorded at fair value in the period received or pledged. Donor-restricted contributions are reported as net assets 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,

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

when the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor-restricted contributions whose restrictions are met within the same year as received are accounted for as net assets without donor restrictions.

Consolidated Statements of Operations and Changes in Net Assets

For the purpose of reporting, transactions deemed by management to be directly related to the provision of healthcare services are reported as revenue and expenses from operations. Operating revenues include those generated from direct patient care, related support services, income (loss) from equity ventures in core business patient service facilities, gains (losses) on the disposition of assets, and sundry revenues related to the operations of St. Elizabeth Healthcare.

Nonoperating income (expense) includes realized gains on investments, interest and dividend income, change in net unrealized (losses) gains on investments, change in fair market value of interest rate swaps, other periodic pension cost excluding service cost, contributions, and other nonoperating activity.

The consolidated statements of operations and changes in net assets includes excess of revenue over expenses. Excluded from excess of revenue over expenses, consistent with industry practice, are pension changes other than net periodic costs, net assets released from restrictions used for capital, amortization of previously hedged interest rate swaps, and the write-off of the unamortized balance on previously hedged interest rate swaps.

Upcoming Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the St. Elizabeth Healthcare's year ending December 31, 2019 and will be applied using a modified retrospective transition method. Management expects that this new standard will significantly increase short and long-term assets and liabilities upon adoption. The effects on the results of operations are not expected to be significant.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Effective January 1, 2018, St. Elizabeth Healthcare adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”) using a modified retrospective method of application to all contracts existing on January 1, 2018. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 resulted in changes to St. Elizabeth Healthcare’s presentation for disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of St. Elizabeth Healthcare’s provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance and amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to operating revenues, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the year ended December 31, 2018, St. Elizabeth Healthcare recorded approximately \$45,863,000 of implicit price concessions as a direct reduction of patient service revenues that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09. At December 31, 2018, St. Elizabeth Healthcare recorded approximately \$8,658,000 as a direct reduction of accounts receivable that would have been reflected as allowance for doubtful accounts prior to the adoption of ASU 2014-09. The adoption of ASU 2014-09 also resulted in changes to St. Elizabeth Healthcare’s presentation and disclosure of customer contract assets and liabilities and the assessment of variable consideration under customer contracts, which are further discussed in Note 7. There was no effect on the opening balance of net assets as a result of adopting ASU 2014-09 as of January 1, 2018.

As of December 31, 2018, St. Elizabeth Healthcare adopted ASU No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by St. Elizabeth Healthcare, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the following financial information at December 31, 2017 has been restated: net assets of \$7,450,000 previously reported as temporarily restricted net assets are now classified as net assets with donor restrictions.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

2. Availability and Liquidity

The following reflects St. Elizabeth Healthcare's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	December 31, 2018
	<i>(in thousands)</i>
Cash and cash equivalents	\$ 56,569
Short-term investments	10,136
Patient accounts receivable	133,094
Cash and cash equivalents – Restricted	7,701
Assets limited to use	1,065,779
Foundation pledge receivables	6,103
Other assets	3,790
Financial assets at year-end	\$ 1,283,172
Less amounts not available to be used within one year, due to:	
Contractual or donor-imposed restrictions:	
Patient accounts receivable	(493)
Cash and cash equivalents – Restricted	(7,701)
Foundation pledges receivable	(5,955)
Other assets	(3,790)
Board designations:	
Assets limited to use designated for capital needs (Note 3)	(1,012,740)
Assets limited to use to self-insurance needs (Note 3)	(53,039)
Total	(1,083,718)
Financial assets available to meet general expenditures within one year	\$ 199,454

St. Elizabeth Healthcare has certain board designated assets limited to use, which are more fully described in Note 3. These amounts are not available for general expenditure within the next year; however, the board designated amounts could be made available, if necessary.

As part of St. Elizabeth Healthcare's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. St. Elizabeth Healthcare has a goal to maintain financial assets, which consist of cash and

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

2. Availability and Liquidity (continued)

cash equivalents, short-term investments, and patient accounts receivable, on hand to meet 30 days of normal operating expenses, which are on average approximately \$105,530,000.

As fully described in Note 8, St. Elizabeth Healthcare also has a committed line of credit in the amount of \$40,000,000, which it could draw upon in the event of an unanticipated liquidity need.

As of December 31, 2018, St. Elizabeth Healthcare was in compliance with required debt covenants outlined in Note 8.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

3. Assets Limited as to Use and Investments

The following is a description of the aggregate carrying amount of assets limited as to use and investments by major type of investment carried at fair value for the different investment groupings:

	December 31, 2018	December 31, 2017
	<i>(in thousands)</i>	
Money market funds	\$ 66,948	\$ 15,726
U.S. government obligations	40,618	40,902
Asset-backed securities	79,005	75,534
Corporate bonds	81,518	67,429
Municipal bonds	13,218	12,482
Foreign bonds	12,557	10,538
Government-backed securities	15,899	13,220
Federal agency bonds	1,051	494
Common stock	187,874	216,187
Mutual funds:		
Large cap core	18	16
All cap core	26,589	31,316
Mid cap core	40,864	45,025
International large cap	74,106	91,793
International small cap	24,791	31,204
International emerging markets	27,751	33,298
Fixed income	6,425	51,779
Hedge fund of funds	114,783	129,261
Real estate funds	157,889	135,354
Infrastructure funds	6,709	-
Defensive equity fund	55,822	-
Emerging markets fund	41,414	44,359
Venture capital fund	66	-
Total assets limited as to use and investments	\$ 1,075,915	\$ 1,045,917
Assets limited as to use and investments:		
Internally designated for operating needs	\$ 10,136	\$ 9,970
Internally and board-designated for capital needs	1,012,740	980,545
Designated for self-insurance needs	53,039	55,402
Total assets limited as to use and investments	\$ 1,075,915	\$ 1,045,917

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

3. Assets Limited as to Use and Investments (continued)

Other gains (losses), net is comprised of the following for the years ended December 31:

	2018	2017
	<i>(in thousands)</i>	
Realized gains on sales of investments, net	\$ 5,926	\$ 16,376
Interest and dividend income, net	20,345	20,407
Change in unrealized (losses) gains on investments, net	(71,592)	81,055
Total investment (loss) income	(45,321)	117,838
Change in fair market value of interest rate swap	(1,814)	743
Other periodic pension cost excluding service cost	6,776	(2,112)
Other	5,867	2,396
Total	\$ (34,492)	\$ 118,865

4. Assets and Liabilities Measured at Fair Value

Cash and Cash Equivalents and Assets Limited as to Use

St. Elizabeth Healthcare's cash and cash equivalents and assets limited as to use, except for investments valued at net asset value, which are further defined in this footnote, are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency. The types of instruments based on quoted market prices in active markets include common stock, mutual funds, and money market securities (cash and cash equivalents). Such instruments are generally classified within Level 1 of the fair value hierarchy. St. Elizabeth Healthcare does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most U.S. government obligations, preferred stock, investment-grade and high-yield corporate bonds, foreign bonds, and asset-backed securities. Fair values are primarily obtained from third-party pricing services for identical or comparable assets or liabilities. Such instruments are generally classified within Level 2 of the fair value hierarchy. Primarily all of St. Elizabeth Healthcare's marketable debt securities, including asset-backed obligations, are actively traded and the recorded fair value reflects current market conditions; however, due to the volatility in the investment market, there is at least a reasonable possibility that recorded investment values may change by a material amount in the near term.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level of input that is significant to the fair value measurement in its entirety. The following is a summary of the inputs and valuation techniques as of December 31, 2018 and 2017 used for valuing Level 2 financial instruments:

