

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Saint Elizabeth Medical Center, Inc.
For the Year Ended December 31, 2019

Saint Elizabeth Medical Center, Inc.

Consolidated Financial Statements
and Supplementary Information

December 31, 2019 and 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, 2019 and 2018 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 opinion.

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, 2019 and 2018 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.

Empasis of Matter

As described in Note 1 to the consolidated financial statements, the Organization adopted the provisions of Accounting Standards Codification (ASC) 842, *Leases*, as of January 1, 2019, using the modified retrospective approach to the beginning of the year of adoption. Our opinion is not modified with respect to this matter.

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 7, 2020 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 7, 2020

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 38,068	\$ 56,569
Short-term investments <i>(Note 3)</i>	10,445	10,136
Patient accounts receivable <i>(Note 1)</i>	146,282	133,094
Inventories and supplies	30,850	30,627
Prepaid expenses and other current assets	24,608	22,773
Total current assets	<u>250,253</u>	<u>253,199</u>
Cash and cash equivalents - Restricted <i>(Note 1)</i>	17,379	7,701
Assets limited as to use <i>(Note 3)</i>	1,215,968	1,065,779
Right of use operating lease assets	111,966	-
Property, plant and equipment, net <i>(Note 5)</i>	544,140	449,861
Goodwill <i>(Note 6)</i>	17,651	17,651
Intangible assets <i>(Note 6)</i>	8,178	9,032
Foundation pledge receivables	9,431	6,103
Other assets	81,262	65,407
Total assets	<u>\$ 2,256,228</u>	<u>\$ 1,874,733</u>

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 71,589	\$ 64,304
Accrued employee compensation	136,971	126,030
Accrued interest	1,104	980
Accrued third-party settlements	28,513	27,294
Deferred revenue	4,133	4,178
Other current liabilities	4,419	7,052
Current portion of long-term debt <i>(Note 8)</i>	8,479	6,665
Current portion of lease liabilities - Operating <i>(Note 9)</i>	12,462	-
Total current liabilities	<u>267,670</u>	<u>236,503</u>
Long-term debt <i>(Note 8)</i>	267,402	203,341
Long-term lease liabilities - Operating <i>(Note 9)</i>	101,551	-
Liability for self-insurance	58,458	56,499
Accrued pension liability <i>(Note 11)</i>	7,173	20,635
Fair value of interest rate swap <i>(Note 8)</i>	15,114	5,265
Other long-term liabilities	35,351	29,928
Total liabilities	<u>752,719</u>	<u>552,171</u>
Net assets:		
Net assets without donor restriction	1,483,561	1,309,467
Net assets with donor restriction <i>(Note 1)</i>	19,974	13,002
Total net assets excluding noncontrolling interest	<u>1,503,535</u>	<u>1,322,469</u>
Noncontrolling interest	(26)	93
Total net assets	<u>1,503,509</u>	<u>1,322,562</u>
Total liabilities and net assets	<u>\$ 2,256,228</u>	<u>\$ 1,874,733</u>

Saint Elizabeth Medical Center, Inc.

Consolidated Statements of Operations and Changes in Net Assets

Years Ended December 31, 2019 and 2018
(in thousands)

	2019	2018
Patient service revenue <i>(Note 7)</i>	\$ 1,344,244	\$ 1,272,997
Net assets released from restriction for operations	973	702
Other revenue	64,010	48,895
Total revenue	1,409,227	1,322,594
Expenses:		
Salaries and wages	650,220	611,254
Employee benefits	172,784	160,451
Purchased services	86,115	89,798
Interest	6,862	5,964
Depreciation and amortization	69,344	70,467
Supplies	255,572	228,399
Other	106,445	97,600
Total expenses	1,347,342	1,263,933
Operating income	61,885	58,661
Unrestricted contributions	401	348
Other gains (losses), net <i>(Note 3)</i>	159,024	(34,492)
Excess of revenue over expenses	221,310	24,517
Excess of expenses over revenue attributable to noncontrolling interest	(119)	(126)
Excess of revenue over expenses attributable to St. Elizabeth Medical Center, Inc.	221,429	24,643
Net assets without donor restriction:		
Pension change other than net periodic costs <i>(Note 11)</i>	(47,400)	(7,581)
Other	(79)	(80)
Net assets released from restriction for capital	144	388
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	174,094	17,370
Net assets with donor restrictions:		
Net increase in cash, cash equivalents, and restricted cash	8,089	6,642
Net assets released from restriction	(1,117)	(1,090)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	6,972	5,552
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	181,066	22,922
Non-controlling interest:		
Excess of expenses over revenue attributable to noncontrolling interest	(119)	(126)
Paid in capital/distributions to equity owners	-	219
(Decrease) Increase in net assets attributable to noncontrolling interest	(119)	93
Increase in net assets	180,947	23,015
Net assets at beginning of period	1,322,562	1,299,547
Net assets at end of period	\$ 1,503,509	\$ 1,322,562

Saint Elizabeth Medical Center, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(in thousands)

