



UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Financial Statements
and Supplementary Information

December 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

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Independent Auditors' Report

The Board of Directors
University Hospitals Health System, Inc.:

We have audited the accompanying consolidated financial statements of University Hospitals Health System, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial position of University Hospitals Health System, 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 U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the System has changed its method of accounting for leasing transactions as of January 1, 2019 due to the adoption of Financial Accounting Standards Board's Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

Cleveland, Ohio
April 1, 2020

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands of dollars)

| Assets | 2019 | 2018 |
|------------------------------------|--------------|-----------|
| Current assets: | | |
| Cash and cash equivalents | \$ 260,859 | 288,517 |
| Patient accounts receivable | 540,993 | 568,227 |
| Other receivables | 49,243 | 70,155 |
| Other current assets | 191,487 | 172,548 |
| Total current assets | 1,042,582 | 1,099,447 |
| Investments | 1,807,298 | 1,737,542 |
| Property and equipment, net | 1,830,992 | 1,736,862 |
| Other assets: | | |
| Investments in affiliates | 112,789 | 100,557 |
| Beneficial interest in Foundations | 157,937 | 162,724 |
| Perpetual trusts | 209,498 | 189,303 |
| Other | 266,918 | 197,319 |
| Total other assets | 747,142 | 649,903 |
| Total assets | \$ 5,428,014 | 5,223,754 |

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands of dollars)

| Liabilities and Net Assets | 2019 | 2018 |
|---|---------------------|------------------|
| Current liabilities: | | |
| Current installments of long-term debt | \$ 24,237 | 24,446 |
| Accounts payable and accrued expenses | 483,568 | 447,967 |
| Other current liabilities | 138,020 | 148,453 |
| Estimated amounts due to third-party payors | 18,402 | 20,569 |
| Total current liabilities | <u>664,227</u> | <u>641,435</u> |
| Long-term debt, less current installments | 1,201,038 | 1,227,641 |
| Revolving credit line | 40,000 | 140,000 |
| Other liabilities | 822,951 | 626,748 |
| Total liabilities | <u>2,728,216</u> | <u>2,635,824</u> |
| Net assets: | | |
| Without donor restrictions | 1,823,574 | 1,794,625 |
| With donor restrictions | 876,224 | 793,305 |
| Total net assets | <u>2,699,798</u> | <u>2,587,930</u> |
| Total liabilities and net assets | <u>\$ 5,428,014</u> | <u>5,223,754</u> |

See accompanying notes to consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands of dollars)

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Revenues: | | |
| Net patient service revenue | \$ 4,040,909 | 3,893,916 |
| Other revenue | <u>255,696</u> | <u>223,868</u> |
| Total revenues | <u>4,296,605</u> | <u>4,117,784</u> |
| Expenses: | | |
| Salaries, wages, and employee benefits | 2,458,351 | 2,325,296 |
| Purchased services | 286,767 | 281,733 |
| Patient care supplies | 824,412 | 723,608 |
| Other supplies | 42,649 | 46,359 |
| Insurance | 44,931 | 49,191 |
| Other | 352,699 | 340,792 |
| Depreciation and amortization | 182,192 | 163,562 |
| Interest | 44,126 | 46,212 |
| Special charges | 1,742 | 7,599 |
| Losses in excess of insurance | <u>93,070</u> | <u>—</u> |
| Total expenses | <u>4,330,939</u> | <u>3,984,352</u> |
| Net operating (loss) income | (34,334) | 133,432 |
| Nonoperating revenues (expenses): | | |
| Net investment income (loss) | 157,555 | (19,593) |
| Change in fair value of derivative instruments | (28,287) | 10,195 |
| Loss on extinguishment of debt | — | (442) |
| Pension settlement costs | — | (42,539) |
| Other nonservice periodic pension costs | <u>(23,334)</u> | <u>(21,496)</u> |
| Excess of revenues over expenses | <u>\$ 71,600</u> | <u>59,557</u> |

See accompanying notes to consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands of dollars)

| | Without donor restrictions | With donor restrictions | Total |
|--|---------------------------------------|------------------------------------|------------------|
| Net assets at December 31, 2017 | \$ 1,695,259 | 812,307 | 2,507,566 |
| Excess of revenues over expenses | 59,557 | — | 59,557 |
| Investment loss | — | (2,925) | (2,925) |
| Contributions | — | 52,480 | 52,480 |
| Change in beneficial interest in Foundations and perpetual trusts | — | (33,862) | (33,862) |
| Net assets released from restrictions used for operations | — | (31,259) | (31,259) |
| Pension settlement costs | 42,539 | — | 42,539 |
| Pension liability adjustment | (6,682) | — | (6,682) |
| Net assets released from restrictions for acquisition of property and equipment | 3,436 | (3,436) | — |
| Contributed capital | 516 | — | 516 |
| | <hr/> | <hr/> | <hr/> |
| Increase (decrease) in net assets | 99,366 | (19,002) | 80,364 |
| | <hr/> | <hr/> | <hr/> |
| Net assets at December 31, 2018 | 1,794,625 | 793,305 | 2,587,930 |
| Excess of revenues over expenses | 71,600 | — | 71,600 |
| Investment income | — | 32,954 | 32,954 |
| Contributions | — | 68,448 | 68,448 |
| Change in beneficial interest in Foundations and perpetual trusts | — | 15,408 | 15,408 |
| Net assets released from restrictions used for operations | — | (32,697) | (32,697) |
| Pension liability adjustment | (45,712) | — | (45,712) |
| Net assets released from restrictions for acquisition of property and equipment | 1,194 | (1,194) | — |
| Contributed capital | 1,867 | — | 1,867 |
| | <hr/> | <hr/> | <hr/> |
| Increase in net assets | 28,949 | 82,919 | 111,868 |
| | <hr/> | <hr/> | <hr/> |
| Net assets at December 31, 2019 | \$ <u>1,823,574</u> | <u>876,224</u> | <u>2,699,798</u> |

See accompanying notes to consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands of dollars)

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|------------------|
| Operating activities: | | |
| Change in net assets | \$ 111,868 | 80,364 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 182,741 | 163,562 |
| Amortization of bond premium, discount, and financing costs | (2,818) | (477) |
| Loss on extinguishment of debt | — | 442 |
| Change in beneficial interest in foundations and perpetual trusts | (15,409) | 33,862 |
| Net realized and unrealized investment (gains) losses | (141,736) | 63,568 |
| Pension liability adjustment | 45,712 | 6,682 |
| Net change attributable to investments in joint ventures | (12,234) | (4,251) |
| Restricted revenue and investment income | 624 | 2,916 |
| Net change in operating assets and liabilities: | | |
| Patient accounts receivable | 27,234 | (3,353) |
| Other current assets and receivables | 1,973 | (29,417) |
| Accounts payable, accrued expenses, and other current liabilities | 23,076 | 99,475 |
| Other assets and liabilities | 78,725 | (111,730) |
| Net cash provided by operating activities | <u>299,756</u> | <u>301,643</u> |
| Investing activities: | | |
| Acquisition of property and equipment | (276,024) | (236,161) |
| Proceeds from sales of investments | 1,370,272 | 651,962 |
| Purchases of investments | <u>(1,409,138)</u> | <u>(594,735)</u> |
| Net cash used in investing activities | <u>(314,890)</u> | <u>(178,934)</u> |
| Financing activities: | | |
| Proceeds from restricted revenue and investment income (loss) | (624) | (2,916) |
| Repayment of long-term debt | (24,430) | (372,794) |
| Proceeds from issuance of long-term debt | — | 352,370 |
| Bond issuance costs | 436 | (3,192) |
| (Payments on) proceeds from revolving credit borrowing | (100,000) | 100,000 |
| Increase in treasury service agreement | 1,248 | 1,404 |
| Net cash (used in) provided by financing activities | <u>(123,370)</u> | <u>74,872</u> |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (138,504) | 197,581 |
| Cash, cash equivalents, and restricted cash at beginning of year | <u>399,363</u> | <u>201,782</u> |
| Cash, cash equivalents, and restricted cash at end of year | 260,859 | 399,363 |
| Restricted cash | <u>—</u> | <u>(110,846)</u> |
| Total cash and cash equivalents | <u>\$ 260,859</u> | <u>288,517</u> |
| Supplemental cash flow information: | | |
| Change in accounts payable related to property and equipment | 844 | 546 |

See accompanying notes to consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of dollars)

(1) Organization and Principles of Consolidation

University Hospitals Health System, Inc. (the System) is the parent of various corporations involved in the delivery of healthcare services, including a network of physicians, outpatient centers, hospitals, wellness, occupational health, skilled nursing, elder health, rehabilitation, and home care services that operate in the Northeast Ohio region. University Hospitals Cleveland Medical Center (UHCMC) is the System's major subsidiary. The System provides certain management and planning services to its subsidiaries. The System also has joint venture investments in other healthcare systems (note 13), which are accounted for under the equity method.

The consolidated financial statements include the accounts of the System and its subsidiaries. All significant intercompany transactions have been eliminated in the consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

The System considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

Cash equivalents that are held by outside investment managers and are pooled with other investments are classified as investments. Cash, cash equivalents, and investments that are restricted per contractual or regulatory requirements are classified as donor restricted or trustee held funds.

(b) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets. The System has designated its investments as a trading portfolio. Alternative investments, which include private equity, real estate, hedge funds, and distressed debt investments, are reported at fair value as estimated and reported by the general partners based upon the underlying net asset value of the fund or partnership as a practical expedient.

Interest, dividends, unrealized and realized gains and losses from all investments without restrictions are recorded within nonoperating revenues on the consolidated statements of operations and changes in net assets as investment income (loss). Investment income (loss) on investments with restrictions is recorded according to the donor's intentions and reported as investment income (loss) with donor restrictions within the consolidated statements of operations and changes in net assets.

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term, and that such changes could materially affect the amounts reported in the consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of dollars)

(c) Long-term Debt – Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Capitalized interest totaled \$1,934 and \$2,450 for the years ended December 31, 2019 and 2018, respectively.

Deferred financing costs are capitalized when incurred, and then amortized during the period in which the debt is outstanding. Net deferred financing costs totaled \$10,771 and \$11,945 for the years ended December 31, 2019 and 2018 and are reported as a component of long-term debt on the consolidated balance sheets.