Financial Instrument	Input	Valuation Technique
U.S. government obligations	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
Corporate and foreign bonds	Broker/dealer	Market
Municipal bonds	Broker/dealer	Market
Government-backed securities	Broker/dealer	Market/income
Federal agency bonds	Broker/dealer	Market
Common collective trust	Broker/dealer	Market

Interest Rate Swap Agreements

St. Elizabeth Healthcare participates in interest rate swap agreements to manage its exposures to fluctuations in interest rates and overall long-term debt portfolio. The interest rate swap agreements are contracts between St. Elizabeth Healthcare and third parties (counterparties) that provide for economic payments between parties based on changes in notional amounts and defined interest rates. The risk of the interest rate swap agreements is estimated and managed on an ongoing basis by St. Elizabeth Healthcare. St. Elizabeth Healthcare's interest rate swap agreements are not traded on an exchange. The valuation of the interest rate swap agreements is determined using widely accepted valuation techniques, including a discounted cash flow analysis on the expected cash flows of each interest rate swap agreement. The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreements, including the period to maturity and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. To comply with the provisions of ASC 820, St. Elizabeth Healthcare incorporated a credit valuation adjustment to appropriately reflect nonperformance risk in the fair value measurements. Although St. Elizabeth Healthcare has determined that certain of the inputs used to value its interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by St. Elizabeth Healthcare or the counterparties. As a result, St. Elizabeth Healthcare has determined that its interest rate swap agreements in their entirety are classified in Level 3 of the fair value hierarchy.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

The following table summarizes St. Elizabeth Healthcare's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018, aggregated by the level in the fair value hierarchy within which those measurements are measured:

	Fair Value Measurement Using			
	Fair Value at December 31, 2018	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(in thousands)</i>			
Assets limited as to use and investments				
Money market funds	\$ 66,948	\$ 66,948	\$ —	\$ —
U.S. government obligations	40,618	—	40,618	—
Asset-backed securities	79,005	—	79,005	—
Corporate bonds	81,518	—	81,518	—
Municipal bonds	13,218	—	13,218	—
Foreign bonds	12,557	—	12,557	—
Government-backed securities	15,899	—	15,899	—
Federal agency bonds	1,051	—	1,051	—
Common stock	187,874	187,874	—	—
Mutual funds:				
Large cap core	18	18	—	—
All cap core	26,589	26,589	—	—
Mid cap core	40,864	40,864	—	—
International large cap	74,106	74,106	—	—
International small cap	24,791	24,791	—	—
International emerging markets	27,751	27,751	—	—
Fixed income	6,425	6,425	—	—
Assets measured at fair value levels	\$ 699,232	\$ 455,366	\$ 243,866	\$ —
Hedge fund of funds	114,783	—	—	—
Real estate funds	157,889	—	—	—
Infrastructure funds	6,709	—	—	—
Defensive equity fund	55,822	—	—	—
Emerging markets fund	41,414	—	—	—
Venture capital fund	66	—	—	—
Total assets limited as to use and investments	\$ 1,075,915	\$ 455,366	\$ 243,866	\$ —
Liabilities - Fair value of interest rate swaps	\$ 5,265	\$ —	\$ —	\$ 5,265

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

The following table summarizes St. Elizabeth Healthcare's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017, aggregated by the level in the fair value hierarchy within which those measurements are measured:

	Fair Value Measurement Using			
	Fair Value at December 31, 2017	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(in thousands)</i>			
Assets limited as to use and investments				
Money market funds	\$ 15,726	\$ 15,726	\$ –	\$ –
U.S. government obligations	40,902	–	40,902	–
Asset-backed securities	75,534	–	75,534	–
Corporate bonds	67,429	–	67,429	–
Municipal bonds	12,482	–	12,482	–
Foreign bonds	10,538	–	10,538	–
Government-backed securities	13,220	–	13,220	–
Federal agency bonds	494	–	494	–
Common stock	216,187	216,187	–	–
Mutual funds:				
Large cap core	16	16	–	–
All cap core	31,316	31,316	–	–
Mid cap core	45,025	45,025	–	–
International large cap	91,793	91,793	–	–
International small cap	31,204	31,204	–	–
International emerging markets	33,298	33,298	–	–
Fixed income	51,779	51,779	–	–
Assets measured at fair value levels	<u>\$ 736,943</u>	<u>\$ 516,344</u>	<u>\$ 220,599</u>	<u>\$ –</u>
Hedge fund of funds	129,261	–	–	–
Real estate funds	135,354	–	–	–
Emerging markets fund	44,359	–	–	–
Total assets limited as to use and investments	<u>\$ 1,045,917</u>	<u>\$ 516,344</u>	<u>\$ 220,599</u>	<u>\$ –</u>
Liabilities - Fair value of interest rate swaps	<u>\$ 3,451</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,451</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

St. Elizabeth Healthcare’s policy is to recognize transfers in and transfers out of Level 1, 2 and 3 fair value classifications as of the end of the reporting period. There were no significant transfers between levels for the years ended December 31, 2018 and 2017.

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

The following table is a roll forward of the consolidated balance sheets amounts for financial instrument liabilities classified by St. Elizabeth Healthcare within Level 3 of the fair value hierarchy defined above:

	Interest Rate Swaps	
	2018	2017
	<i>(in thousands)</i>	
Balance at January 1	\$ (3,451)	\$ (4,194)
Addition of interest rate swap	(3,494)	–
Change in fair market value of interest rate swaps	1,680	743
Balance at December 31	\$ (5,265)	\$ (3,451)

Investments in Entities that Calculate Net Asset Value per Share

The following description of funds is applicable to funds included in the assets limited as to use and/or the funds included in the defined benefit pension plan assets in Note 11. They include hedge fund of funds, real estate funds, private equity funds, defensive equity funds, emerging markets funds, infrastructure funds, and venture capital funds. The fair value of these investments in this class has been estimated using the net asset value per share of the investment company. The change in the fair value of the investments valued at net asset value is included in the other gains (losses), net within excess of revenue over expenses.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

Hedge Fund of Funds

The hedge fund of funds investments are comprised of William Blair Marble Place TE Fund, L.P. (William Blair), AQR GRP EL Offshore Fund, Ltd. (AQR), Evanston Capital Management Weatherlow Fund I L.P. (Evanston), and Magnitude International (Magnitude).

William Blair Marble Place TE, L.P.

The William Blair partnership operates as a “fund of funds”, which is a vehicle that pursues its investment objective by investing in other investment companies. Through its investment in the hedge funds, the partnership is invested, indirectly, primarily in debt obligations, preferred stock, common stocks, warrants, futures, forward and option contracts on currencies, metals, financial instruments, stock indices, energy and agricultural commodities, and other derivative securities, many of which are likely to be speculative in character. There were no unfunded commitments at December 31, 2018 or 2017.