	2019	2018
Operating activities and gains		
Increase in net assets	\$ 180,947	\$ 23,015
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash provided by operating activities and (gains) losses:		
Depreciation and amortization	69,344	70,467
Amortization of bond premium/discount and issuance costs	(1,119)	(1,237)
Interest and dividends received on long-term investments	(21,683)	(20,345)
Net unrealized and realized (gains) losses on long-term investments	(145,600)	65,666
Change in pension other than net periodic costs	47,400	7,581
Change in fair value of interest rate swap	9,849	1,814
Changes in operating assets and liabilities:		
Patient accounts receivable	(13,188)	252
Inventory, supplies, prepaid expenses and other current assets	(2,057)	(5,059)
Other assets	(131,149)	(45,143)
Accounts payable	7,285	(14,931)
Other liabilities	69,559	60,271
Net cash provided by operating activities and gains	69,588	142,351
Investing activities		
Change in short-term investments, net	(309)	(166)
Change in assets limited to use, net	(42,516)	(23,930)
Expenditures for property, plant, and equipment	(161,652)	(68,097)
Asset purchase acquisitions	(1,100)	(3,558)
Net cash used in investing activities	(205,577)	(95,751)
Financing activities		
Proceeds from long-term debt	75,000	-
Payments on long-term debt	(7,442)	(6,490)
Net cash provided (used) by financing activities	67,558	(6,490)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(68,431)	40,110
Cash, cash equivalents, and restricted cash at beginning of period	131,218	91,108
Cash, cash equivalents, and restricted cash at end of period	\$ 62,787	\$ 131,218
Consolidated balance sheet classification of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	38,068	56,569
Restricted cash	17,379	7,701
Assets limited as to use - Restricted cash and cash equivalents	7,340	66,948
Total cash, cash equivalents, and restricted cash	\$ 62,787	\$ 131,218

See notes to consolidated financial statements

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 192 full-time equivalent primary care physicians, 135 full-time equivalent specialty physicians, and 154 advanced practice providers operating in 110 offices throughout Northern Kentucky, Ohio, and Indiana. SEP performs most of the physician billings for St. Elizabeth Healthcare's hospital facilities.

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, 2019 and 2018 and for the years ended December 31, 2019 and 2018.

Use of Estimates

The preparation of consolidated 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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 SIPC 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, 2019 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 2019 and represent \$6,043,000 of the restricted cash balance. The remaining amount in restricted cash for 2019 and all of the amount for 2018 is for restricted contributions.

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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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

	<u>2019</u>	<u>2018</u>
Medicare	22%	22%
Medicaid	11	13
Anthem Blue Cross	23	16
Humana	2	3
United Healthcare	13	16
Other insurance and workers' compensation	16	17
Self-pay and residual self-pay	13	13
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 basis. 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 retains 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, infrastructure funds, private equity funds, commingled 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 and 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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 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 two basic valuation approaches to determine fair value of its assets and liabilities required to be recorded at fair value. The first 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 second approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of St.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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 \$928,000 and \$998,000 at December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 was \$15,114,000 and \$5,265,000, 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 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-competition agreements ranging from one to twenty years.

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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 using the equity method of accounting. These investments were \$10,443,000 and \$13,369,000 as of December 31, 2019 and 2018, 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. The 457(b) plan assets are also included in the fair value hierarchy table in Note 4.

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.

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, 2019 that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients; however,

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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, 2019 and 2018 includes estimated amounts for claims and related legal expenses for these unreported incidents.

At December 31, 2019 and 2018, 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, 2019 and 2018, 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.

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, 2019 and 2018, net assets with donor restrictions of \$19,974,000 and \$13,002,000, 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. The amounts are 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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.

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 a 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, 2019 and 2018, St. Elizabeth Healthcare recognized \$38,332,000 and \$24,054,000 of other operating revenues at a point-in-time.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

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 \$11,327,000 and \$10,339,000 for the years ended December 31, 2019 and 2018, 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 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. The percent of Medicaid patient service revenue to total patient service revenue was 12 percent and 14 percent in 2019 and 2018, 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 Kentucky DSH payments of \$8,990,000 and \$8,077,000 for the years ended December 31, 2019 and 2018, respectively, which were recognized as an offset to charity deductions. St. Elizabeth Healthcare also paid provider tax to the State in the amounts of \$12,549,000 and \$12,550,000 for the years ended December 31, 2019 and 2018, 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 \$3,091,000 and \$3,595,000 for years ended December 31, 2019 and 2018, 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, 2019, 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 under review by any state or local tax authorities. St. Elizabeth Healthcare's federal tax returns for the year ended prior to

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

December 31, 2016 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, 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 (losses) on investments, interest and dividend income, change in net unrealized gains (losses) 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.

New Accounting Pronouncements

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (continued)

are substantially similar to the previous lease guidance, but with no explicit bright lines included within the classification criteria.

St. Elizabeth Healthcare adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. St. Elizabeth Healthcare has elected the package of practical expedients permitted under the transition guidance, which among other things, allows St. Elizabeth Healthcare to carry forward the historical lease classification. The new standard also provides practical expedients for an entity's ongoing accounting. St. Elizabeth Healthcare has made an accounting policy to keep leases with an initial term of 12 months or less off of the balance sheet and recognize those lease payments in the consolidated statements of operations on a straight-line basis over the lease term.