(d) Property and Equipment and Other Long-Lived Assets

Additions and improvements to property and equipment are capitalized at cost. Costs for maintenance and repairs are charged to expense as incurred. Depreciation on property and equipment is computed on the straight-line basis over the estimated useful lives of the respective assets. Buildings and improvements are depreciated over estimated useful lives ranging generally from 5 to 50 years. Leasehold improvements are depreciated over the lesser of the life of the asset or the term of the lease. Estimated useful lives of equipment vary generally from 3 to 20 years.

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management has reviewed the carrying amount of these assets and has determined that they are not impaired as of December 31, 2019.

(e) Contribution and Grant Revenue

Unconditional donor promises to give cash, marketable securities, and other assets to the System are recognized and reported at fair value net of fund-raising costs, at the date the promise is received to the extent estimated to be collectible.

A contribution, gift or grant is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome. The System has received conditional promises to give of \$246,840 and \$222,239 at December 31, 2019 and 2018, respectively, which have not been recognized as assets or revenues in the consolidated financial statements.

Unconditional contribution and grant revenue with no purpose or time restrictions are included in the consolidated statements of operations and changes in net assets as other revenue within net assets without donor restrictions. Contributions that are received with donor imposed restrictions that limit the use of the asset are reported in the consolidated statements of operations and changes in net assets as contribution revenue with donor restrictions. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are

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December 31, 2019 and 2018

(In thousands of dollars)

transferred to net assets without donor restrictions. Contributions restricted for the acquisition of capital assets are released from restrictions when the capital asset is placed in service.

Contributions that have been received from various corporations, foundations, and individuals for the years ended December 31, 2019 and 2018 are reported as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|------------------|---------------|
| Without donor restrictions | \$ 3,631 | 2,214 |
| With donor restrictions | 68,448 | 52,480 |
| | <u>\$ 72,079</u> | <u>54,694</u> |

Outstanding pledges receivable are recorded at their net present value and reported in current other assets or noncurrent other assets on the consolidated balance sheet. The balances at December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------------|----------------|
| Pledges due: | | |
| In less than one year | \$ 56,535 | 44,044 |
| In one year to five years | 64,262 | 50,716 |
| In more than five years | 45,581 | 46,701 |
| | 166,378 | 141,461 |
| Discount | (16,236) | (14,655) |
| Allowance for doubtful pledges | (3,655) | (3,013) |
| | <u>\$ 146,487</u> | <u>123,793</u> |

Amounts received from government agencies are reported in the consolidated statements of operations and changes in net assets as other revenue within net assets without donor restrictions since government grant restrictions are met in the same reporting period as revenue is recognized. Grants revenue totaled \$6,391 and \$6,377 for the years ended December 31, 2019 and 2018, respectively.

The System has elected to report restricted contributions and grants whose restrictions are met in the same reporting period as the revenue is recognized as other revenue with net assets without donor restrictions.

(f) Net Patient Service Revenue

The System's net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (e.g., Medicare, Medicaid, and commercial insurance carriers), and others and includes variable consideration for retroactive revenue adjustments due to settlement of

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

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(In thousands of dollars)

audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Net patient service revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total actual charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the System does not believe it is required to provide additional services to the patient.

As a result of all its performance obligations relating to patient contracts being less than a year in duration, the System has elected to apply the optional exemption in Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 606-10-50-14(a). This exemption does not require the System to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. These unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient services at the end of the reporting period.

The System records revenue based on standard charges for services provided, reduced by variable consideration resulting from explicit contractual adjustments provided to third-party payors and implicit price concessions provided to patients as reductions from established billing rates. The System determines its estimates of explicit and implicit price concessions based on historical data from experience, market condition and other factors.

Explicit and implicit price concessions are recorded at the time the performance obligations are satisfied in exchange for providing services to patients. Any changes to these concessions, as a result of subsequent reassessment, are recognized in the period the change is identified as adjustments to net patient service revenue. The amounts recognized due to changes in estimates of explicit and implicit price concessions for the years ended December 31, 2019 and 2018 is not significant. Subsequent changes that are determined to be the result of an adverse change in the payor's ability to pay are recorded as bad debt expense. There was no bad debt expense for the years ended December 31, 2019 and 2018.

The System provides care to patients who do not have the ability to pay and who qualify for charity care pursuant to the established policies of the System and the State of Ohio's Care Assurance Program (HCAP). Charity care is defined as services for which patients have the obligation to pay, but do not have the ability to do so. The charges for charity care provided by the System are entirely offset by the related implicit price concessions and therefore, are not recognized as net patient service revenue. The estimated cost of charity care provided in the years ended December 31, 2019 and 2018 was \$49,612 and \$46,800, respectively. The System determines its estimate of the cost of charity care

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of dollars)

by applying an overall cost to charge ratio to the charges associated with patients who qualify for charity care.

(g) Other Revenue

The System's other revenue consists of contracts that vary in duration and in performance obligations. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

(h) Derivative Financial Instruments

Derivative financial instruments are reported at fair value and are utilized by the System to manage: (i) interest rate risk; (ii) the fixed and floating interest rate mix of the System's total debt portfolio; and (iii) related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional amount upon which the payments are based. The System does not use derivative financial instruments for trading purposes. The System's interest rate swap agreements are not designated as hedging instruments.

The System minimizes credit risk related to derivative financial instruments by requiring high credit standards for its counterparties and periodic settlements. The counterparties to these contractual arrangements are financial institutions that carry investment-grade credit ratings with which the System also has other financial relationships. The System is exposed to credit loss in the event of nonperformance by these counterparties. To mitigate credit exposure, the swap agreements contain certain collateral provisions applicable to both the System and the counterparties.

The related liability to counterparties under interest rate swap agreements is included in noncurrent other liabilities and the related asset from counterparties under swap agreements is included in noncurrent other assets on the consolidated balance sheets. Gains and losses on derivative financial instruments are recorded in the change in fair value of derivative instruments within the consolidated statements of operations and changes in net assets. The net amount paid or received under the swap agreements is recorded as a component of interest expense in the consolidated statements of operations and changes in net assets (note 9).

(i) Income Taxes

The System and most of its subsidiaries, including UHCMC, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes pursuant to Section 501(a) of the Code. The System also has certain subsidiaries that are taxable for federal income tax purposes (note 17).

The System must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

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December 31, 2019 and 2018

(In thousands of dollars)

(j) Loss Contingencies

Liabilities for asserted or unasserted claims and assessments are recorded when an unfavorable outcome of a matter is deemed to be both probable and the loss contingency is reasonably estimable.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Treasury Service Agreement

The System included amounts due to a third party financing company for the use under a Supplemental Treasury Services Agreement (Agreement), entered into during 2013, within accounts payable in the accompanying consolidated balance sheets. Cash flows related to the Agreement are classified as financing activities in the consolidated statements of cash flows. The Agreement is a \$70,000 unsecured trade payables and corporate card float program that is noninterest bearing and is not collateralized. The Agreement includes customary covenants as well as customary events of defaults. The amounts outstanding on the Agreement fluctuate on a daily basis, but as of December 31, 2019 and 2018, the amount outstanding included within accounts payable was \$65,196 and \$63,948, respectively.

(m) Leases

Starting January 1, 2019, the System accounts for leases in accordance with ASC Topic 842, *Leases*. The System determines if an arrangement is or contains a lease at contract inception. The System recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expenses for lease payments are recognized on a straight-line basis over the lease term.

For finance leases, the lease liability is initially measured the same manner as operating leases, and is subsequently measured at amortized cost using the effective-interest method. The ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or lease term, unless the lease transfers ownership to the System or the System is reasonably certain to exercise an option to purchase the underlying asset. Amortization of the ROU asset and interest expense of the lease liability are recognized and presented separately.

The System has elected not to recognize ROU assets and lease liabilities for short-term leases that have a term of 12 months or less. The System recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

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(In thousands of dollars)

Several key estimates and judgments are used to determine the ROU assets including the discount rate used to discount the unpaid lease payments to present value, the lease term (the noncancelable period plus any additional periods covered by either a System option to extend (or not to terminate) the lease that the System is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor), and lease payments (including fixed payments owed over the lease term and the exercise price of a System option to purchase the underlying asset if the System is reasonably certain to exercise the option).

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the System cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the System uses its incremental borrowing rate as the discount rate for the lease. The System's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the System does not generally borrow on a collateralized basis, it uses published index interest rates it would pay for noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.

The System monitors anything that requires a reassessment. If needed, an adjustment is made to the ROU asset's carrying amount unless doing so would reduce the carrying amount of the ROU asset to less than zero. In that case, the adjustment amount would be recorded in profit or loss.

Operating and finance lease ROU assets are included in other assets within the consolidated balance sheet. The current portion of operating and finance lease liabilities is included in other current liabilities and the long-term portion is presented within other liabilities.

(n) Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standard Update (ASU) 2016-02 *Leases (Topic 842)*. The new standard establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as either operating or finance with classification affecting the pattern and classification of expense recognition in the consolidated statement of operations.

The new standard was adopted by the System on January 1, 2019. The System elected the option to apply the transition requirements in Topic 842 at the effective date of January 1, 2019. All leases that existed at the effective date were recognized and measured using a modified retrospective approach. Financial information has not been updated and the disclosures required under the new standard have not been provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The System elected the 'package of practical expedients', which permits the System not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The System did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the System. The impact of the adoption on the consolidated financial statements was an increase on January 1,

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2019 in other assets to record the ROU asset and an increase in other current and other liabilities to record the lease liability for finance and operating leases of approximately \$95,000 on the consolidated balance sheet.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The System adopted ASU 2016-18 on January 1, 2019, using a retrospective transition approach. This update was intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the financial statements. Restricted cash and restricted cash equivalents are to be included as components of total cash, cash equivalents, and restricted cash as presented on the consolidated statement of cash flows. The System is required to reconcile the total of cash, cash equivalents, and restricted cash to those amount presented on the consolidated balance sheet. For the years ended December 31, 2019 and 2018, the System added \$0 and \$110,846, respectively, of restricted cash to the total cash, cash equivalents and restricted cash presented in the consolidated statements of cash flows.