In March 2016, the St. Elizabeth Healthcare Investment Committee voted to terminate its partnership with William Blair and redeem one hundred percent of its investment. Subsequent to this, the partnership voted to close the fund. The redemption is being disbursed to St. Elizabeth Healthcare according to terms agreed upon by all William Blair partners pursuant to the closing of the fund. The termination of the final manager within the fund did not occur until late 2017, which delayed the final closing of the fund. St. Elizabeth received final distribution from William Blair in 2018.

AQR GRP EL Offshore Fund, Ltd.

AQR operates a diversified set of global risks covering equities, government bonds, and commodities. These include exposure to global developed and emerging stocks, global inflation protected bonds, and other exposures. There were no unfunded commitments at December 31, 2018 or 2017.

Partial or complete redemptions may be voluntarily made from the shareholder’s shares in the fund, upon at least five business days’ prior written notice. The fund may delay the redemption payment if the redemption has a material adverse impact on the fund.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

Evanston Capital Management Weatherlow Fund I L.P.

Evanston is a multi-manager, multi-strategy “fund-of-funds” managed by Evanston Capital Management, LLC that invests predominantly in U.S. and non-U.S. investment funds managed by independent portfolio managers that employ diverse alternative investment strategies across a variety of asset classes. There were no unfunded commitments at December 31, 2018 or 2017.

Any capital contributions to Evanston must be invested in the fund for at least 36 full calendar months, effective March 1, 2015. St. Elizabeth Healthcare may withdraw the value of its capital account as of the last day of the calendar quarter that falls on or immediately after such capital contribution has been invested in Evanston for at least 36 full calendar months with at least 65 days written notice prior to the applicable redemption date.

In August 2017, the St. Elizabeth Healthcare Investment Committee voted to terminate its partnership with Evanston and redeem one hundred percent of its investment. The redemption is being disbursed to St. Elizabeth Healthcare according to terms of the partnership agreement. As of December 31, 2018, disbursements equaling 95 percent of St. Elizabeth Healthcare’s assets had been processed by Evanston; the remaining 5 percent of St. Elizabeth Healthcare’s assets will be disbursed upon completion of Evanston’s 2018 financial statement audit, which is expected to be completed in April 2019.

Magnitude International

Magnitude fund is a global, multi-strategy “fund-of-funds” managed by Magnitude Capital, LLC. Magnitude’s investment strategies can involve the purchase and sale of various financial instruments, including but not limited to stocks, bonds, options, futures contracts, derivative instruments, insurance and reinsurance-related products, and cash and cash equivalents. St. Elizabeth Healthcare has subscribed to Magnitude’s Class A shares. There were no unfunded commitments at December 31, 2018 or 2017.

Partial or complete redemptions can be made as of the last day of any calendar quarter with at least 65 days written notice prior to the applicable redemption date.

Real Estate Funds

The real estate investments are comprised of Morgan Stanley Prime Property Fund (PRIME) and Principal Enhanced Property Fund, L.P. (Principal Property).

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

Morgan Stanley Prime Property Fund

PRIME is a core fully-specified, open-end commingled equity real estate investment fund diversified by property type and geographic location across the United States. The focus is on high-quality office buildings, Class A multifamily communities, warehouse distribution and storage facilities, and top tier super regional malls and shopping centers in targeted primary markets. There were no unfunded commitments at December 31, 2018 or 2017.

PRIME does not have a lockout period for invested funds. The agreement may be terminated by either party without penalty upon 90 days' written notice. There is no withholding if a partial redemption is requested; however, a full redemption request only allows a 90 percent payout of the previous month-end balance. The remaining 10 percent will be paid out on the fifth business day following the quarter end to ensure the correct PRIME share price.

Principal Enhanced Property Fund, L.P.

Principal Property is an open-end, commingled fund which invests in U.S. real estate properties and portfolios. Principal Property invests only in office, retail, industrial and multifamily properties in U.S. markets with metropolitan statistical areas populations greater than one million. There were no unfunded commitments at December 31, 2018 or 2017.

After the first anniversary of an investor's initial contribution (and earlier in limited circumstances), withdrawals will be permitted on a quarterly basis with at least 90 days' notice, subject to available capital.

Private Equity Funds

The private equity investments are comprised Fort Washington Fund VIII (Fund VIII) and Fort Washington Fund IX (Fund IX). These investments are held in the defined benefit pension assets portfolio only, which is disclosed in Note 11.

Fort Washington Fund VIII

Fund VIII is a private equity fund of funds that was formed by Fort Washington Capital Partners Group. Fund VIII will endeavor to realize capital appreciation primarily by investing in a

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

diversified portfolio of leading private equity funds including buyout, venture capital/growth equity, and special situations funds (primarily distressed, credit, and real assets), among others up to 20 percent of capital in secondary investments, structured transactions and direct investments, and up to 30 percent of the private equity fund investments in international funds. Fund VIII will have a maximum limitation of 10 percent of its capital in any one investment. As of December 31, 2018 and 2017, St. Elizabeth had unfunded commitments of \$3,400,000 and \$4,300,000, respectively.

Fund VIII does not have a redemption period or redemption frequency. Limited Partners can request an assignment of interest at the General Partner's discretion. The investment period is four years from the final closing date (October 2014). The commitment term is 10 years after the expiration of the investment period, subject to three one-year extensions with the consent of the advisory committee.

Fort Washington Fund IX

Fund IX is a private equity fund of funds that was formed by Fort Washington Capital Partners Group in 2016. The final closing of the fund was held in April, 2017. Similar to Fund VIII, Fund IX seeks to realize capital appreciation primarily by investing in a diversified portfolio of leading private equity funds including buyout, venture capital, growth equity, real assets and special situations; up to 20 percent of capital in secondary investments, structured transactions, and direct investments; and up to 30 percent of the private equity fund investments in international funds. Fund IX will have a maximum limitation of 10 percent of its capital in any one investment. As of December 31, 2018 and 2017, St. Elizabeth Healthcare had unfunded commitments of \$3,850,000 and \$4,100,000, respectively.

Fund IX does not have a redemption period or redemption frequency. Limited Partners can request an assignment of interest at the General Partner's discretion. The investment period is four years from the final closing date. The commitment term is 12 years after the expiration of the investment period, subject to two one-year extensions with the consent of the advisory committee.

Infrastructure Funds

The infrastructure investment are comprised of J.P. Morgan Infrastructure Investments Fund (IIF) and IFM Global Infrastructure (Global Infrastructure).

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

J.P. Morgan Infrastructure Investments Fund

IIF is managed by J.P. Morgan Asset Management. The purpose of IIF is to invest in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-Operation and Development with a primary focus on the US, Canada, Western Europe, and Australia. These assets may include toll roads, bridges, tunnels, oil and gas pipelines, electricity transmission and distribution facilities, contracted power generation assets, communication assets, water distribution and wastewater collection and processing assets, railway lines and rapid transit links, seaports and airports. St. Elizabeth Healthcare had no unfunded commitments as of December 31, 2018 and \$6,600,000 of unfunded commitments as of December 31, 2017.

IIF is subject to a 4 year soft lock period. Redemptions are possible prior to the expiration of the 4 year term, but are subject to a 4 percent penalty. After the initial term has expired, funds may be redeemed with 60 days written notice. These investments are held in the defined benefit pension asset portfolio only.