The adoption of this standard resulted in recognition of right-of-use assets of \$104,210,000, recognition of lease liabilities of \$106,730,000, and a reduction to long-term liabilities of \$2,520,000 on its consolidated balance sheet as of January 1, 2019. There was no impact to net assets as a result of adopting the new standard.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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 (in thousands):

	2019	2018
Cash and cash equivalents	\$ 38,068	\$ 56,569
Short-term investments	10,445	10,136
Patient accounts receivable	146,282	133,094
Cash and cash equivalents – Restricted	17,379	7,701
Assets limited to use	1,215,968	1,065,779
Foundation pledge receivables	9,431	6,103
Other assets	37,445	28,592
Financial assets at year-end	\$ 1,475,018	\$ 1,307,974

Less amounts not available to be used within one year, due to contractual or donor-imposed restrictions (in thousands):

Contractual or donor-imposed restrictions:		
Patient accounts receivable	\$ (12,284)	\$ (493)
Cash and cash equivalents – Restricted	(10,498)	(7,701)
Foundation pledge receivables	(9,272)	(5,955)
Other assets	(37,445)	(28,592)
Board designations:		
Assets limited to use designated for capital needs (<i>Note 3</i>)	(1,162,287)	(1,012,740)
Assets limited to use for self-insurance needs (<i>Note 3</i>)	(53,681)	(53,059)
Total	\$ (1,285,467)	\$ (1,108,520)
Financial assets available to meet general expenditures within one year	\$ 189,551	\$ 199,454

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

2. Availability and Liquidity (continued)

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 cash equivalents, short-term investments, and patient accounts receivable, on hand to meet 30 days of normal operating expenses, which are on average approximately \$105,041,000.

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, 2019, 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, 2019 and 2018

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 at December 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 7,340	\$ 66,948
Certificates of deposit	870	-
U.S. government obligations	69,163	40,618
Asset-backed securities	53,418	79,005
Corporate bonds	86,407	81,518
Municipal bonds	15,684	13,218
Foreign bonds	10,190	12,557
Government-backed securities	16,172	15,899
Federal agency bonds	4,034	1,051
Common stock	168,909	187,874
Mutual funds:		
Large cap core	26	18
All cap core	30,495	26,589
Mid cap core	-	40,864
International large cap	51,962	74,106
International small cap	-	24,791
International emerging markets	33,583	27,751
Fixed income	2,968	6,425
Hedge fund of funds	132,113	114,783
Real estate funds	167,326	157,889
Infrastructure funds	58,543	6,709
Private debt fund	6,521	-
Defensive equity fund	64,889	55,822
Emerging markets fund	47,276	41,414
Venture capital fund	494	66
Commingled funds	198,030	-
Total assets limited as to use and investments	<u>\$ 1,226,413</u>	<u>\$ 1,075,915</u>
Assets limited as to use and investments:		
Internally designated for operating needs	\$ 10,445	\$ 10,136
Internally and board-designated for capital needs (Note 2)	1,162,287	1,012,740
Designated for self-insurance needs (Note 2)	53,681	53,039
Total assets limited as to use and investments	<u>\$ 1,226,413</u>	<u>\$ 1,075,915</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

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

	2019	2018
Realized gains on sales of investments, net	\$ 48,862	\$ 5,926
Interest and dividend income, net	21,683	20,345
Change in unrealized gains (losses) on investments, net	96,738	(71,592)
Total investment income (loss)	167,283	(45,321)
Change in fair market value of interest rate swap	(9,849)	(1,814)
Other periodic pension cost excluding service cost	1,013	6,776
Other	577	5,867
Total	\$ 159,024	\$ (34,492)

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, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018

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, 2019, aggregated by the level in the fair value hierarchy within which those measurements are measured (in thousands):

	Fair Value Measurements Using			
	Balance at December 31, 2019	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use and investments				
Money market funds	\$ 7,340	\$ 7,340	\$ —	\$ —
Certificates of deposit	870	870	—	—
U.S. government obligations	69,163	—	69,163	—
Asset-backed securities	53,418	—	53,418	—
Corporate bonds	86,407	—	86,407	—
Municipal bonds	15,684	—	15,684	—
Foreign bonds	10,190	—	10,190	—
Government-backed securities	16,172	—	16,172	—
Federal agency bonds	4,034	—	4,034	—
Common stock	168,909	168,909	—	—
Mutual funds:				
Large cap core	26	26	—	—
All cap core	30,495	30,495	—	—
International large cap	51,962	51,962	—	—
International emerging markets	33,583	33,583	—	—
Fixed income	2,968	2,968	—	—
Other assets – Mutual funds	33,111	33,111	—	—
Assets measured at fair value levels	<u>\$ 584,332</u>	<u>\$ 329,264</u>	<u>\$ 255,068</u>	<u>\$ —</u>
Hedge fund of funds	132,113	—	—	—
Real estate funds	167,326	—	—	—
Infrastructure funds	58,543	—	—	—
Private debt fund	6,521	—	—	—
Defensive equity fund	64,889	—	—	—
Emerging markets fund	47,276	—	—	—
Venture capital funds	494	—	—	—
Commingled funds	198,030	—	—	—
Total assets limited as to use and investments	<u>\$ 1,259,524</u>	<u>\$ 329,264</u>	<u>\$ 255,068</u>	<u>\$ —</u>
Liabilities – Fair value of interest rate swaps	<u>\$ 15,114</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,114</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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 (in thousands):