(o) Reclassifications

Certain amounts included in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

(3) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue by major payer source as of December 31, 2019 and 2018, are as follows:

| | <u>2019</u> | | <u>2018</u> | |
|-----------------------------|---------------------|------|---------------------|------|
| Medicare | \$ 1,309,154 | 32 % | \$ 1,257,517 | 32 % |
| Medicaid | 565,891 | 14 | 557,040 | 14 |
| Managed care and commercial | 2,011,852 | 50 | 1,888,945 | 49 |
| Self-pay | <u>154,012</u> | 4 | <u>190,414</u> | 5 |
| | <u>\$ 4,040,909</u> | | <u>\$ 3,893,916</u> | |

The System's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the System's patients and payors.

Net accounts receivable by major payer source as of December 31, 2019 and 2018, are as follows:

| | <u>2019</u> | | <u>2018</u> | |
|-----------------------------|-------------------|------|-------------------|------|
| Medicare | \$ 109,611 | 20 % | \$ 120,246 | 21 % |
| Medicaid | 67,298 | 13 | 71,956 | 13 |
| Managed care and commercial | 314,804 | 58 | 323,895 | 57 |
| Self-pay | <u>49,280</u> | 9 | <u>52,130</u> | 9 |
| | <u>\$ 540,993</u> | | <u>\$ 568,227</u> | |

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(4) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes and the amount of beneficial interest in Foundations at December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-------------------|----------------|
| Time/purpose restrictions: | | |
| Capital expenditures | \$ 53,931 | 54,750 |
| Education | 42,976 | 18,864 |
| Research | 125,266 | 115,916 |
| Patient care | 108,789 | 85,006 |
| Beneficial interest in foundations | 125,455 | 132,050 |
| Amounts held in perpetuity: | | |
| Perpetual trusts | 209,498 | 189,303 |
| Receivables | 18,201 | 17,025 |
| Endowments | 159,626 | 149,717 |
| Beneficial interest in foundations | <u>32,482</u> | <u>30,674</u> |
| | <u>\$ 876,224</u> | <u>793,305</u> |

The System's endowment consists of 395 individual funds established for a variety of purposes. Endowments include both donor-restricted funds and board-designated endowment funds. Net assets associated with endowment funds and board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The System's donor restricted endowment funds' original corpus, totaled \$159,626 and \$149,717 at December 31, 2019 and 2018, respectively. Board designated funds totaled \$31,269 and \$28,701 at December 31, 2019 and 2018, and are included within investments and net assets without donor restrictions.

The System's investment policy establishes a limited number of investment pools with a specific purpose of aggregating various System funds' investments according to their risk tolerance. Asset allocation is reviewed quarterly with respect to: i) System tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk, and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions. Management of the System is responsible to ensure the proper allocation of funds according to the specific needs, timing of cash flows, and risk tolerance of each fund.

The System's spending practices are intended to comply with the donor's wishes and meet all applicable laws and regulations including the Uniform Prudent Management of Institutional Funds Act. Spending must be for a purpose that is consistent with the documented intent of the donor. The System generally appropriates an amount not to exceed 5% of the endowment fund's fair value for annual spending subject

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to spending guidelines and restrictions per the System's policy. The fair value of the endowment fund is determined quarterly and averaged over a period of a rolling thirty-six months.

| | <u>Without donor restriction</u> | <u>With donor restriction</u> | <u>Total</u> |
|--|--|---------------------------------------|-----------------|
| Endowment net assets, at December 31, 2017 | \$ 14,072 | 173,484 | 187,556 |
| Endowment return: | | | |
| Investment loss | (460) | (5,006) | (5,466) |
| Contributions | 475 | 5,331 | 5,806 |
| Appropriation of endowment assets for expenditure | <u>—</u> | <u>(8,173)</u> | <u>(8,173)</u> |
| Endowment net assets, at December 31, 2018 | 14,087 | 165,636 | 179,723 |
| Endowment return: | | | |
| Investment income | 2,538 | 29,549 | 32,087 |
| Contributions (transfers) | (193) | 10,064 | 9,871 |
| Appropriation of endowment assets for expenditure | <u>(2,538)</u> | <u>(7,840)</u> | <u>(10,378)</u> |
| Endowment net assets, at December 31, 2019 | \$ <u>13,894</u> | <u>197,409</u> | <u>211,303</u> |

Certain amounts related to endowment assets held by the System and related investment income were incorrectly classified and reported in prior periods. To correct this error, the System reduced net assets without donor restrictions by \$30,006 and \$43,816, and increased net assets with donor restrictions by the same amount in the consolidated balance sheets as of December 31, 2018 and December 31, 2017, respectively. Net investment loss in nonoperating income was reduced by \$13,179 and investment income with donor restrictions was decreased by the same amount in the consolidated statements of operations and changes in net assets for the year ended December 31, 2018.

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Additionally, the amounts reported in the rollforward of endowment assets in this footnote were corrected as follows:

| | (As reported) | | | (As corrected) | | |
|---|---------------------------|------------------------|----------------|---------------------------|------------------------|----------------|
| | Without donor restriction | With donor restriction | Total | Without donor restriction | With donor restriction | Total |
| Endowment net assets, at December 31, 2017 | \$ 32,727 | 194,760 | 227,487 | \$ 14,072 | 173,484 | 187,556 |
| Investment income (loss) | (1,598) | (5,627) | (7,225) | (460) | (5,006) | (5,466) |
| Contributions | — | 5,345 | 5,345 | 475 | 5,331 | 5,806 |
| Appropriation of endowment assets for expenditure | (861) | (9,164) | (10,025) | — | (8,173) | (8,173) |
| Endowment net assets, at December 31, 2018 | \$ <u>30,268</u> | <u>185,314</u> | <u>215,582</u> | \$ <u>14,087</u> | <u>165,636</u> | <u>179,723</u> |

The System assessed the impact of these corrections on the consolidated financial statements and determined that the errors were immaterial.

(5) Fair Value Measurements

Assets and liabilities carried at fair value are disclosed on a hierarchy for ranking the quality and reliability of the information used to determine fair values according to the following three levels:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 yields the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than quoted prices in Level 1. Inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar liabilities that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are significant to the valuation of assets or liabilities and are supported by little or no market data. This includes discounted cash flow methodologies, pricing models, and similar techniques that use significant unobservable inputs.

The inputs used to fair value Level 1 instruments are unadjusted quoted prices derived from stock exchanges, and the Chicago Board of Trade. Level 1 instruments primarily consist of equities, exchange traded funds, and certain government securities.

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Assets and liabilities in Level 2 are primarily comprised of corporate bonds, bonds, asset-backed securities, fixed income mutual funds, and derivative financial instruments. Level 2 inputs primarily consist of quotes from independent pricing vendors based on recent trading activity, and other relevant information including matrix pricing, market corroborated pricing, yield curves, and other indices that are used when Level 1 inputs are not available. Fair values for the System's interest rate swaps are provided on a monthly basis by the System's independent financial advisor and counterparties. Monthly valuations are derived by pricing models, which use market inputs such as LIBOR, Securities Industry and Financial Markets Association (SIFMA) Swap Index, and bond coupon rates provided by various inter-broker sources. The resulting combination of market data feeds, specific structuring characteristics such as the amortization of notional amounts, effective dates, payment frequencies, day counts, credit risk, and indices, are factored into the pricing model to determine the fair market value of the System's interest rate swaps.

Items classified as Level 3 in the fair value hierarchy include beneficial interest in Foundations, perpetual trusts, and exclude pledges of \$150,142 and \$126,838 at December 31, 2019 and 2018, respectively. Foundations operate for the exclusive benefit of the System, and variance power was not explicitly given to the Foundations by the donors. Therefore, the System is required to record its beneficial interest in the net assets of the Foundations. The primary input utilized in calculating the Foundations' fair value is its net assets, which represents fair market valuation of certain equity, debt, and other instruments held by the Foundations. The System records 100% of the Foundations' net assets at approximate fair market value. Amounts held in perpetuity as designated by donors, includes the System's portion of beneficial interests in several perpetual trusts held and administered by others in which the System is an income beneficiary. Perpetual trusts are measured at fair value by the external trustee, which approximates the present value of expected future cash flows. Perpetual trusts utilize significant unobservable inputs determined by the external trustees in estimating fair value.

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Investments that are measured at NAV per share are not categorized in the following fair value hierarchy tables.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|--------------|
| December 31, 2019: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 260,859 | — | — | 260,859 |
| Cash equivalents – pooled with investments: | 100,135 | — | — | 100,135 |
| Fixed income securities: | | | | |
| Corporate bonds | — | 186,015 | — | 186,015 |
| Fixed income mutual funds | 542,013 | — | — | 542,013 |
| Government securities | 116,895 | 49,808 | — | 166,703 |
| Total fixed income securities | 658,908 | 235,823 | — | 894,731 |
| Equities, mutual and exchange traded funds: | | | | |
| Domestic mutual funds | 346,777 | — | — | 346,777 |
| International mutual funds | 214,010 | — | — | 214,010 |
| Total equities, mutual and exchange traded funds | 560,787 | — | — | 560,787 |
| Deferred compensation assets – mutual funds | | | | |
| | 24,336 | — | — | 24,336 |
| Beneficial interest in Foundations | — | — | 157,937 | 157,937 |
| Perpetual trusts | — | — | 209,498 | 209,498 |
| Interest rate swaps | — | 5,849 | — | 5,849 |
| Total assets | \$ 1,605,025 | 241,672 | 367,435 | 2,214,132 |
| Liabilities: | | | | |
| Deferred compensation liabilities | \$ 24,336 | — | — | 24,336 |
| Interest rate swaps | — | 75,645 | — | 75,645 |
| Total liabilities | \$ 24,336 | 75,645 | — | 99,981 |