IFM Global Infrastructure

Global Infrastructure makes investments into infrastructure assets and companies located principally in Europe and the Americas. Global Infrastructure invests in a diversified portfolio of global infrastructure assets. Infrastructure consists of physical facilities for the delivery, generation and transportation of energy, information, people, products and real property from which services to the community or government are delivered. The target investment sub-sectors are: electricity generation, transmission and distribution including renewable energy, gas transmission, distribution, processing and storage, toll roads, rail infrastructure, seaports, airports, marine terminals, steam and hot air supply, water and waste water, pipelines and related infrastructure, telecommunications infrastructure, social infrastructure with principally government backed cash flow (e.g. hospitals, schools, aged care, courthouses, community housing, etc.) and infrastructure assets. St. Elizabeth Healthcare had an unfunded commitment of \$45,000,000 at December 31, 2018 and no unfunded commitment at December 31, 2017.

Partial or complete redemptions can be made as of the end of each calendar quarter with at least 90 days written notice prior to the applicable redemption date.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

Defensive Equity Fund

Neuberger Berman U.S. Equity Index PutWrite Fund LLC

Neuberger Berman U.S. Equity Index PutWrite Fund LLC (Neuberger) is company that seeks long-term growth of capital through a strategy of writing collateralized put options on the S&P 500 Index. Neuberger attempts to generate returns through the receipt of option premiums from selling puts, as well as through investments in fixed income instruments, which collectively are intended to reduce volatility relative to holding the underlying equity index on which the options are written due to the receipt of income from options and fixed income instruments. There were no unfunded commitments at December 31, 2018 or 2017.

Partial or complete redemptions can be made monthly with at least 7 days written notice prior to the applicable redemption date.

Emerging Markets Fund

Logan Circle Partners Emerging Markets Debt, L.P.

The Logan Circle Partners Emerging Markets Debt, L.P. (Logan Circle) is a newly established limited partnership, which invests primarily in debt securities of issuers located in emerging market countries. Emerging market countries are countries that major international financial institutions, such as the World Bank, generally consider to be less economically mature than developed nations. Emerging market countries can include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. Logan Circle normally will hold fixed-income securities of government and government-related issuers and corporate issuers in emerging market countries. The investment adviser may invest in capital securities, which are hybrid securities that combine the characteristics of bonds and preferred stocks, in order to take advantage of the mispricing of subordinated risk within the marketplace. There were no unfunded commitments at December 31, 2018 or 2017.

Amounts invested in Logan Circle may only be redeemed as of the last business day of a calendar month and with at least 10 business days' prior written notice, unless otherwise consented to by the General Partner in its sole discretion.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

4. Assets and Liabilities Measured at Fair Value (continued)

Venture Capital Fund

Cintrifuse Syndicate Fund II, LLC

Cintrifuse Syndicate Fund II, LLC (Cintrifuse) venture capital focuses on early stage venture capital funds that are currently, or have a plan for being, engaged in the Cincinnati region, and that are likely to generate high rates of return. Cintrifuse seeks to expose mid-size and larger organizations in Greater Cincinnati to disruptive innovation to solve technological challenges and to increase the amount of venture capital activity in the Cincinnati region, thereby enhancing the region's innovation ecosystem and overall economic competitiveness. While Cintrifuse's focus is on the Cincinnati region, it is not required to invest an specified amount in companies in the Cincinnati region and can invest in companies outside of the region. St. Elizabeth Healthcare had an unfunded commitment of \$935,000 at December 31, 2018 and no funded commitment at December 31, 2017.

Cintrifuse does not have a redemption period or redemption frequency. Voluntary withdrawal from the Fund is not permitted. The investment term is thirteen years from the final closing date, subject to three one-year extensions with the consent of the advisory committee.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

5. Property, Plant, and Equipment

Property, plant, and equipment consist of the following at December 31:

	2018	2017
	<i>(in thousands)</i>	
Land	\$ 21,248	\$ 18,513
Buildings, building services, and land improvements	605,901	578,993
Equipment	398,536	408,249
Construction in process	34,703	42,728
Total cost	1,060,388	1,048,483
Less accumulated depreciation	(610,527)	(599,838)
Net property and equipment	\$ 449,861	\$ 448,645

Depreciation expense was \$68,689,000 and \$67,521,000 for the years ended December 31, 2018 and 2017, respectively, and included in depreciation and amortization expense on the consolidated statement of operations.

In 2018, St. Elizabeth Healthcare embarked on a six year master facility plan that aligns with its strategic plan. St. Elizabeth Healthcare Board of Trustees approved, as part of the master facility plan, a new building and parking garage to support the expansion of its cancer care program to provide comprehensive cancer care to the patients it serves (project referred to as “Cancer Institute”). The total building and parking garage associated with the Cancer Institute has an estimated cost of \$105,766,000 and construction began in 2018. St. Elizabeth Healthcare incurred construction costs of \$13,837,000 in 2018, which are included in construction in process at December 31, 2018. The remaining estimated commitment on the building and parking garage associated with the Cancer Institute is \$91,929,000 at December 31, 2018.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

6. Goodwill and Intangible Assets

Intangible assets of St. Elizabeth Healthcare at December 31 are summarized as follows:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	<i>(in thousands)</i>			
Amortized intangible assets	\$ 19,874	\$ 10,842	\$ 18,124	\$ 9,079
Unamortized intangible assets	\$ 17,651	\$ -	\$ 17,651	\$ -

Identifiable intangible assets subject to amortization consist primarily of exclusivity and non-competition agreements. Amortization of the intangible assets is calculated using the straight-line method over estimated lives of the exclusivity and non-compete agreements ranging from one to twenty years. Amortization expense was \$1,763,000 and \$1,801,000 for the years ended December 31, 2018 and 2017, respectively, and is included in depreciation and amortization expense.

Estimated amortization expense for the years ended December 31 is as follows:

	Amount
	<i>(in thousands)</i>
2019	\$ 1,900
2020	1,872
2021	1,126
2022	400
2023	400
Thereafter	3,334
Total	\$ 9,032

St. Elizabeth Healthcare annually performs an evaluation of goodwill for impairment considering qualitative and quantitative factors. There are no indicators that impairment loss should be recognized in 2018.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

6. Goodwill and Intangible Assets (continued)

The changes in the carrying amount of goodwill during years ended December 31 are as follows:

	2018	2017
	<i>(in thousands)</i>	
Balance at January 1	\$ 17,651	\$ 17,651
Current year activity	–	–
Balance at December 31	\$ 17,651	\$ 17,651

7. Patient Service Revenue

St. Elizabeth Healthcare is a provider of services under contractual arrangements with the Medicare and Medicaid programs and other payment agreements with certain commercial carriers. Patient service revenue includes amounts estimated by management to be reimbursable by these programs under the provisions of the various payment formulas of such arrangements. Amounts received by St. Elizabeth Healthcare for treatment of patients covered by such programs are recorded at the consideration in which St. Elizabeth Healthcare expects to be entitled.