	Fair Value Measurements Using			
	Balance 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)
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	—	—
Other assets – Mutual funds	24,802	24,802	—	—
Assets measured at fair value levels	<u>\$ 724,034</u>	<u>\$ 480,168</u>	<u>\$ 243,866</u>	<u>\$ —</u>
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	<u>\$ 1,100,717</u>	<u>\$ 480,168</u>	<u>\$ 243,866</u>	<u>\$ —</u>
Liabilities – Fair value of interest rate swaps				
	<u>\$ 5,265</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,265</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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, 2019 and 2018.

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 for years ended December 31 (in thousands):

	Interest Rate Swaps	
	2019	2018
Balance at January 1	\$ (5,265)	\$ (3,451)
Addition of interest rate swap	–	(3,494)
Change in fair market value of interest rate swaps	(9,849)	1,680
Balance at December 31	<u>\$ (15,114)</u>	<u>\$ (5,265)</u>

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, infrastructure funds, private debt fund, private equity funds, defensive equity fund, emerging markets fund, venture capital funds, and commingled 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, 2019 and 2018

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

Hedge Fund of Funds

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

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, 2019 or 2018.

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.

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.

In August 2017, the St. Elizabeth Healthcare Investment Committee voted to terminate its partnership with Evanston and redeem one hundred percent of its investment as of December 31, 2019, disbursements equaling 100 percent of St. Elizabeth Healthcare's assets had been processed by Evanston.

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, 2019 or 2018.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

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).

Morgan Stanley Prime Property Fund

PRIME is a core 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, 2019 or 2018.

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, 2019 or 2018.

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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

Infrastructure Funds

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

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, 2019 and December 31, 2018.

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

IFM makes investments into infrastructure assets and companies located principally in Europe and the Americas. IFM 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 no unfunded commitments as of December 31, 2019 and \$45,000,000 of unfunded commitments as of December 31, 2018.

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, 2019 and 2018

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

Private Debt Fund

H.I.G. WhiteHorse Principal Lending Fund, L.P.

H.I.G. WhiteHorse Principal Lending Fund, L.P. (HIG) is a private equity fund that originates tailored, senior secured financing solutions for U.S. companies. The fund originates investments in senior secured loans to lower to middle market companies that are primarily secured by the borrower's assets and current and future cash flows. St. Elizabeth Healthcare had an unfunded commitment of \$34,478,000 as of December 31, 2019.

Investors are subject to a three-year initial commitment period with the option to stay in the fund at the end of the commitment period. Redemption can be requested during June of the third year of the commitment period. Once the investor elects to exit the fund, the funds are transferred to a special purpose vehicle (SPV) fund with a term of three years, with an option by HIG to extend the term for up to two one-year periods.

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 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, 2019 and 2018, St. Elizabeth had unfunded commitments of \$2,700,000 and \$3,400,000, 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

Fort Washington Fund IX

Fund IX is a private equity fund of funds that was formed by Fort Washington Capital Partners Group in 2016. 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, 2019 and 2018, St. Elizabeth Healthcare had unfunded commitments of \$2,850,000 and \$3,850,000, 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.

Defensive Equity Fund

Neuberger Berman U.S. Equity Index PutWrite Fund LLC

Neuberger Berman U.S. Equity Index PutWrite Fund LLC (Neuberger) is a 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, 2019 or 2018.

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 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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

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, 2019 or 2018.

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.

Venture Capital Funds

The venture capital funds are comprised of Cintrifuse Syndicate Fund II, LLC (Cintrifuse) and CFSPV5, LLC dba Connetic Ventures (Connetic).

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 a 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 \$852,000 at December 31, 2019 and an unfunded commitment of \$935,000 at December 31, 2018.

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.

CFSPV5, LLC dba Connetic Ventures

Connetic is a venture capital fund that uses proprietary technology to identify early stage, post minimum viable product startup companies in core states that include but are not limited to Kentucky, Indiana, Illinois, Ohio, Pennsylvania and North Carolina. St. Elizabeth Healthcare had an unfunded commitment of \$1,600,000 as of December 31, 2019.

Connetic does not have a redemption period or redemption frequency. Voluntary withdrawal from the Fund is not permitted. Capital contributions to the fund are irrevocable. The investment term is five years. The term of the fund is ten years, subject to two one-year extensions. It is not

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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

expected or reasonable to expect any distributions during the investment period. If any distributions are made, they are anticipated to begin at the end of the 6th year.

Commingled Funds

Northern Trust Global Investments Common Funds Trust

The Northern Trust Global Investments Common Funds Trust is a commingled trust comprised of common trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Common trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in three of the common trust funds within the Northern Trust Global Investments Common Funds Trust, which are the (1) Northern Trust Common EAFE Index Fund, (2) Northern Trust Common S&P 400 Index Fund, and (3) Northern Trust Common S&P 500 Index Fund (three funds collectively referred to as “Northern Trust Funds”). The Northern Trust Funds invest predominantly in U.S. and foreign equity securities. There were no unfunded commitments at December 31, 2019.