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| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|----------------|----------------|------------------|
| December 31, 2018: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 288,517 | — | — | 288,517 |
| Cash equivalents – pooled with investments: | 33,059 | — | — | 33,059 |
| Restricted cash – held by bond trustees | 110,846 | — | — | 110,846 |
| Fixed income securities: | | | | |
| Corporate bonds | — | 186,770 | — | 186,770 |
| Fixed income mutual funds | 535,610 | — | — | 535,610 |
| Government securities | 103,606 | 41,003 | — | 144,609 |
| Total fixed income securities | <u>639,216</u> | <u>227,773</u> | <u>—</u> | <u>866,989</u> |
| Equities, mutual and exchange traded funds: | | | | |
| Domestic mutual funds | 224,411 | 10,878 | — | 235,289 |
| International mutual funds | 51,376 | 113,563 | — | 164,939 |
| Total equities, mutual and exchange traded funds | <u>275,787</u> | <u>124,441</u> | <u>—</u> | <u>400,228</u> |
| Deferred compensation assets – mutual funds | 18,764 | — | — | 18,764 |
| Beneficial interest in Foundations | — | — | 162,724 | 162,724 |
| Perpetual trusts | — | — | 189,303 | 189,303 |
| Interest rate swaps | — | 8,084 | — | 8,084 |
| Total assets | <u>\$ 1,366,189</u> | <u>360,298</u> | <u>352,027</u> | <u>2,078,514</u> |
| Liabilities: | | | | |
| Deferred compensation liabilities | \$ 18,764 | — | — | 18,764 |
| Interest rate swaps | — | 49,592 | — | 49,592 |
| Total liabilities | <u>\$ 18,764</u> | <u>49,592</u> | <u>—</u> | <u>68,356</u> |

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The following table summarizes the System's investments at December 31, 2019 and 2018, for which NAV was used as a practical expedient to estimate fair value:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|-------------------|----------------|
| Hedge funds | \$ 152,245 | 220,913 |
| Real estate | 33,309 | 37,832 |
| Private debt | 16,239 | 30,338 |
| Private equity | <u>43,285</u> | <u>35,200</u> |
| Total alternative investments | \$ <u>245,078</u> | <u>324,283</u> |

The System evaluated transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total. For the years ended December 31, 2019 and 2018, there were no transfers into or out of Level 1, 2, or 3.

For the years ended December 31, 2019 and 2018, the reconciliation of investments with fair value measurements using significant unobservable inputs (level 3) is as follows:

| | <u>Fair value measurements using significant unobservable inputs (Level 3)</u> | | |
|------------------------------|--|-------------------------|-----------------|
| | <u>Beneficial interest in Foundations</u> | <u>Perpetual trusts</u> | <u>Total</u> |
| Balance at December 31, 2017 | \$ 175,013 | 210,846 | 385,859 |
| Total change included in: | | | |
| Donor restricted net assets | <u>(12,289)</u> | <u>(21,543)</u> | <u>(33,832)</u> |
| Balance at December 31, 2018 | 162,724 | 189,303 | 352,027 |
| Total change included in: | | | |
| Donor restricted net assets | <u>(4,787)</u> | <u>20,195</u> | <u>15,408</u> |
| Balance at December 31, 2019 | \$ <u>157,937</u> | <u>209,498</u> | <u>367,435</u> |

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(6) Investments

The composition of investments at December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Cash equivalents – pooled with investments | \$ 100,135 | 33,059 |
| Restricted cash – held by bond trustees | — | 110,846 |
| Fixed income securities | 894,731 | 866,989 |
| Equities, mutual and exchange traded funds | 560,787 | 400,228 |
| Alternative investments | 245,078 | 324,283 |
| Other | <u>6,567</u> | <u>2,137</u> |
| Total investments | \$ <u>1,807,298</u> | <u>1,737,542</u> |

The System holds certain investments in fixed income securities including domestic and international corporate bonds, U.S. Treasuries, government, and agency bonds; non-U.S. sovereign debt; and emerging market debt. The System holds common and preferred stock including investments in small cap, mid cap, and large cap companies as well as in non-U.S. equities in developed and emerging markets.

Alternative investments include private equity, real estate, hedge funds, and distressed debt. These investments are made either directly or through various Fund-of-Funds, both of which are typically Limited Partnership structures. For the Fund-of-Funds investments, the System is invested in a Limited Partnership, which in turn utilizes its expertise to invest in underlying Limited Partnership Funds and make certain other investments.

The General Partner of each direct Limited Partnership determines the fair market valuation of its underlying holdings based on i) the nature and terms of each underlying investment, ii) market inputs, and iii) certain other relevant information. The General Partner of each Fund-of-Funds Limited Partnership determines the fair market valuation of its underlying Limited Partnership investments. These valuations are based primarily on the quarterly internal and annual audited consolidated financial statements of the underlying Limited Partnership Funds, which report net asset value based on i) the nature and terms of each underlying investment, ii) market inputs, and iii) certain other relevant information. The System undertakes various measures to validate that the reported net asset value approximates the fair market value. The determination of fair market values for the alternative investments requires the General Partners and System management to make estimates and assumptions about certain inputs and other factors that are inherently uncertain. These estimates are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks.

Assets categorized as alternative investments may be subject to liquidity restrictions such as gates. These gates prevent short-term liquidation of assets. Hedge funds may be redeemed at quarter-end requiring advanced notice ranging from 45 to 65 days, prior written notice subject to certain limitations that may be imposed by the General Partner of the fund without notice. Private equity and private real estate funds generally have contractual terms of 10 years or greater from the time the commitment to the fund is made.

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While distributions of capital during this term typically occur, many of these funds have provisions that allow the General Partner to extend the final term and suspend distributions. Distressed debt funds are typically 1-year to 5-year or 6-year to 10-year term structures, and although some of the funds offer liquidity, the fund documents allow the General Partner to suspend redemptions if they deem necessary. As a result of these contractual limitations on liquidity, these alternative assets are generally considered illiquid. Contractual liquidity terms of alternative investments at December 31, 2019 are as follows:

| | <u>Carrying value</u> | <u>Unfunded commitments</u> |
|---|---------------------------|---------------------------------|
| Less than 1 year, no contractual restrictions have been imposed | \$ 106,924 | 1,875 |
| Limited Partnership Fund expiring in 1–5 years | 23,298 | 10,068 |
| Limited Partnership Fund expiring in 6–10 years | 99,042 | 32,589 |
| Limited Partnership Fund expiring in 11–12 years | <u>15,814</u> | <u>33,018</u> |
| Total alternative investments | \$ <u>245,078</u> | <u>77,550</u> |

The components and related restrictions of investments shown above are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Without donor restriction and board designated | \$ 1,452,816 | 1,336,732 |
| Swap collateral | 6,364 | 2,937 |
| Investments held by bond trustees | — | 110,846 |
| With donor restriction | <u>348,118</u> | <u>287,027</u> |
| Total investments | \$ <u>1,807,298</u> | <u>1,737,542</u> |

Investment income (loss) is comprised of the following for the years ended December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-----------------|
| Interest and dividend income: | | |
| Without donor restriction | \$ 40,769 | 30,472 |
| With donor restriction | <u>5,060</u> | <u>4,020</u> |
| | <u>45,829</u> | <u>34,492</u> |
| Net realized and change in unrealized gains (losses): | | |
| Without donor restriction | 116,786 | (50,065) |
| With donor restriction | <u>27,894</u> | <u>(6,945)</u> |
| | <u>144,680</u> | <u>(57,010)</u> |
| Total income (loss) | \$ <u>190,509</u> | <u>(22,518)</u> |

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(7) Property and Equipment

Property and equipment, at December 31, 2019 and 2018, are summarized below:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|---------------------|------------------|
| Land and land improvements | \$ 172,982 | 168,744 |
| Buildings and fixed equipment | 2,069,651 | 2,004,219 |
| Movable equipment and furnishings | 1,687,515 | 1,489,105 |
| Construction in progress | <u>105,430</u> | <u>108,044</u> |
| | 4,035,578 | 3,770,112 |
| Less accumulated depreciation | <u>2,204,586</u> | <u>2,033,250</u> |
| Net property and equipment | <u>\$ 1,830,992</u> | <u>1,736,862</u> |

As of December 31, 2019, the System has made contractual commitments on construction contracts, including information technology projects, of \$89,983.

(8) Long-Term Debt

The System's \$250,000 revolving credit commitment (the Credit Commitment), is a syndicated commitment with a maturity date of August 29, 2024. The Credit Commitment bears interest at various rates for short-term periods. For the years ended December 31, 2019 and 2018, the average interest rate for borrowings under this credit line was 3.27% and 2.95%, respectively. As of December 31, 2019 and 2018, there were \$40,000 and \$140,000, respectively, in borrowings outstanding under the Credit Commitment reported within noncurrent liabilities in the consolidated balance sheet. The remaining available Credit Commitment is \$210,000 and \$85,000 at December 31, 2019 and 2018, respectively.

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A summary of long-term debt at December 31, 2019 and 2018 is as follows:

| Series | Type | Average interest rate % for the years ended December 31, 2019 and 2018 | Final maturity | Amount outstanding December 31 | |
|---|----------|--|-------------------|-----------------------------------|------------------|
| | | | | 2019 | 2018 |
| 2018A Revenue Bonds | Variable | 1.44, 1.62 | 2046 | \$ 25,230 | 25,230 |
| 2018B Revenue Bonds | Variable | 1.47, 1.63 | 2047 | 83,920 | 88,505 |
| 2018C Revenue Bonds | Fixed | 4.52 | 2042 | 60,850 | 60,850 |
| 2018D Revenue Bonds | Fixed | 4.31 | 2039 | 57,355 | 57,355 |
| 2018E Revenue Bonds | Variable | 1.67, 2.31 | 2036 | 107,490 | 109,150 |
| 2016A Revenue Bonds | Fixed | 3.59 | 2046 | 229,725 | 229,725 |
| 2015A Revenue Bonds | Variable | 1.69, 1.64 | 2045 | 30,000 | 30,000 |
| 2015B Revenue Bonds | Variable | 1.68, 1.70 | 2045 | 30,000 | 30,000 |
| 2015C Revenue Bonds | Variable | 1.70, 1.64 | 2045 | 40,000 | 40,000 |
| 2014A Revenue Bonds | Fixed | 3.69 | 2044 | 56,145 | 56,145 |
| 2014B Revenue Bonds | Variable | 1.69, 1.64 | 2045 | 30,000 | 30,000 |
| 2013A Revenue Bonds | Fixed | 4.65 | 2029 | 81,525 | 83,455 |
| 2013B Revenue Bonds | Variable | 1.68, 1.70 | 2033 | 30,000 | 30,000 |
| 2012A Revenue Bonds | Fixed | 4.73 | 2041 | 165,270 | 169,550 |
| 2012B Revenue Bonds | Variable | 2.96, 2.55 | 2019 | — | 4,750 |
| 2012C Revenue Bonds | Fixed | 3.71 | 2042 | 55,825 | 55,825 |
| 2012D Revenue Bonds | Variable | 2.30, 2.10 | 2021 | 9,015 | 13,980 |
| 2010A Revenue Bonds | Fixed | 4.82 | 2027 | 45,100 | 47,440 |
| 2007A Revenue Bonds | Fixed | 4.85 | 2041 | 52,445 | 52,445 |
| 2001 Revenue Bonds | Variable | 2.19, 2.14 | 2033 | 10,000 | 10,000 |
| Other long-term debt | | | | 5,713 | 7,051 |
| | | | | <u>1,205,608</u> | <u>1,231,456</u> |
| Unamortized premium | | | | 32,025 | 34,285 |
| Less: | | | | | |
| Unamortized discount | | | | 1,587 | 1,709 |
| Deferred financing costs | | | | 10,771 | 11,945 |
| Current installments | | | | <u>24,237</u> | <u>24,446</u> |
| Long-term debt, less current installments | | | | <u>\$ 1,201,038</u> | <u>1,227,641</u> |

The average interest rate provided in the table above includes the weighted average interest cost for each individual variable rate type series and is for the years ended December 31, 2019 and 2018.