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

Cost report settlements under reimbursement agreements with Medicare, Medicaid, and certain other payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the expected value method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the St. Elizabeth Healthcare's historical settlement activity, including an assessment to ensure that it

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

7. Patient Service Revenue (continued)

is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were approximately \$3,561,000 and \$1,703,000 for the years ended December 31, 2018 and 2017, respectively.

Cost report settlements due from St. Elizabeth Healthcare were approximately \$27,294,000 and \$12,629,000 at December 31, 2018 and 2017, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. St. Elizabeth Healthcare also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2018 and 2017, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant.

Self-pay revenues are derived from patients who do not have any form of healthcare coverage as well as from patients with third-party healthcare coverage related to the patient responsibility portion, including deductibles and co-payments. St. Elizabeth Healthcare estimates the transaction price for self-pay patients and the patient responsibility portion using various metrics, such as historical cash collection experience and environmental trends. Because St. Elizabeth Healthcare provides care to patients regardless of their ability to pay, management has determined that the difference between the amounts billed to patients and the amounts St. Elizabeth Healthcare expects to collect represent implicit price concessions. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

In some circumstances, after settlement by the responsible third-party, the patient will be billed for the residual amount due to St. Elizabeth Healthcare. St. Elizabeth Healthcare has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

7. Patient Service Revenue (continued)

be one year or less; however, St. Elizabeth Healthcare does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Patients who meet St. Elizabeth Healthcare's criteria for charity care are provided care without charge or at amounts less than established rates. St. Elizabeth Healthcare does not report a charity care patient's charges in revenues or accounts receivable as it is policy not to pursue collection of amounts related to these patients, and therefore, contracts with these patients do not exist.

St. Elizabeth Healthcare has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected primarily by payor. The composition of patient service revenue by primary payor for the years ended December 31 is as follows:

	2018	2017
	<i>(in thousands)</i>	
Medicare	\$ 450,559	\$ 428,070
Medicaid	177,649	166,599
Anthem Blue Cross	289,069	293,236
Humana	43,114	44,307
United Healthcare	157,155	153,759
Other insurance and workers' compensation	142,115	127,755
Self-pay	13,336	14,917
Patient service revenue	\$ 1,272,997	\$ 1,228,643

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

For some contracts, St. Elizabeth Healthcare recognizes revenue before its right to some or all consideration becomes unconditional, which results in St. Elizabeth Health recording contract assets. At December 31, 2018 and 2017, St. Elizabeth Healthcare recorded \$2,306,000 and \$2,566,000 of contract assets within accounts receivable on the consolidated balance sheet.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Long-Term Debt

Long-term debt at December 31 consists of the following:

	2018	2017
	<i>(in thousands)</i>	
Kentucky Economic Development Finance Authority Adjustable Rate Hospital Facilities Revenue Refunding Bonds, Series 2009B, maturing in various amounts through 2033 with an adjustable rate set every seven days (1.57 percent and 1.27 percent at December 31, 2018 and 2017, respectively)	\$ 27,225	\$ 28,625
Kentucky Bond Development Corporation Hospital Facilities Revenue Bonds, Series 2015A, maturing in various amounts through 2045 with a fixed rate of 2.17 percent through 2027	46,425	47,675
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2015B, maturing in various amounts through 2045 with an adjustable rate set every 30 days (2.45 percent and 1.47 percent at December 31, 2018 and 2017, respectively)	48,725	\$50,000
Kentucky Bond Development Corporation Hospital Facilities Revenue Refunding Bonds, Series 2016, maturing in various amounts through 2039 with various fixed rates ranging from 3.00 percent through 5.00 percent	79,950	82,515
Total debt	202,325	208,815
Less current portion	(6,665)	(6,490)
Less unamortized debt issuance costs	(1,987)	(1,890)
Less long-term debt subject to short-term remarketing arrangement	–	(27,225)
Plus unamortized premium	9,668	11,021
Long-term debt	\$ 203,341	\$ 184,231

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Long-Term Debt (continued)

In December 2009, the Kentucky Economic Development Finance Authority, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2009A of \$101,850,000 and the Adjustable Rate Hospital Facilities Revenue Refunding Bonds, Series 2009B of \$38,150,000. The Series 2009A and 2009B bonds were used to refund the outstanding Series 2003A, Series 2003B, and Series 2003C bonds, pay certain costs related to the issuance of the Series 2009A and 2009B bonds, and finance improvements to St. Elizabeth Healthcare's facilities. The bonds were issued pursuant to a master trust indenture dated June 15, 1991, as supplemented by the seventh supplemental trust indenture dated December 1, 2009. The Series 2009A bonds were legally defeased with the issuance of the Series 2016A bonds. Redemption of the 2009B bonds can occur prior to maturity, in whole or in part, at the option of St. Elizabeth Healthcare, at a redemption price of 100 percent of the principal amount plus interest.

The Series 2009B bonds were secured by a standby bond purchase agreement equal to the aggregate outstanding Series 2009B bonds plus 35 days' interest at a rate of 12 percent annually. This liquidity facility expired on September 25, 2018. In 2018, the standby bond purchase agreement was replaced by an irrevocable transferable letter of credit agreement equal to the aggregate outstanding Series 2009B bonds plus 43 days' interest at a rate of 12 percent annually. The bond trustee is authorized to draw amounts from the letter of credit agreement sufficient to cover principal and interest payments on the Series 2009B bonds. St. Elizabeth Healthcare has an obligation to make payments to the liquidity facility provider in annual principal installments. The letter of credit agreement was effective September 5, 2018 and has a stated expiration date of September 28, 2025.

In December 2015, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Bonds, Series 2015A of \$50,000,000 and Adjustable Rate Hospital Facilities Revenue Bonds, Series 2015B of \$50,000,000. The Series 2015A and 2015B bonds were issued for the purpose of financing acquisition, construction, installation, and equipping of facilities suitable for use by St. Elizabeth Healthcare. The bonds were issued pursuant to a master trust indenture dated June 15, 1991, as supplemented by the eleventh supplemental trust indenture dated December 14, 2015 and the twelfth supplemental trust indenture dated December 28, 2015. Redemption of the Series 2015A bonds can occur, in whole or in part, on and after January 2, 2018 at a redemption price of 100 percent of the principal plus accrued interest. Redemption can occur prior to January 2, 2018 at a premium. The Series 2015A bonds are subject to a mandatory tender and purchase by St. Elizabeth Healthcare on December 1, 2027. Redemption of the Series 2015B bonds can occur prior to maturity, in whole or in part, at the option of St. Elizabeth Healthcare, at a redemption price of 100 percent of the

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Long-Term Debt (continued)

principal amount plus interest. The holder of the Series 2015B bonds may require St. Elizabeth Healthcare to purchase the bonds on December 1, 2025 at a redemption price of 100 percent of the principal plus accrued interest.

In May 2016, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Refunding Bonds, Series 2016 of \$85,000,000. The Series 2016 bonds were used to advance refund the outstanding Series 2009A bonds. The bonds were issued pursuant to a master trust indenture dated June 15, 1991, as supplemented by the thirteenth supplemental trust indenture dated May 1, 2016. Redemption of the Series 2016 bonds can occur, in whole or in part, on and after May 1, 2026 at a redemption price of 100 percent of the principal plus accrued interest.