Redemptions of shares can be made daily by providing written notice prior to cut-off times defined by Northern Trust.

Northern Trust Global Investments Collective Funds Trust

The Northern Trust Global Investments Collective Funds Trust is a commingled trust comprised of collective trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Collective trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in the Northern Trust Collective S&P 500 Index Fund, which invests predominantly in U.S. equity securities. There were no unfunded commitments at December 31, 2019.

Redemptions of shares can be made daily by providing written notice prior to cut-off times defined by Northern Trust. These investments are held in the defined benefit pension asset portfolio only.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

5. Property, Plant and Equipment

Property, plant, and equipment consist of the following at December 31 (in thousands):

	2019	2018
Land	\$ 23,214	\$ 21,248
Buildings, building services, and land improvements	616,762	605,901
Equipment	370,131	398,536
Construction in process	137,253	34,703
Total cost	1,147,360	1,060,388
Less accumulated depreciation and amortization	(603,220)	(610,527)
Net property and equipment	\$ 544,140	\$ 449,861

Depreciation expense totaled \$67,372,000 and \$68,689,000 for the years ended December 31, 2019 and 2018, respectively, and is 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 Center”). The total building and parking garage associated with the Cancer Center has an estimated cost of \$105,766,000 and construction began in 2018. St. Elizabeth Healthcare incurred construction costs of \$53,868,000 and \$13,837,000 in 2019 and 2018, respectively, which are included in construction in process at December 31, 2019. The remaining estimated commitment on the building and parking garage associated with the Cancer Center is \$38,060,000 at December 31, 2019.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

6. Goodwill and Intangible Assets

Intangible assets of St. Elizabeth Healthcare at December 31 are summarized as follows (in thousands):

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets	\$ 20,974	\$ 12,796	\$ 19,874	\$ 10,842
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-competition agreements ranging from one to twenty years. Amortization expense was \$1,954,000 and \$1,763,000 for the years ended December 31, 2019 and 2018, respectively, and is included in depreciation and amortization expense.

Estimated amortization expense for the years ended December 31 is as follows (in thousands):

	Amount
2020	\$ 1,982
2021	1,236
2022	510
2023	510
2024	510
Thereafter	3,430
Total	\$ 8,178

St. Elizabeth Healthcare annually performs an evaluation of goodwill for impairment considering qualitative and quantitative factors. There are no indicators that an impairment loss should be recognized in 2019.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

6. Goodwill and Intangible Assets (continued)

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

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 17,651	\$ 17,651
Current year activity	-	-
Balance at December 31	<u>\$ 17,651</u>	<u>\$ 17,651</u>

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 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

7. Patient Service Revenue (continued)

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 \$2,341,000 and \$3,561,000 for the years ended December 31, 2019 and 2018, respectively.

Cost report settlements due from St. Elizabeth Healthcare were approximately \$28,513,000 and \$27,294,000 at December 31, 2019 and 2018, 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, 2019 and 2018, 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 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.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

7. Patient Service Revenue (continued)

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 (in thousands):

	2019	2018
Medicare	\$ 483,558	\$ 450,559
Medicaid	165,981	177,649
Anthem Blue Cross	320,995	289,069
Humana	46,022	43,114
United Healthcare	170,691	157,155
Other insurance and workers’ compensation	142,218	142,115
Self-pay	14,779	13,336
Patient service revenue	\$ 1,344,244	\$ 1,272,997

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

8. Long-Term Debt

Long-term debt at December 31 consists of the following (in thousands):

	2019	2018
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 (1.25 percent and 1.57 percent at December 31, 2019 and 2018, respectively)	\$ 25,800	\$ 27,225
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	45,150	46,425
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 (1.93 percent and 2.45 percent at December 31, 2019 and 2018, respectively)	47,425	48,725
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	77,285	79,950
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2019A, maturing in various amounts through 2049 with an adjusting rate set every 30 days (1.78 percent at December 31, 2019)	74,223	–
Total debt	269,883	202,325
Less current portion	(8,479)	(6,665)
Less unamortized debt issuance costs	(2,421)	(1,987)
Plus unamortized premium	8,419	9,668
Long-term debt	\$ 267,402	\$ 203,341

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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 Series 2015A and 2015B bonds were originally issued pursuant to a master trust indenture dated June 15, 1991, as supplemented by the eleventh and twelfth supplemental trust indentures dated December 14, 2015 and December 28, 2015, respectively. The bonds were restated pursuant to the amended and restated master trust indenture dated May 1, 2016, as supplemented by the first supplemental trust indenture dated May 12, 2016. 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 principal amount plus interest. The holder of the Series 2015B bonds may require St. Elizabeth Healthcare to

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

8. Long-Term Debt (continued)

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 the amended and restated master trust indenture dated May 1, 2016, as supplemented by the first supplemental trust indenture dated May 12, 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.

In June 2019, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Adjustable Rate Hospital Facilities Revenue Bonds, Series 2019A of \$75,000,000. The Series 2019A 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 revised and restated master trust indenture dated May 1, 2016, as supplemented by the fourth supplemental trust indenture dated June 1, 2019. Redemption of the Series 2019A 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 2019A bonds are subject to a mandatory tender and purchase by St. Elizabeth Healthcare on June 1, 2029.