The System is party to a Master Trust Indenture, amended and restated as of June 15, 1989 (the Indenture). The Revenue Bonds listed in the table above are secured by the Indenture and are general obligations of the Obligated Group. The Obligated Group consists of the System, UHCMC, University

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Hospitals Geauga Medical Center, University Hospitals Ahuja Medical Center, University Hospitals Parma Medical Center, University Hospitals Elyria Medical Center, and University Hospitals St. John Medical Center.

During 2018, the System issued tax-exempt bonds totaling \$341,090 with total proceeds of \$352,320. Proceeds from these bonds totaling \$222,117 were used to refund the Series 2010B, 2014C, 2015D and E, and 2017A and B bonds and the remaining proceeds of \$130,203 were used to finance new capital projects and the cost of issuance.

During 2017, the System entered into a New Market Tax Credit (NMTC) financing transaction with a lender to finance the construction and development of the Rainbow Center for Women and Children and recognized a liability of \$7,114 in connection with this transaction. The NMTC provides the lender a specified amount of tax credits as the System satisfies of certain government compliance requirements over a seven-year period. The System anticipates that the liability will ultimately be forgiven by the lender and is recognizing that forgiveness as other revenue over the seven year performance period. During the year ended December 31, 2019 the System recognized \$1,524 of other revenue as a result of the NMTC transaction. At December 31, 2019 and 2018 the remaining liability amounts of \$5,590 and \$7,114 are included in long-term debt.

The System's debt structure consists of 67% fixed rate debt and 33% floating rate debt, \$804,240 and \$395,655 respectively. The floating rate debt structure includes \$10,000 in daily reset self-liquidity bonds that could come due at any time, \$269,150 in variable rate remarketed obligations pricing daily and weekly, \$9,015 of bank direct purchase bonds fully amortizing through 2021, and \$107,490 in bank direct purchase bonds which renew in 2025.

This System has \$109,150 of bonds outstanding that are backed by bank letters of credit. Based on the repayment schedules of the bank letters of credit, \$12,279 could become due in 2022 upon failure to remarket these bonds. The total that could become due in 2022 can be offset by the remaining available borrowing capacity of \$210,000 on the Credit Commitment, which is due August 29, 2024.

The System also has a total of \$130,000 of variable rate bonds outstanding which are not supported by a credit facility or liquidity facility. These bonds are remarketed daily or weekly and, subject to certain notice requirements, the holders have the right to tender the bonds for purchase at any time. In the event of a failure to remarket tendered bonds, the bonds are returned to the tendering holder thereof, the interest on the bonds converts to a stepped-up interest rate and the bonds become subject to term-out provisions which require the System to redeem those bonds on a special mandatory redemption date which is between 30 and 36 months from the date the nonremarketed bonds were originally tendered by the holder.

During the term of the various agreements and leases, the System is required to make specified deposits with trustees to fund principal and interest payments due. The System is subject to certain restrictive covenants, including provisions relating to certain debt ratios, days cash on hand, and other matters. The System was in compliance with these debt covenants at December 31, 2019 and 2018.

Combined current aggregate scheduled maturities of long-term debt for the five years subsequent to December 31, 2019 are as follows: 2020 – \$24,237; 2021 – \$25,260; 2022 – \$26,310; 2023 – \$27,540; 2024 – \$28,875; and 2025 and thereafter – \$1,073,386.

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Cash paid for interest totaled \$39,874 and \$45,514 in 2019 and 2018, respectively.

(9) Interest Rate Swap Agreements

The System utilizes interest rate swaps to manage the overall cost of debt and risk profile related to its long-term debt. The swaps utilized include i) fixed-payer swaps, whereby the System receives a floating rate and pays a fixed rate designed to either hedge against rising interest rates or achieve a lower overall cost of debt relative to traditional fixed-rate structures and ii) basis swaps whereby the System receives a floating rate based on a taxable index (LIBOR) and pays a floating rate based on a tax-exempt index (SIFMA) designed to reduce interest costs associated with its traditional fixed rate debt. A summary of the System's interest rate swap agreements is as follows:

| Swap type | Maturity date | Year ended December 31, 2019 | | Notional value at December 31 | |
|-------------------------|---------------|------------------------------|------------------------------|-------------------------------|----------------|
| | | System pays | System receives | 2019 | 2018 |
| Fixed-payer | 2034 | 3.36 % | 67% of 1-month LIBOR | \$ 37,500 | 37,500 |
| Fixed-payer | 2034 | 3.42 % | 67% of 1-month LIBOR | 37,500 | 37,500 |
| Basis | 2028 | SIFMA Index | 67% of 1-month LIBOR + 0.47% | — | 25,000 |
| Basis | 2028 | SIFMA Index | 67% of 1-month LIBOR + 0.53% | — | 25,000 |
| Fixed-payer | 2034 | 3.49 % | 67% of 1-month LIBOR | 37,500 | 37,500 |
| Fixed-payer | 2034 | 3.47 % | 67% of 1-month LIBOR | 37,500 | 37,500 |
| Basis | 2027 | SIFMA Index | 86.2% of 1-month LIBOR | 50,000 | 50,000 |
| Fixed-payer | 2044 | 2.30 % | 65% of 1-month LIBOR + 0.12% | 50,000 | 50,000 |
| Fixed-payer | 2044 | 2.49 % | 65% of 1-month LIBOR + 0.12% | 50,000 | 50,000 |
| Fixed-payer | 2042 | 3.64 % | 70% of 1-month LIBOR | 26,590 | 26,590 |
| Basis | 2032 | SIFMA Index | 85.3% of 3-month LIBOR | 50,000 | 50,000 |
| Fixed-payer | 2029 | 3.61 % | 64.11% of 5-year LIBOR | 21,160 | 22,810 |
| Fixed-payer | 2030 | 5.09 % | 91.03% of 5-year LIBOR | 6,720 | 7,575 |
| Fixed-payer | 2030 | 3.62 % | 64.09% of 5-year LIBOR | 7,185 | 7,685 |
| Fixed-payer | 2026 | 3.78 % | 70% of 1-month LIBOR | 5,920 | 6,705 |
| Fixed-payer | 2022 | 3.68 % | 70% of 1-month LIBOR | 1,870 | 2,445 |
| Fixed-payer | 2021 | 3.31 % | 70% of 1-month LIBOR | 4,290 | 6,865 |
| Fixed-payer | 2047 | 1.43 % | 70% of 1-month LIBOR | 25,000 | 25,000 |
| Fixed-payer | 2047 | 1.23 % | 70% of 1-month LIBOR | 25,000 | 25,000 |
| Constant maturity payer | 2038 | 67% of 1-month LIBOR | 67% 10 yr LIBOR -.38% | 50,000 | 50,000 |
| Total return swap | 2022 | SIFMA Index +0.63% | Bond Coupon | 52,445 | 52,445 |
| Rate lock | 2049 | 1.83 % | 100% of 3-month LIBOR | 75,000 | — |
| | | | | <u>\$ 651,180</u> | <u>633,120</u> |

In December 2019, the System entered into a Libor Swap Rate Lock trade for a notional amount of \$75,000.

In 2018, the System entered into a Constant Maturity Swap trade for a notional amount of \$50,000 with cash flows beginning in November 2020 and a termination date of 2038.

SIFMA is an index of high-grade, tax-exempt variable rate demand obligations. SIFMA ranged from 1.06% to 2.3% (average rate of 1.46%) for the year ended December 31, 2019 and 0.94% to 1.81% (average rate of 1.41%) for the year ended December 31, 2018.

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The net fair value of interest rate swap agreements was a liability of \$69,796 as of December 31, 2019. The net fair value for swap agreements at December 31, 2019 consisted of \$5,849 recorded in other assets and \$75,645 recorded in other liabilities within the December 31, 2019 consolidated balance sheet. The net fair value of interest rate swap agreements was a liability of \$41,508 as of December 31, 2018. The net fair value for swap agreements at December 31, 2018 consisted of \$8,084 recorded in other assets and \$49,592 recorded in other liabilities within the December 31, 2018 consolidated balance sheet.

A decrease in fair value of derivative instruments in the consolidated statements of operations and changes in net assets totaled \$28,287 for the year ended December 31, 2019. An increase in fair value of derivative instruments in the consolidated statements of operations and changes in net assets totaled \$10,195 for the year ended December 31, 2018. Cash paid to counterparties totaled \$5,015, and \$6,011 for the years ended December 31, 2019 and 2018, respectively. Cash received from counterparties totaled \$4,429 and \$2,007 for the years ended December 31, 2019 and 2018, respectively.

The System posted collateral of \$6,364 and \$2,937 due to the decrease in swap valuations as of December 31, 2019 and 2018, respectively. The collateral is comprised of cash and U.S. Treasury and government securities, is limited as to use, and is recorded as a restricted investment within the consolidated balance sheets.

(10) Leases

The System leases medical office buildings, office space and equipment. The remaining lease term for leases primarily range from 1-50 Years. Many leases contain renewal options. For those contracts where options are reasonably certain to be exercised, the System recognizes renewal options as part of the ROU assets and lease liabilities.