St. Elizabeth Healthcare has unconditionally guaranteed the payment of principal and interest on the Series 2009B, Series 2015A, Series 2015B, and Series 2016 bonds that are secured by a first security interest in substantially all of St. Elizabeth Healthcare's pledged revenue. This pledged revenue includes all revenue, rents, receipts, investment income, gains and losses or other monies received by St. Elizabeth Healthcare, excluding restricted donations, proceeds from additional debt as allowed by the master trust indenture, and any other revenue, where the granting of a lien is prohibited by law.

St. Elizabeth Healthcare has covenants, among other things, not to create unpermitted liens under the terms of the bond agreement, to fulfill sinking fund requirements in trustee accounts, to limit additional indebtedness, meet specific financial ratio tests, limit transfer of assets to affiliates, maintain its properties and insurance, and to maintain its corporate existence and operations.

St. Elizabeth Healthcare's debt agreements require that St. Elizabeth Healthcare report and maintain certain financial covenants under the master trust indenture and the irrevocable transferable letter of credit agreement.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Long-Term Debt (continued)

The following is a schedule of future payments for years ending December 31 and in the aggregate, required under the debt of St. Elizabeth Healthcare:

	Amount
	<i>(in thousands)</i>
2019	\$ 6,665
2020	6,890
2021	7,070
2022	7,295
2023	7,565
Thereafter	166,840
Total payments	\$ 202,325

Total interest paid was approximately \$7,046,000 and \$6,798,000 for the years ended December 31, 2018 and 2017, respectively.

In 2009, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2009B bonds, with a 30-year term and a notional amount of \$27,225,000 and \$28,625,000 at December 31, 2018 and 2017, respectively. Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 3.07 percent and receives a floating rate on the basis of 67 percent of the U.S. dollar one-month London Interbank Offered Rate (USD LIBOR BBA). The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2009B bonds align with the notional amount remaining each year in the interest rate swap agreement.

In 2015, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2015B bonds, with a 30-year term and a notional amount of \$48,725,000 and \$50,000,000 at December 31, 2018 and 2017, respectively. Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 1.735 percent and receives a floating rate on the basis of 70 percent of the USD LIBOR BBA plus 0.53 percent multiplied by 1.13 percent. The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2015B bonds align with the notional amount remaining each year in the interest rate swap agreement.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

8. Long-Term Debt (continued)

In 2018, St. Elizabeth Healthcare entered into an interest rate swap agreement on anticipated variable rate debt of \$75,000,000 to be issued in 2019. The interest rate swap has a 30-year term and a notional amount of \$75,000,000 as of December 31, 2018. Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 2.455 percent and receives a floating rate on the basis of 79 percent of the USD LIBOR BBA. The interest differential to be paid or received under the interest rate swap agreement will be accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the interest rate swap will align with the notional amount remaining each year in the 2019 bond issuance.

The fair market value of the interest rate swap agreements at December 31, 2018 and 2017 was a liability of \$5,265,000 and \$3,451,000, respectively, and included on the consolidated balance sheets.

Net payments to/from counterparty of \$679,000 and \$1,033,000 for the years ended December 31, 2018 and 2017, respectively, are included as an increase in interest expense.

In November 2018, St. Elizabeth Healthcare amended an agreement with a bank for an operating line of credit, extending the agreement term by one year. The line of credit bears interest at a floating rate per annum equal to 0.40 percent in excess of the LIBOR rate, which was 2.50 percent at December 31, 2018, for a total interest rate of 2.90 percent at December 31, 2018. The line of credit has a maximum commitment of \$40,000,000 and there was no outstanding balance at December 31, 2018 or 2017. The line of credit is collateralized by a security interest in a portion of St. Elizabeth Healthcare's assets and gross revenue.

9. Operating Leases

St. Elizabeth Healthcare is obligated under certain operating leases, primarily for facilities and equipment. Total rent expense under these leases was \$19,553,000 and \$18,373,000 for the years ended December 31, 2018 and 2017, respectively.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

9. Operating Lease (continued)

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

	Amount
	<i>(in thousands)</i>
2019	\$ 15,064
2020	14,628
2021	13,555
2022	11,164
2023	10,303
Thereafter	70,568
Total	\$ 135,282

10. Functional Expenses

St. Elizabeth Healthcare provides inpatient, outpatient, and other healthcare services in support of its mission in the local market. Expenses related to providing these services for the year ended December 31, 2018 are as follows:

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
	<i>(in thousands)</i>				
Salaries and wages	\$ 312,985	\$ 170,221	\$ 127,225	\$ 823	\$ 611,254
Employee benefits	67,016	33,262	60,045	128	160,451
Purchased services	39,050	32,365	17,822	561	89,798
Interest	3,351	-	2,602	11	5,964
Depreciation and amortization	38,182	2,026	30,134	125	70,467
Supplies	193,557	18,806	15,785	251	228,399
Other	25,310	16,436	55,521	333	97,600
Total	\$ 679,451	\$ 273,116	\$ 309,134	\$ 2,232	\$ 1,263,933

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

10. Functional Expenses (continued)

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

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
			<i>(in thousands)</i>		
Salaries and wages	\$ 299,708	\$ 158,351	\$ 119,209	\$ 406	\$ 577,674
Employee benefits	65,842	28,001	44,350	77	138,270
Purchased services	32,980	30,499	17,154	763	81,396
Interest	3,103	–	2,520	10	5,633
Depreciation and amortization	36,972	1,962	30,286	118	69,338
Supplies	189,870	15,544	13,588	163	219,165
Other	24,684	16,500	48,841	255	90,280
Total	\$ 653,159	\$ 250,857	\$ 275,948	\$ 1,792	\$ 1,181,756

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function; therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Salaries and wages, employee benefits, purchased services, and supplies are allocated based on the related function. Costs not directly attributable to a function, including interest and depreciation and amortization, are allocated based on a square footage basis. Costs classified as other are allocated based on the related function or allocated based a reasonable methodology such as square footage or full time equivalents.

11. Pension and Other Retirement Plans

The St. Elizabeth Healthcare Employees' Pension Plan is a defined benefit plan that covers substantially all St. Elizabeth Healthcare. For hospital employees hired prior to July 1, 2009, benefits were computed based on years of service and a percentage of the employee's compensation. For hospital employees hired on or after July 1, 2009 accumulated benefits through a cash balance formula whereby an accumulation account was credited each year with 3 percent of the participant's eligible compensation. Effective January 1, 2012, SEP employees also accumulated benefits through this cash balance formula unless they were employed by St. Elizabeth Hospital prior to January 1, 2011 and were participants in the defined benefit plan prior to July 1, 2009, in which case their pension benefits continue to be based on years of service and a percentage of their compensation.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

During 2017, St. Elizabeth Healthcare passed a resolution offering a lump-sum window payout for eligible pension plan participants, effective September 15, 2017. As a result of this amendment, \$31,063,000 was paid out in December 2017 and \$3,683,000 was paid out in 2018. St. Elizabeth Healthcare also approved a hard freeze of the pension plan effective December 31, 2017, with participants' accrued benefits frozen as of that date. As a result, the pension plan recognized a decrease in the projected benefit obligation from a curtailment gain of \$69,685,000. This reflects the freeze of benefit obligations as of December 31, 2017 and the reduction for previously estimated future salary levels.