St. Elizabeth Healthcare has unconditionally guaranteed the payment of principal and interest on the Series 2009B, Series 2015A, Series 2015B, Series 2016, and Series 2019A 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, 2019 and 2018

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 (in thousands):

	<u>Amount</u>
2020	\$ 8,479
2021	8,708
2022	8,983
2023	9,304
2024	9,657
Thereafter	<u>224,752</u>
Total payments	<u>\$ 269,883</u>

Total interest paid was approximately \$7,792,000 and \$7,046,000 for the years ended December 31, 2019 and 2018, 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 \$25,800,000 and \$27,225,000 at December 31, 2019 and 2018, 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 \$47,425,000 and \$48,725,000 at December 31, 2019 and 2018, 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.

In 2018, St. Elizabeth Healthcare entered into an interest rate swap agreement on anticipated variable rate debt of \$75,000,000 issued in 2019. The interest rate swap has a 30-year term and a notional amount of \$74,223,000 and \$75,000,000 as of December 31, 2019 and 2018, respectively. 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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

8. Long-Term Debt (continued)

and recognized as an adjustment to interest expense. The scheduled principal repayments of the interest rate swap 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, 2019 and 2018 was a liability of \$15,114,000 and \$5,265,000, respectively, and included on the consolidated balance sheets.

Net cash paid under the interest rate swap agreements was \$720,000 and \$679,000 for the years ended December 31, 2019 and 2018, respectively, and are included as an increase in interest expense.

In November 2019, 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 1.76 percent at December 31, 2019, for a total interest rate of 2.16 percent at December 31, 2019. The line of credit has a maximum commitment of \$40,000,000 and there was no outstanding balance at December 31, 2019 or 2018. 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 operating leases primarily for facilities and equipment, expiring at various dates through February 2038. Some leases contain renewal options. The weighted average remaining lease term under operating leases at December 31, 2019 is 10.77 years. Minimum lease payments include rents for renewal options when it is known to be likely St. Elizabeth Healthcare will exercise those options. The right of use asset and related lease liability have been calculated using discount rates ranging from 2.00 percent to 2.90 percent. The weighted average discount rate under operating leases is 2.70 percent at December 31, 2019.

The leases require St. Elizabeth Healthcare to pay taxes, insurance, utilities, and maintenance costs. These costs are typically billed separately under the lease and are variable in nature; therefore, St. Elizabeth Healthcare determined these costs should be excluded from the measurement of the amounts recorded as right of use assets and lease liabilities.

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

9. Operating Leases (continued)

When readily determinable, St. Elizabeth Healthcare utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, St. Elizabeth Healthcare's incremental borrowing rate is used.

Total expenses recognized under operating leases was \$15,828,000 for the year ended December 31, 2019. Expenses related to leases with a term of 12 months or less was \$1,352,000. Cash paid in 2019 for operating leases was \$14,900,000, which is included in operating cash flows on the consolidated statement of cash flows.

Noncash right of use assets obtained for operating lease obligations for the year ended December 31, 2019 were \$7,756,000. Future minimum rent on noncancelable leases as of December 31, 2019 for each of the next five years, and in aggregate, thereafter, are as follows for years ending December 31 (in thousands):

	<u>Amount</u>
2020	\$ 14,191
2021	14,473
2022	12,993
2023	11,996
2024	11,033
Thereafter	<u>67,850</u>
Total future minimum lease payments	132,536
Less imputed remaining interest	<u>(18,523)</u>
Present value of net minimum lease payments	114,013
Less current obligation portion of lease liabilities	<u>(12,462)</u>
Long term lease liabilities	<u>\$ 101,551</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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, 2019 are as follows (in thousands):

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
Salaries and wages	\$ 326,766	\$ 186,126	\$ 136,386	\$ 942	\$ 650,220
Employee benefits	68,777	37,516	66,321	170	172,784
Purchased services	47,208	1,429	36,820	658	86,115
Interest	3,736	-	3,114	12	6,862
Depreciation and amortization	35,890	1,900	31,434	120	69,344
Supplies	219,564	21,469	14,291	248	255,572
Other	29,924	16,890	59,330	301	106,445
Total	\$ 731,865	\$ 265,330	\$ 347,696	\$ 2,451	\$ 1,347,342

Expenses related to providing these services for the year ended December 31, 2018 are as follows (in thousands):

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
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, 2019 and 2018

10. Functional Expenses (continued)

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 (final average pay formula). For hospital employees hired on or after July 1, 2009, benefits accumulated 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.

In 2017, St. Elizabeth Healthcare approved a hard freeze of the pension plan effective December 31, 2017, with participants' accrued benefits frozen as of that date.