At December 31, 2019, lease assets and liabilities were recorded in the consolidated balance sheet as follows (in thousands):

| <u>Lease type</u> | <u>Balance sheet classification</u> | |
|-------------------|-------------------------------------|-----------|
| Assets: | | |
| Operating | Other assets | \$ 92,031 |
| | Total assets | \$ 92,031 |
| Liabilities: | | |
| Current | | |
| Operating | Other current liabilities | \$ 21,523 |
| Noncurrent | | |
| Operating | Other liabilities | 70,995 |
| | Total liabilities | \$ 92,518 |

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The components of lease cost for the year ended December 31, 2019 were as follows (in thousands):

| | | |
|-----------------------|----|----------------------|
| Operating lease cost | \$ | 26,246 |
| Finance lease cost | | 37 |
| Short-term lease cost | | <u>163</u> |
| Total lease cost | \$ | <u><u>26,446</u></u> |

Other information related to leases as of December 31, 2019 was as follows:

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

| | | |
|---|----|--------|
| Operating cash flow from operating leases | \$ | 27,278 |
|---|----|--------|

Weighted average remaining lease term:

| | |
|------------------|------------|
| Operating leases | 7.77 years |
|------------------|------------|

Weighted average discount rate:

| | |
|------------------|--------|
| Operating leases | 2.63 % |
|------------------|--------|

Future maturities of lease liabilities under noncancelable leases as of December 31, 2019 are as follows:

| | |
|--|-------------------------|
| | <u>Operating</u> |
| 2020 | \$ 23,448 |
| 2021 | 17,499 |
| 2022 | 14,586 |
| 2023 | 10,865 |
| 2024 | 8,619 |
| 2025 and thereafter | <u>27,999</u> |
| Total undiscounted future lease payments | 103,016 |
| Less present value discount | <u>(10,498)</u> |
| | \$ <u><u>92,518</u></u> |

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Minimum noncancelable operating lease payments with terms in excess of one year as of December 31, 2018 were as follows:

| | | |
|---------------------|----|----------------|
| 2019 | \$ | 26,630 |
| 2020 | | 19,902 |
| 2021 | | 13,945 |
| 2022 | | 11,506 |
| 2023 | | 8,217 |
| 2024 and thereafter | | 29,181 |
| | \$ | <u>109,381</u> |

(11) Insurance

Western Reserve Assurance Company, Ltd. (Western Reserve), a wholly owned subsidiary of the System, provides professional and general liability insurance coverage on a claims-made basis for substantially all of the System. Effective July 1, 2004, Western Reserve was restructured from a single parent company to a segregated portfolio company (SPC), Western Reserve Assurance Company, Ltd., SPC (Western Reserve SPC). SPC is an insurance company that operates as a single legal entity, which allows for assets and liabilities to be segregated between different protected portfolios of the company. The individual segregated portfolios do not, by law, have access or rights to the assets of any of the other segregated portfolios within SPC. At December 31, 2019, the Western Reserve SPC consists of several individual segregated portfolios. Each segregated portfolio provides coverage for its respective entity's insurance programs and is consolidated into each respective entity's consolidated financial statements. Western Reserve SPC has reinsurance agreements with unrelated commercial carriers in place relative to a portion of the risks.

Various claimants have asserted professional and general liability and workers' compensation claims against the System. These claims are in various stages of processing or are in litigation.

In the first quarter of 2018, an unexpected equipment failure occurred at a Fertility Clinic that was operated by UH Cleveland Medical Center. Multiple claims, with multiple theories of recovery, have been filed against the System and some of its wholly owned entities; some of the lawsuits include class action allegations. In general, the lawsuits seek compensatory and punitive damages. The claims and lawsuits are being treated as professional liability claims and therefore subject to the System's professional and liability insurance policies. As of the date of this report more than ninety-six percent of filed claims related to the fertility clinic matter have been settled. The System notified its insurance carriers and recorded a reserve for the anticipated resolution of these claims. The System received amounts from its insurance carriers equal to its re-insurance coverage.

Beyond the claims and lawsuits noted above, there are known incidents, and there also may be unknown incidents, which may result in the assertion of additional claims for professional liability, general liability or workers compensation. The System has accrued an estimate of both asserted and unasserted losses primarily based on actuarially determined amounts. The System's reserves for professional, general, and workers' compensation liabilities (including incurred but not reported claims) total \$210,209 and \$153,548

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at December 31, 2019 and 2018, respectively. The current portion of the reserves at December 31, 2019 and 2018, amounts to \$35,000 and \$50,000, respectively, is recorded in other current liabilities and the remaining portion is recorded in other long term liabilities.

The System does not believe the outcome of the claims and lawsuits described above would have a material adverse effect on the consolidated financial position, liquidity, or results of operations of the System, based on current knowledge and taking into account current accruals. Litigation is inherently unpredictable and judgments could be entered into that could adversely affect the System's operating results or cash flows in a particular period.

(12) Retirement Plans

The System maintains a noncontributory defined benefit pension plan (the plan) for the benefit of eligible employees. The benefits are based upon years of service and the employees' compensation, as defined by the plan. It is the System's policy to contribute annually to the defined benefit plan amounts that are actuarially determined to provide the plan with sufficient assets to meet future benefit payment requirements. In April 2015, the System froze its final average pay formula benefit, replacing it with a cash balance formula.

The System recognizes the funded status (difference between the fair value of plan assets and the projected benefit obligation) of the defined benefit pension plan on its consolidated balance sheets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs are recognized as a component of net assets without donor restrictions. The System uses December 31 as the measurement date for plan assets and benefit obligations.

The amounts recognized in changes in net assets without donor restrictions at December 31, 2019 and 2018 consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-----------------|
| Amount recognized in net assets without donor restrictions at end of year: | | |
| Unrecognized actuarial loss | \$ 531,744 | 488,440 |
| Unrecognized prior service costs | <u>(8,491)</u> | <u>(10,890)</u> |
| Net amount recognized | <u>\$ 523,253</u> | <u>477,550</u> |

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The accumulated benefit obligation for the plan was \$1,306,354 and \$1,122,600 as of December 31, 2019 and 2018, respectively. The following represents selected information about the plan as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Change in benefit obligation: | | |
| Projected benefit obligation (PBO) at beginning of year | \$ 1,161,648 | 1,272,117 |
| Service cost | 48,318 | 51,610 |
| Interest cost | 46,906 | 41,454 |
| Actuarial (gain) loss | 161,999 | (44,623) |
| Retiree annuity purchases | — | (74,205) |
| Benefits paid | <u>(64,700)</u> | <u>(84,705)</u> |
| Projected benefit obligation at end of year | <u>1,354,171</u> | <u>1,161,648</u> |
| Change in plan assets: | | |
| Fair value of assets at beginning of year | 831,672 | 885,732 |
| Actual return on assets | 139,868 | (31,350) |
| Employer contribution | 32,500 | 136,200 |
| Retiree annuity purchases | — | (74,205) |
| Benefits paid | <u>(64,700)</u> | <u>(84,705)</u> |
| Fair value of assets at end of year | <u>939,340</u> | <u>831,672</u> |
| Funded status (PBO in excess of plan assets) | \$ <u>(414,831)</u> | <u>(329,976)</u> |
| | <u>2019</u> | <u>2018</u> |
| The components of net periodic pension costs included the following: | | |
| Operating expenses: | | |
| Service cost | \$ 48,318 | 51,611 |
| Nonoperating expenses: | | |
| Interest cost | 46,906 | 41,454 |
| Expected return on plan assets | (55,618) | (61,116) |
| Amortization of prior service costs | (2,399) | (2,399) |
| Settlement cost | — | 42,539 |
| Recognized net actuarial loss | <u>34,445</u> | <u>43,557</u> |
| Net periodic pension cost | \$ <u>71,652</u> | <u>115,646</u> |

In November 2018, the System purchased a group annuity contract from an insurance company to transfer \$74,205 of the outstanding pension benefit obligations related to certain retirees and beneficiaries. As a

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result of the transaction, the insurance company is now required to pay and administer the retirement benefits owed to the approximately 2,700 U.S. retirees and beneficiaries, with no change to their monthly retirement benefit payment amounts. In connection with this transaction, the System recognized a pension settlement charge of \$42,539 as a nonoperating expense, primarily related to the accelerated recognition of actuarial losses included in net assets for the plan.

The amounts in net assets without donor restrictions expected to be recognized as components of net periodic pension costs in the year ended December 31, 2019 are as follows:

| | | |
|-------------------------------------|----|----------------------|
| Amortization of prior service costs | \$ | (2,399) |
| Recognized actuarial losses | | <u>46,854</u> |
| Total | \$ | <u><u>44,455</u></u> |

The weighted average assumptions used to determine benefit obligations and net benefit cost for the years ended December 31, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-------------|-------------|
| Weighted average assumptions: | | |
| Discount rate – benefit obligation | 3.28 % | 4.40 % |
| Discount rate – service cost | 4.25 | 3.56 |
| Discount rate – interest cost | 4.17 | 3.32 |
| Expected return on plan assets | 6.50 | 6.50 |
| Rate of compensation increase | 3.75 | 3.75 |

Pension assets are invested in various asset classes as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Asset class: | | |
| Equities, mutual and exchange traded funds | 46 % | 37 % |
| Fixed income | 22 | 27 |
| Alternative investments | 27 | 35 |
| Cash and cash equivalents | 5 | 1 |

The Finance Committee of the Board of Directors has responsibility for establishing and monitoring compliance with the investment policy governing the investment of pension assets. The investment policy is utilized as the basis for determining the long-term return assumption for the assets. Historical data, combined with future expected returns of each asset class, are the primary components utilized in developing this assumption. Additional information, such as specific manager performance and risk characteristics, is also included in the assessment of the long-term rate of return assumption.

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The System expects to contribute \$87,800 to the plan in the year ended December 31, 2019. The estimated benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the System as follows: 2020 – \$81,035; 2021 – \$85,369; 2022 – \$89,128; 2023 – \$92,106; 2024 – \$97,756; and 2025 to 2029 – \$501,688.