As a result of the pension plan freeze, the St. Elizabeth Healthcare 403(b) Plan was amended and all future retirement benefits will be provided through this plan. Effective January 1, 2018, all active participants are eligible for non-elective employer 403(b) contributions of 4 percent of eligible compensation or \$1,800 (prorated for part-time employees), whichever is greater. All active participants are also eligible for an employer match of 50 percent of the first 4 percent of eligible compensation that they contribute. Additionally, for plan years 2018, 2019, and 2020, active participants in the 403(b) Plan who were in the final average pay formula of the St. Elizabeth Healthcare Employees' Pension Plan will receive an additional non-elective employer contribution to their 403(b) plan between 1 percent and 6 percent, depending on their age at December 31, 2017. Eligibility for the employer match and contributions is based on service requirements specified in the plan document.

During the years ended December 31, 2018 and 2017, St. Elizabeth Healthcare recorded contribution expense of \$37,859,000 and \$4,276,000, respectively, to its defined contribution plan.

A summary of components of net periodic costs for St. Elizabeth Healthcare's defined benefit pension plan for the year ended December 31 follows (in thousands):

	<u>2018</u>	<u>2017</u>
Net periodic pension cost		
Service cost	\$ 145	\$ 22,252
Interest cost	15,303	18,810
Expected return on plan assets	(24,473)	(24,628)
Amortization of net loss	2,394	7,930
Net periodic pension cost	<u>\$ (6,631)</u>	<u>\$ 24,364</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

The following table sets forth the funded status and amounts for St. Elizabeth Healthcare's defined benefit pension plan as of December 31 (in thousands):

	2018	2017
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 464,188	\$ 501,388
Service cost	145	22,252
Interest cost	15,303	18,810
Actuarial (gain) loss	(20,625)	35,884
Curtailment gain	-	(69,685)
Administrative expenses	(300)	(231)
Benefits paid	(21,068)	(44,230)
Projected benefit obligation at end of year	437,643	464,188
Change in plan assets		
Fair value of plan assets at beginning of year	437,714	333,800
Actual return on plan assets	(6,127)	53,975
Employer contributions	6,789	94,400
Administrative expenses	(300)	(231)
Benefits paid	(21,068)	(44,230)
Fair value of plan assets at end of year	417,008	437,714
Funded status at end of year	\$ (20,635)	\$ (26,474)
Accrued pension liability	\$ (20,635)	\$ (26,474)

The following weighted-average assumptions were used for the defined benefit pension plan as of December 31:

	2018	2017
Discount rate – Benefit obligation	4.06%	3.38%
Discount rate – Net periodic benefit cost	3.38%	3.83%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	5.40%	6.80%

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

In selecting the expected long-term return on plan assets, St. Elizabeth Healthcare considered the average rate of earnings on the funds invested, or to be invested, to provide the benefits for these plans. This included considering the asset allocation and expected returns likely to be earned over the life of the plans. This basis is consistent with the prior year.

Prior service cost is amortized over the average remaining service period of the employees expected to receive benefits.

Amounts recognized in the consolidated balance sheets and the consolidated statements of operations and changes in net assets of the defined benefit pension plans for the year ended December 31 are as follows:

	2018	2017
	<i>(in thousands)</i>	
Change in net assets without donor restrictions recognized:		
Net actuarial (loss) gain	\$ (9,975)	\$ 63,148
Amortization of net actuarial loss	2,394	7,930
Total recognized in the consolidated statements of operations and changes in net assets	\$ (7,581)	\$ 71,078

Included as a reduction in net assets without donor restrictions is the amount of \$77,719,000, that has not yet been recognized in net periodic pension expense as of December 31, 2018.

The net actuarial loss included in net assets without donor restrictions that is expected to be recognized in net periodic pension cost during the year ending December 31, 2019 is \$3,559,000.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

Defined benefit pension assets were invested in the following as of December 31:

	2018	2017
Equity mutual funds	10%	48%
Fixed income mutual funds	75	29
Hedge fund of funds	–	6
Real estate funds	6	10
Private equity funds	2	2
Infrastructure funds	5	4
Cash and cash equivalents	2	1
Total	100%	100%

St. Elizabeth Healthcare’s Investment Committee regularly reviews the investment allocation and approves changes to the investment policy as needed. In February 2017, the St. Elizabeth Healthcare Investment Committee voted to adopt a Liability Driven Investing (LDI) strategy for the St. Elizabeth Healthcare Employees’ Pension Plan. The goal of this strategy is to reduce the funded status volatility caused by asset/liability duration mismatch, ultimately lessening the need for significant contributions through a more predictable long-term funded status. A glide path was developed to define the Pension asset allocation at trigger points based on funded status. The transition of Pension assets to this strategy began in May 2017, based upon the glide path allocation policy for the Plan’s funded status as of December 31, 2016. Based upon the Plan achieving a funded status of 95 percent as of December 31, 2018, the average target allocation policy for the Plans’ investments per the glide path transitioned to 75 percent fixed income, 12 percent U.S. and non-U.S. equity, 8 percent real estate/infrastructure, and 5 percent private equity, with cash maintained in an amount sufficient to cover benefit payments. Future asset allocations are expected to match the Plan’s target allocations based upon the Plan’s funded status, which is evaluated on a quarterly basis.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare's defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2018, aggregated by the level in the fair value hierarchy as defined in Note 1:

	Fair Value Measurements Using			
	Fair Value at December 31, 2018	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(in thousands)</i>			
Cash and cash equivalents	\$ 5,799	\$ 5,799	\$ —	\$ —
Asset-backed securities	3,906	—	3,906	—
Corporate bonds	268,331	—	268,331	—
Municipal bonds	4,014	—	4,014	—
Foreign bonds	36,519	—	36,519	—
Common stock	29,869	29,869	—	—
Mutual funds – International large cap	12,539	12,539	—	—
Common collective trust – Money market funds	1,555	—	1,555	—
Assets measured at fair value levels	362,532	48,207	314,325	—
Hedge fund of funds	36	—	—	—
Real estate funds	24,432	—	—	—
Private equity funds	9,737	—	—	—
Infrastructure funds	20,271	—	—	—
Assets measured at net asset value	54,476	—	—	—
Total assets	\$ 417,008	\$ 48,207	\$ 314,325	\$ —

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare's defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2017, aggregated by the level in the fair value hierarchy as defined in Note 1:

	Fair Value Measurements Using			
	Fair Value at December 31, 2018	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(in thousands)</i>			
Cash and cash equivalents	\$ 5,262	\$ 5,262	\$ —	\$ —
U.S Government obligations	45,482	—	45,482	—
Asset-backed securities	257	—	257	—
Corporate bonds	73,096	—	73,096	—
Municipal bonds	1,189	—	1,189	—
Foreign bonds	8,577	—	8,577	—
Common stock	101,295	101,295	—	—
Mutual funds:				
Mid cap core	33,302	33,302	—	—
International large cap	38,545	38,545	—	—
International small cap	20,509	20,509	—	—
International emerging markets	15,720	15,720	—	—
Common collective trust – Money market funds	1,609	—	1,609	—
Assets measured at fair value levels	344,843	214,633	130,210	—
Hedge fund of funds	24,356	—	—	—
Real estate funds	41,470	—	—	—
Private equity funds	7,988	—	—	—
Infrastructure funds	19,057	—	—	—
Assets measured at net asset value	92,871	—	—	—
Total assets	\$ 437,714	\$ 214,633	\$ 130,210	\$ —

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

11. Pension and Other Retirement Plans (continued)

Fair value methodologies for investments in the defined benefit pension plan for Level 1, Level 2, and investments valued at net asset value are consistent with the inputs described in Note 4.