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 nonelective 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, 2019 and 2018, St. Elizabeth Healthcare recorded contribution expense of \$39,181,000 and \$37,859,000, respectively, to its defined contribution plan.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

11. Pension and Other Retirement Plans (continued)

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):

	2019	2018
Net periodic pension cost		
Service cost	\$ 146	\$ 145
Interest cost	17,222	15,303
Expected return on plan assets	(21,794)	(24,473)
Amortization of net loss	3,559	2,394
Net periodic pension cost	\$ (867)	\$ (6,631)

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):

	2019	2018
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 437,643	\$ 464,188
Service cost	146	145
Interest cost	17,222	15,303
Actuarial loss (gain)	104,886	(20,625)
Administrative expenses	-	(300)
Benefits paid	(16,798)	(21,068)
Projected benefit obligation at end of year	543,099	437,643
 Change in plan assets		
Fair value of plan assets at beginning of year	417,008	437,714
Actual return on plan assets	75,721	(6,127)
Employer contributions	59,995	6,789
Administrative expenses	-	(300)
Benefits paid	(16,798)	(21,068)
Fair value of plan assets at end of year	535,926	417,008
 Funded status at end of year	\$ (7,173)	\$ (20,635)
 Accrued pension liability	\$ (7,173)	\$ (20,635)

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

11. Pension and Other Retirement Plans (continued)

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

	2019	2018
Discount rate – Benefit obligation	3.41%	4.06%
Discount rate – Net periodic benefit cost	4.06%	3.38%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	5.40%	5.74%

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 (in thousands)

	2019	2018
Change in net assets without donor restrictions recognized:		
Net actuarial loss	\$ (50,959)	\$ (9,975)
Amortization of net actuarial loss	3,559	2,394
Total recognized in the consolidated statements of operations and changes in net assets	\$ (47,400)	\$ (7,581)

Included as a reduction in net assets without donor restrictions is the amount of \$125,120,000, that has not yet been recognized in net periodic pension expense as of December 31, 2019.

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, 2020 is \$8,301,000.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

11. Pension and Other Retirement Plans (continued)

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

	2019	2018
Fixed income mutual funds	80%	75%
Equity mutual funds	6	10
Real estate funds	2	6
Private equity funds	2	2
Infrastructure funds	4	5
Cash and cash equivalents	6	2
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 99 percent as of December 31, 2019, the average target allocation policy for the Plans’ investments per the glide path transitioned to 85 percent fixed income, 7 percent U.S. and non-U.S. equity, 5 percent real estate/infrastructure, and 3 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, 2019 and 2018

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, 2019, aggregated by the level in the fair value hierarchy as defined in Note 1 (in thousands):

	Fair Value Measurements Using			
	Balance at December 31, 2019	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 30,810	\$ 30,810	\$ —	\$ —
U.S. Government Obligations	29,489	—	29,489	—
Asset-backed securities	5,820	—	5,820	—
Corporate bonds	338,094	—	338,094	—
Municipal bonds	6,695	—	6,695	—
Foreign bonds	45,634	—	45,634	—
Mutual funds – International large cap	10,154	10,154	—	—
Common collective trust – Money market funds	1,866	—	1,866	—
Assets measured at fair value levels	<u>468,562</u>	<u>40,964</u>	<u>427,598</u>	<u>—</u>
Real estate funds	12,699	—	—	—
Private equity funds	10,157	—	—	—
Infrastructure funds	21,047	—	—	—
Commingled funds	23,461	—	—	—
Assets measured at net asset value	<u>67,364</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 535,926</u>	<u>\$ 40,964</u>	<u>\$ 427,598</u>	<u>\$ —</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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 (in thousands):

	Fair Value Measurements Using			
	Balance 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)
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	<u>362,532</u>	<u>48,207</u>	<u>314,325</u>	<u>—</u>
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	<u>54,476</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 417,008</u>	<u>\$ 48,207</u>	<u>\$ 314,325</u>	<u>\$ —</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

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 \$543,099,000 and \$437,643,000 at December 31, 2019 and 2018, respectively.

St. Elizabeth Healthcare contributed \$59,995,000 to its defined benefit pension plan during 2019. Due to the 99 percent funded status of the Plan, St. Elizabeth Healthcare is not required to make any contributions in 2020.

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 (in thousands):

	<u>Amount</u>
2020	\$ 21,594
2021	23,196
2022	24,928
2023	26,397
2024	27,237
2025 – 2029	144,663

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, 2019 and 2018.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2019 and 2018

13. Subsequent Events

St. Elizabeth Healthcare has evaluated and disclosed any subsequent events through April 7, 2020, which is the date the consolidated financial statements were issued.

The large-scale COVID-19 pandemic may have a material adverse effect on future patient volumes, diversion of patients, staffing shortages, and business operations over an extended period of time. While it is not yet possible to estimate the financial impact, a large-scale pandemic could have a material adverse effect on revenue, liquidity, and operating results of many organizations nationally, including St. Elizabeth Healthcare.