The following tables present the System's fair value leveling hierarchy for those plan assets measured at fair value as of December 31, 2019 and 2018. Refer to note 5 for level definitions.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-------------------|----------------|----------------|----------------|
| December 31, 2019: | | | | |
| Cash and cash equivalents | \$ 46,366 | — | — | 46,366 |
| Fixed income securities: | | | | |
| Corporate bonds | 117,061 | 53,897 | — | 170,958 |
| Government securities | <u>32,232</u> | <u>—</u> | <u>—</u> | <u>32,232</u> |
| Total fixed securities | <u>149,293</u> | <u>53,897</u> | <u>—</u> | <u>203,190</u> |
| Equities, mutual and exchange traded funds: | | | | |
| Domestic mutual funds | 161,490 | — | — | 161,490 |
| International mutual funds | <u>276,566</u> | <u>—</u> | <u>—</u> | <u>276,566</u> |
| Total equities, mutual and exchange traded funds | <u>438,056</u> | <u>—</u> | <u>—</u> | <u>438,056</u> |
| Total | <u>\$ 633,715</u> | <u>53,897</u> | <u>—</u> | <u>687,612</u> |

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| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-------------------|-------------------|----------------|-------------------|
| December 31, 2018: | | | | |
| Cash and cash equivalents | \$ 7,871 | — | — | 7,871 |
| Fixed income securities: | | | | |
| Corporate bonds | 121,420 | 61,152 | — | 182,572 |
| Government securities | <u>39,046</u> | <u>—</u> | <u>—</u> | <u>39,046</u> |
| Total fixed securities | <u>160,466</u> | <u>61,152</u> | <u>—</u> | <u>221,618</u> |
| Equities, mutual and exchange traded funds: | | | | |
| Domestic mutual funds | 79,437 | 8,490 | — | 87,927 |
| International mutual funds | <u>102,610</u> | <u>120,754</u> | <u>—</u> | <u>223,364</u> |
| Total equities, mutual and exchange traded funds | <u>182,047</u> | <u>129,244</u> | <u>—</u> | <u>311,291</u> |
| Total | \$ <u>350,384</u> | \$ <u>190,396</u> | \$ <u>—</u> | \$ <u>540,780</u> |

The plan held certain investments in cash and cash equivalents consisting of short-term money market instruments including commercial paper, asset backed securities, treasury bonds and bills, and short-term corporate bonds. The plan also holds certain alternative investments including hedge funds, real estate, and distressed debt.

The following table summarizes the System's investments at December 31, 2019 and 2018, for which NAV was used as a practical expedient to estimate fair value:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|-------------------|-------------------|
| Alternative investments: | | |
| Hedge funds | \$ 113,908 | 139,201 |
| Real estate | 71,301 | 83,586 |
| Private debt | 21,260 | 36,340 |
| Private equity | <u>45,259</u> | <u>31,765</u> |
| Total alternative investments | \$ <u>251,728</u> | \$ <u>290,892</u> |

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The table below classifies the net asset value at December 31, 2019 for the alternative investment portion of the plan assets into categories based on the stated contractual liquidity terms of the underlying investments:

| | <u>Net asset value</u> | <u>Unfunded commitments</u> |
|---|----------------------------|---------------------------------|
| Less than 1 year, no contractual restrictions have been imposed | \$ 61,251 | 4,500 |
| Subject to existing gates or restrictions | 17,601 | — |
| Limited partnership fund expiring in 1–5 years | 12,189 | 7,535 |
| Limited partnership fund expiring in 6–10 years | 130,850 | 51,613 |
| Limited partnership fund expiring in 11–15 years | 26,852 | 35,137 |
| Limited partnership fund expiring in 15+ years | <u>2,985</u> | <u>15,686</u> |
| Total alternative investments | \$ <u>251,728</u> | <u>114,471</u> |

The System sponsors various defined contribution employee benefit plans. The System contributed \$30,781 and \$28,541 to the defined contribution employee benefit plans for the years ended December 31, 2019 and 2018, respectively.

The System also has nonqualified deferred compensation plans for certain employees. The System contributed and recognized as expense \$6,316 and \$6,109 to the deferred compensation plans for the years ended December 31, 2019 and 2018, respectively.

(13) Investments in Joint Ventures

The System has invested in a number of joint ventures to provide specialty healthcare services which are recorded on the equity method of accounting. During 1997, the System entered into an agreement with Southwest Community Health System and certain of its affiliated entities, including Southwest General Health Center (Southwest). The agreement has been amended and restated as of January 1, 2011 and is effective for 10 years. The agreement provides that 50% of the voting members of Southwest's board of trustees shall be selected for appointment by the System and that the System is entitled to 50% of the annual net income as defined in the agreement. Total investment in Southwest amounted to \$83,683 and \$76,055 at December 31, 2019 and 2018, respectively. Total net earnings under the Southwest joint venture for the years ended December 31, 2019 and 2018 are shown below.

| | <u>2019</u> | <u>2018</u> |
|--------------|-----------------|----------------|
| Earnings | \$ 16,797 | 9,162 |
| Distribution | <u>(9,169)</u> | <u>(5,127)</u> |
| Net earnings | \$ <u>7,628</u> | <u>4,035</u> |

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Total investments for all joint ventures, including Southwest, amounted to \$112,789 and \$100,557 at December 31, 2019 and 2018, respectively, and are included in noncurrent other assets on the consolidated balance sheets.

(14) Litigation and Contingencies

The System is involved in litigation arising in the ordinary course of business. Claims have been asserted against the System and are currently in various stages of litigation. It is the opinion of management that estimated costs accrued are adequate to provide for potential losses resulting from pending or threatened litigation.

(15) Special Charges

The System incurred \$1,742 and \$7,599 in special charges during the years ending 2019 and 2018, respectively. The special charges related primarily to severance, impact of IT system implementation, and restructuring costs.

(16) Purchase Commitments

The System has commitments to purchase goods and services with the following minimum contractual obligations as follows: 2020 – \$48,353; 2021 – \$23,860; 2022 – \$15,526; and 2023 – \$6,259; 2024 – \$3,404 and 2025 and thereafter – \$4,014. Purchases under these or similar contracts totaled \$169,844 and \$137,273 in the years ending December 31, 2019 and 2018, respectively.

(17) Income Taxes

The System has certain taxable subsidiaries that have incurred net losses for federal income tax purposes. Cumulative losses available totaled approximately \$911,609 and \$873,032 at December 31, 2019 and 2018 respectively. The losses are available to offset future taxable income indefinitely with utilization limited to 80% of taxable income for losses arising after December 31, 2017. A potential tax benefit has not been recorded in the consolidated financial statements at December 31, 2019 and 2018 due to the uncertainty of realizing those benefits in the future.

The System recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

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(18) Functional Expenses

The System provides healthcare services, medical education, and performs medical research. Operating expenses related to these functions presented by their natural classifications were as follows for the years ended December 31, 2019 and 2018:

| | December 31, 2019 | | | |
|---------------------------------------|---------------------------------|----------------------------------|-----------------------------------|------------------|
| | Health care services | Academic and research | Administrative support | Total |
| Salaries, wages and employee benefits | \$ 2,056,291 | 32,200 | 369,860 | 2,458,351 |
| Purchased services | 200,127 | 12,993 | 73,647 | 286,767 |
| Patient care supplies | 821,421 | 1,672 | 1,319 | 824,412 |
| Other supplies | 36,376 | 1,367 | 4,906 | 42,649 |
| Insurance | 44,931 | — | — | 44,931 |
| Other and special charges | 247,714 | 7,578 | 99,149 | 354,441 |
| Depreciation and amortization | 120,876 | 11 | 61,305 | 182,192 |
| Interest | 44,126 | — | — | 44,126 |
| Losses in excess of Insurance | 93,070 | — | — | 93,070 |
| Total expenses | \$ <u>3,664,932</u> | <u>55,821</u> | <u>610,186</u> | <u>4,330,939</u> |

| | December 31, 2018 | | | |
|---------------------------------------|---------------------------------|----------------------------------|-----------------------------------|------------------|
| | Health care services | Academic and research | Administrative support | Total |
| Salaries, wages and employee benefits | \$ 1,971,277 | 30,742 | 323,277 | 2,325,296 |
| Purchased services | 198,649 | 12,944 | 70,140 | 281,733 |
| Patient care supplies | 720,604 | 2,238 | 766 | 723,608 |
| Other supplies | 40,283 | 1,635 | 4,441 | 46,359 |
| Insurance | 49,191 | — | — | 49,191 |
| Other and special charges | 243,246 | 6,806 | 98,339 | 348,391 |
| Depreciation and amortization | 112,358 | 57 | 51,147 | 163,562 |
| Interest | 46,212 | — | — | 46,212 |
| Total expenses | \$ <u>3,381,820</u> | <u>54,422</u> | <u>548,110</u> | <u>3,984,352</u> |

Some categories of natural class expenses are attributable to more than one activity and require allocation, applied on a consistent basis. Interest is allocated based on net patient revenue. Insurance represents the professional liability insurance. Administrative support consists of corporate functions such as legal, accounting and information systems.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of dollars)

(19) Liquidity and Availability of Resources

As of year ended December 31, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 260,859 | 288,517 |
| Patient accounts receivable | 540,993 | 568,227 |
| Other receivables | 32,572 | 61,778 |
| Investments | <u>1,323,681</u> | <u>1,268,240</u> |
| Total financial assets available within a year | 2,158,105 | 2,186,762 |
| Liquidity resources: | | |
| Available revolving credit commitment | <u>210,000</u> | <u>85,000</u> |
| Total financial assets and liquidity resources available within a year | <u>\$ 2,368,105</u> | <u>2,271,762</u> |

Other receivables exclude receivables that are not expected to be converted into cash within a year. As part of liquidity management, the System's policy is to structure and manage its financial assets to be available to meet its general expenditure needs. To help manage unanticipated liquidity needs, the System maintains syndicated revolving lines of credit that are drawn upon during the year to manage cash flows, as of December 31, 2019.

(20) Related Parties

Certain members of the System's Board of Directors serve as management of companies that provide products and/or services to the System or with which the System has a contract or other relationship (e.g., schools). Two members of the System's Board of Directors are employees: the Chief Executive Officer and a physician employed by one of the entities in the System.

The System's management believes that transactions with related parties are entered into upon terms comparable to those that would be available from unaffiliated third parties. Related party transactions are reviewed by the Audit & Compliance Committee.