The accumulated benefit obligation for St. Elizabeth Healthcare's defined benefit pension plan was \$437,643,000 and \$464,188,000 at December 31, 2018 and 2017, respectively.

St. Elizabeth Healthcare contributed \$6,789,000 to its defined benefit pension plan during 2018. Due to the 95 percent funded status of the Plan, St. Elizabeth Healthcare is not required to make any contributions in 2019.

The following table sets forth the expected benefit payments to be paid from the defined benefit plans during the next 10 years ended December 31:

	<u>Amount</u> <i>(in thousands)</i>
2019	\$ 27,202
2020	30,700
2021	35,240
2022	38,062
2023	36,629
2024 – 2028	158,204

The Organization sponsors a 457(b) deferred compensation plan for certain employees of the Organization. Although these deferred compensation liabilities are unsecured, assets designated to fund these liabilities are reported in other assets on the consolidated balance sheet. Such assets are subject to the claims of the general creditors of the Organization.

12. Commitments and Contingencies

In order to remain a self-insured employer, St. Elizabeth Healthcare maintains a continuous bond through Travelers Casualty and Surety Company of America in the amount of \$8,539,000. The continuous bond had no outstanding balance as of December 31, 2018 and 2017.

13. Subsequent Events

St. Elizabeth Healthcare has evaluated and disclosed any subsequent events through April 2, 2019, which is the date the consolidated financial statements were issued.

Supplementary Information

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Balance Sheets

	December 31, 2018			
	Combined Hospitals	Combined Physician Groups	Total	December 31 2017
	<i>(in thousands)</i>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 58,191	\$ (1,622)	\$ 56,569	\$ 40,465
Short-term investments	10,136	–	10,136	9,970
Patient accounts receivable	121,911	11,183	133,094	133,346
Inventories and supplies	30,392	235	30,627	28,003
Prepaid expenses and other assets	18,944	3,829	22,773	20,339
Total current assets	239,574	13,625	253,199	232,123
Cash and cash equivalents-restricted	7,701	–	7,701	34,917
Assets limited as to use	1,065,779	–	1,065,779	1,035,947
Property, plant and equipment, net	442,808	7,053	449,861	448,645
Goodwill	4,489	13,162	17,651	17,651
Intangible assets	8,965	67	9,032	9,045
Foundation pledge receivables	6,103	–	6,103	3,602
Other assets	56,666	8,741	65,407	22,766
Total assets	\$ 1,832,085	\$ 42,648	\$ 1,874,733	\$ 1,804,696
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 59,299	\$ 5,005	\$ 64,304	\$ 79,236
Accrued employee compensation	87,305	38,725	126,030	84,668
Accrued interest	980	–	980	929
Accrued third-party settlements	27,294	–	27,294	12,629
Deferred revenue	4,178	–	4,178	5,191
Other current liabilities	6,531	521	7,052	9,264
Current portion of long-term debt	6,665	–	6,665	6,490
Long-term debt subject to short-term remarketing arrangement	–	–	–	27,225
Total current liabilities	192,252	44,251	236,503	225,632
Long-term debt	203,341	–	203,341	184,231
Liability for self-insurance	52,688	3,811	56,499	58,354
Accrued pension liability	20,635	–	20,635	26,474
Fair value of interest rate swap	5,265	–	5,265	3,451
Other long-term liabilities	29,928	–	29,928	7,007
Total liabilities	504,109	48,062	552,171	505,149
Net assets:				
Net assets without donor restriction	1,314,881	(5,414)	1,309,467	1,292,097
Net assets with donor restriction	13,002	–	13,002	7,450
Total net assets	1,327,883	(5,414)	1,322,469	1,299,547
Noncontrolling interest	93	–	93	–
Total net assets	1,327,976	(5,414)	1,322,562	1,299,547
Total liabilities and net assets	\$ 1,832,085	\$ 42,648	\$ 1,874,733	\$ 1,804,696

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Statement of Operations and Changes in Net Assets

	December 31, 2018				December 31 2017
	Combined Hospitals	Combined Physician Groups	Eliminations	Total	
	<i>(in thousands)</i>				
Patient service revenue, net of contractual provisions and discounts	\$ -	\$ -	\$ -	\$ -	\$ 1,277,373
Provision for bad debts	-	-	-	-	(48,730)
Patient service revenue	1,075,898	197,099	-	1,272,997	1,228,643
Net assets released from restriction for operations	702	-	-	702	672
Other revenue	71,721	130,819	(153,645)	48,895	37,537
Total revenue	1,148,321	327,918	(153,645)	1,322,594	1,266,852
Expenses:					
Salaries and wages	420,624	190,630	-	611,254	577,674
Employee benefits	119,653	40,798	-	160,451	138,270
Purchased services	203,408	36,285	(149,895)	89,798	81,396
Interest	5,964	-	-	5,964	5,633
Depreciation and amortization	67,949	2,518	-	70,467	69,338
Supplies	209,441	19,357	(399)	228,399	219,165
Other	76,898	24,053	(3,351)	97,600	90,280
Total expenses	1,103,937	313,641	(153,645)	1,263,933	1,181,756
Operating income	44,384	14,277	-	58,661	85,096
Unrestricted contributions	348	-	-	348	375
Other (losses) gains, net	(35,426)	934	-	(34,492)	118,865
Excess of revenue over expenses	9,306	15,211	-	24,517	204,336
Excess of expenses over revenue attributable to noncontrolling interest	(126)	-	-	(126)	497
Excess of revenue over expenses attributable to St. Elizabeth Medical Center, Inc.	9,432	15,211	-	24,643	203,839
Net assets without donor restriction:					
Transfer between entities	22,745	(22,745)	-	-	-
Pension change other than net periodic costs	(7,582)	-	-	(7,582)	71,078
Other	(79)	-	-	(79)	(80)
Net assets released from restriction for capital	388	-	-	388	605
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	24,904	(7,534)	-	17,370	275,442
Net assets with donor restrictions:					
Restricted contributions	6,642	-	-	6,642	2,861
Net assets released from restriction	(1,090)	-	-	(1,090)	(1,277)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	5,552	-	-	5,552	1,584
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	30,456	(7,534)	-	22,922	277,026
Noncontrolling interest:					
Excess of (expense) revenue over revenue (expense) attributable to noncontrolling interest	(126)	-	-	(126)	497
Paid in capital/distributions to equity owners	219	-	-	219	-
Increase in net assets attributable to noncontrolling interest	93	-	-	93	497
Increase in net assets	30,549	(7,534)	-	23,015	277,523
Net assets at beginning of period	1,297,427	2,120	-	1,299,547	1,022,024
Net assets at end of period	<u>\$ 1,327,976</u>	<u>\$ (5,414)</u>	<u>\$ -</u>	<u>\$ 1,322,562</u>	<u>\$ 1,299,547</u>