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

Supplementary Information

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Balance Sheets

December 31, 2019 and 2018
(in thousands)

	2019				2018
	Combined Hospitals	Combined Physician Groups	Eliminations	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 39,000	\$ (932)	\$ –	\$ 38,068	\$ 56,569
Short-term investments	10,445	–	–	10,445	10,136
Patient accounts receivable	134,459	11,823	–	146,282	133,094
Inventories and supplies	30,744	106	–	30,850	30,627
Prepaid expenses and other assets	21,950	2,658	–	24,608	22,773
Total current assets	236,598	13,655	–	250,253	253,199
Cash and cash equivalents-restricted	17,379	–	–	17,379	7,701
Assets limited as to use	1,215,968	–	–	1,215,968	1,065,779
Right of use operating lease assets	60,353	85,356	(33,743)	111,966	–
Property, plant and equipment, net	535,159	8,981	–	544,140	449,861
Goodwill	4,489	13,162	–	17,651	17,651
Intangible assets	8,158	20	–	8,178	9,032
Foundation pledge receivables	9,431	–	–	9,431	6,103
Other assets	67,514	14,005	(257)	81,262	65,407
Total assets	\$2,155,049	\$ 135,179	\$ (34,000)	\$2,256,228	\$1,874,733
Liabilities and net assets					
Current liabilities:					
Accounts payable	\$ 64,428	\$ 7,161	\$ –	\$ 71,589	\$ 64,304
Accrued employee compensation	92,326	44,645	–	136,971	126,030
Accrued interest	1,104	–	–	1,104	980
Accrued third-party settlements	28,513	–	–	28,513	27,294
Deferred revenue	4,133	–	–	4,133	4,178
Other current liabilities	4,248	171	–	4,419	7,052
Current portion of long-term debt	8,479	–	–	8,479	6,665
Current portion of lease liabilities - Operating	5,594	9,338	(2,470)	12,462	–
Total current liabilities	208,825	61,315	(2,470)	267,670	236,503
Long-term debt	267,402	–	–	267,402	203,341
Long-term lease liabilities - Operating	57,339	75,742	(31,530)	101,551	–
Liability for self-insurance	55,910	2,548	–	58,458	56,499
Accrued pension liability	7,173	–	–	7,173	20,635
Fair value of interest rate swap	15,114	–	–	15,114	5,265
Other long-term liabilities	35,351	–	–	35,351	29,928
Total liabilities	647,114	139,605	(34,000)	752,719	552,171
Net assets:					
Net assets without donor restriction	1,487,987	(4,426)	–	1,483,561	1,309,467
Net assets with donor restriction	19,974	–	–	19,974	13,002
Total net assets	1,507,961	(4,426)	–	1,503,535	1,322,469
Noncontrolling interest	(26)	–	–	(26)	93
Total net assets	1,507,935	(4,426)	–	1,503,509	1,322,562
Total liabilities and net assets	\$2,155,049	\$ 135,179	\$ (34,000)	\$2,256,228	\$1,874,733

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Statements of Operations and Changes in Net Assets

December 31, 2019 and 2018
(in thousands)

	2019				2018
	Combined			Total	
	Combined Hospitals	Physician Groups	Eliminations		
Patient service revenue	\$ 1,126,557	\$ 217,687	\$ -	\$ 1,344,244	\$ 1,272,997
Net assets released from restriction for operations	973	-	-	973	702
Other revenue	90,559	139,668	(166,217)	64,010	48,895
Total revenue	1,218,089	357,355	(166,217)	1,409,227	1,322,594
Expenses:					
Salaries and wages	439,371	210,849	-	650,220	611,254
Employee benefits	127,228	45,556	-	172,784	160,451
Purchased services	209,127	37,886	(160,898)	86,115	89,798
Interest	6,862	-	-	6,862	5,964
Depreciation and amortization	67,003	2,341	-	69,344	70,467
Supplies	233,798	22,231	(457)	255,572	228,399
Other	84,922	26,385	(4,862)	106,445	97,600
Total expenses	1,168,311	345,248	(166,217)	1,347,342	1,263,933
Operating income	49,778	12,107	-	61,885	58,661
Unrestricted contributions	401	-	-	401	348
Other gains (losses), net	158,827	197	-	159,024	(34,492)
Excess of revenue over expenses	209,006	12,304	-	221,310	24,517
Excess of expenses over revenue attributable to noncontrolling interest	(119)	-	-	(119)	(126)
Excess of revenue over expenses attributable to St. Elizabeth Medical Center, Inc.	209,125	12,304	-	221,429	24,643
Net assets without donor restriction:					
Transfer between entities	11,316	(11,316)	-	-	-
Pension change other than net periodic costs	(47,400)	-	-	(47,400)	(7,581)
Other	(79)	-	-	(79)	(80)
Net assets released from restriction for capital	144	-	-	144	388
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	173,106	988	-	174,094	17,370
Net assets with donor restrictions:					
Net increase in cash, cash equivalents, and restricted cash	8,089	-	-	8,089	6,642
Net assets released from restriction	(1,117)	-	-	(1,117)	(1,090)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	6,972	-	-	6,972	5,552
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	180,078	988	-	181,066	22,922
Noncontrolling interest:					
Excess of expense over revenue attributable to noncontrolling interest	(119)	-	-	(119)	(126)
Paid in capital/distributions to equity owners	-	-	-	-	219
Increase in net assets attributable to noncontrolling interest	(119)	-	-	(119)	93
Increase in net assets	179,959	988	-	180,947	23,015
Net assets at beginning of period	1,327,976	(5,414)	-	1,322,562	1,299,547
Net assets at end of period	\$ 1,507,935	\$ (4,426)	\$ -	\$ 1,503,509	\$ 1,322,562