(21) Subsequent Events

Management has evaluated subsequent events through April 1, 2020 which represents the date the consolidated financial statements were available for issuance, to ensure that the consolidated financial statements include appropriate disclosures of events both recognized in the consolidated financial statements as of December 31, 2019, and events which occurred subsequent to December 31, 2019, but were not recognized in the consolidated financial statements.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of dollars)

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. Although not yet measurable, the spread of COVID-19 will adversely impact certain operating revenues, medical claims, labor and supplies expenses. Additionally, subsequent to December 31, 2019, there has been instability in the financial markets resulting in significant declines in certain markets between January 1, 2020 and April 1, 2020. Management is monitoring market conditions and the related realized and unrealized losses on investments. Due to the volatility in the global economy and the financial markets as of the date of this report, there is uncertainty regarding the long-term impact market conditions will have on the System's investment portfolio.

In January 2020, the System issued tax-exempt bonds totaling \$564,325. Proceeds from these bonds totaling \$311,515 were used to refund the Series 2007A, 2010A, 2012C and D, 2014A and 2018B and E bonds and the remaining proceeds of \$252,810 will be used to finance new capital projects and the cost of issuance.

SUPPLEMENTARY INFORMATION



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Independent Auditors' Report on Supplementary Information

The Board of Directors
University Hospitals Health System, Inc.:

We have audited the consolidated financial statements of University Hospitals Health System, Inc. and its subsidiaries as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated April 1, 2020, which refers to a change in accounting method as of January 1, 2019 for the adoption of Financial Accounting Standards Board's Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended and an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 4 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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 consolidated financial statements as a whole.

KPMG LLP

Cleveland, Ohio
April 1, 2020

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Supplementary Information – Balance Sheet

December 31, 2019

(In thousands of dollars)

| Assets | Obligated group | Other nonobligated group | 5805 Euclid Inc. | Total nonobligated group | Eliminations | Consolidated |
|---|--------------------|--------------------------------|---------------------|--------------------------------|--------------|--------------|
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 251,995 | 4,261 | 4,603 | 8,864 | — | 260,859 |
| Patient accounts receivable | 396,524 | 144,469 | — | 144,469 | — | 540,993 |
| Other receivables | 44,039 | 32,568 | — | 32,568 | (27,364) | 49,243 |
| Other current assets | 165,518 | 25,969 | — | 25,969 | — | 191,487 |
| Total current assets | 858,076 | 207,267 | 4,603 | 211,870 | (27,364) | 1,042,582 |
| Investments | 1,728,205 | 79,093 | — | 79,093 | — | 1,807,298 |
| Property and equipment, net | 1,616,966 | 189,857 | 24,169 | 214,026 | — | 1,830,992 |
| Other assets: | | | | | | |
| Investments in affiliates | 402,792 | 2,152 | — | 2,152 | (292,155) | 112,789 |
| Beneficial interest in Foundations | 95,556 | 62,381 | — | 62,381 | — | 157,937 |
| Perpetual trusts | 208,324 | 1,174 | — | 1,174 | — | 209,498 |
| Other | 264,467 | 15,530 | 487 | 16,017 | (13,566) | 266,918 |
| Total other assets | 971,139 | 81,237 | 487 | 81,724 | (305,721) | 747,142 |
| Total assets | \$ 5,174,386 | 557,454 | 29,259 | 586,713 | (333,085) | 5,428,014 |
| Liabilities and Net Assets | | | | | | |
| Current liabilities: | | | | | | |
| Current installments of long-term debt | \$ 24,237 | — | — | — | — | 24,237 |
| Accounts payable and accrued expenses | 421,482 | 61,657 | 429 | 62,086 | — | 483,568 |
| Other current liabilities | 118,999 | 35,668 | 10,717 | 46,385 | (27,364) | 138,020 |
| Estimated amounts due to third party payors | 16,913 | 1,489 | — | 1,489 | — | 18,402 |
| Total current liabilities | 581,631 | 98,814 | 11,146 | 109,960 | (27,364) | 664,227 |
| Long-term debt, less current installments | 1,195,341 | 107 | 19,156 | 19,263 | (13,566) | 1,201,038 |
| Revolving credit commitment | 40,000 | — | — | — | — | 40,000 |
| Other liabilities | 726,884 | 96,067 | — | 96,067 | — | 822,951 |
| Total liabilities | 2,543,856 | 194,988 | 30,302 | 225,290 | (40,930) | 2,728,216 |
| Net assets: | | | | | | |
| Without donor restrictions | 1,823,574 | 293,198 | (1,043) | 292,155 | (292,155) | 1,823,574 |
| With donor restrictions | 806,956 | 69,268 | — | 69,268 | — | 876,224 |
| Total net assets | 2,630,530 | 362,466 | (1,043) | 361,423 | (292,155) | 2,699,798 |
| Total liabilities and net assets | \$ 5,174,386 | 557,454 | 29,259 | 586,713 | (333,085) | 5,428,014 |

See accompanying independent auditors' report on supplementary information and notes to supplementary information.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Supplementary Information – Schedule of Operations

Year ended December 31, 2019

(In thousands of dollars)

| | Obligated group | Other nonobligated group | 5805 Euclid Inc. | Total nonobligated group | Eliminations | Consolidated |
|--|--------------------|--------------------------------|---------------------|--------------------------------|--------------|--------------|
| Revenues: | | | | | | |
| Patient service revenue | \$ 2,797,512 | 1,243,397 | — | 1,243,397 | — | 4,040,909 |
| Other revenue | 196,980 | 234,108 | 2,376 | 236,484 | (177,768) | 255,696 |
| Total revenues | 2,994,492 | 1,477,505 | 2,376 | 1,479,881 | (177,768) | 4,296,605 |
| Expenses: | | | | | | |
| Salaries, wages and employee benefits | 1,413,350 | 1,054,049 | — | 1,054,049 | (9,048) | 2,458,351 |
| Purchased services | 125,348 | 277,367 | 60 | 277,427 | (116,008) | 286,767 |
| Patient care supplies | 649,916 | 174,496 | — | 174,496 | — | 824,412 |
| Other supplies | 30,379 | 12,270 | — | 12,270 | — | 42,649 |
| Insurance | 26,324 | 40,791 | — | 40,791 | (22,184) | 44,931 |
| Other | 309,015 | 74,005 | — | 74,005 | (30,321) | 352,699 |
| Depreciation and amortization | 160,444 | 20,993 | 755 | 21,748 | — | 182,192 |
| Interest | 44,126 | — | 207 | 207 | (207) | 44,126 |
| Special charges | 1,122 | 620 | — | 620 | — | 1,742 |
| Losses in excess of insurance | 93,070 | — | — | — | — | 93,070 |
| | 2,853,094 | 1,654,591 | 1,022 | 1,655,613 | (177,768) | 4,330,939 |
| Net operating income (loss) | 141,398 | (177,086) | 1,354 | (175,732) | — | (34,334) |
| Nonoperating revenues (expenses): | | | | | | |
| Investment income | 155,879 | 1,676 | — | 1,676 | — | 157,555 |
| Change in fair value of derivative instruments | (28,287) | — | — | — | — | (28,287) |
| Other nonservice periodic pension costs | (23,334) | — | — | — | — | (23,334) |
| Excess (deficiency) of revenues over expenses | \$ 245,656 | (175,410) | 1,354 | (174,056) | — | 71,600 |

See accompanying independent auditors' report on supplementary information and notes to supplementary information.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Supplementary Information – Balance Sheet

December 31, 2018

(In thousands of dollars)

| Assets | Obligated group | Other nonobligated group | 5805 Euclid Inc. | Total nonobligated group | Eliminations | Consolidated |
|---|--------------------|--------------------------------|---------------------|--------------------------------|--------------|--------------|
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 280,414 | 2,683 | 5,420 | 8,103 | — | 288,517 |
| Patient accounts receivable | 410,969 | 157,258 | — | 157,258 | — | 568,227 |
| Other receivables | 19,744 | 99,160 | — | 99,160 | (48,749) | 70,155 |
| Other current assets | 145,022 | 27,526 | — | 27,526 | — | 172,548 |
| Total current assets | 856,149 | 286,627 | 5,420 | 292,047 | (48,749) | 1,099,447 |
| Investments | 1,653,596 | 83,946 | — | 83,946 | — | 1,737,542 |
| Property and equipment, net | 1,557,378 | 160,930 | 18,554 | 179,484 | — | 1,736,862 |
| Other assets: | | | | | | |
| Investments in affiliates | 361,800 | 3,307 | — | 3,307 | (264,550) | 100,557 |
| Beneficial interest in Foundations | 109,111 | 53,613 | — | 53,613 | — | 162,724 |
| Perpetual trusts | 188,246 | 1,057 | — | 1,057 | — | 189,303 |
| Other | 196,777 | 13,621 | 487 | 14,108 | (13,566) | 197,319 |
| Total other assets | 855,934 | 71,598 | 487 | 72,085 | (278,116) | 649,903 |
| Total assets | \$ 4,923,057 | 603,101 | 24,461 | 627,562 | (326,865) | 5,223,754 |
| Liabilities and Net Assets | | | | | | |
| Current liabilities: | | | | | | |
| Current installments of long-term debt | \$ 24,445 | 1 | — | 1 | — | 24,446 |
| Accounts payable and accrued expenses | 395,695 | 52,270 | 2 | 52,272 | — | 447,967 |
| Other current liabilities | 118,205 | 72,821 | 6,176 | 78,997 | (48,749) | 148,453 |
| Estimated amounts due to third party payors | 18,603 | 1,966 | — | 1,966 | — | 20,569 |
| Total current liabilities | 556,948 | 127,058 | 6,178 | 133,236 | (48,749) | 641,435 |
| Long-term debt, less current installments | 1,220,526 | 1 | 20,680 | 20,681 | (13,566) | 1,227,641 |
| Revolving credit commitment | 140,000 | — | — | — | — | 140,000 |
| Other liabilities | 478,388 | 148,360 | — | 148,360 | — | 626,748 |
| Total liabilities | 2,395,862 | 275,419 | 26,858 | 302,277 | (62,315) | 2,635,824 |
| Net assets: | | | | | | |
| Without donor restrictions | 1,794,625 | 266,947 | (2,397) | 264,550 | (264,550) | 1,794,625 |
| With donor restrictions | 732,570 | 60,735 | — | 60,735 | — | 793,305 |
| Total net assets | 2,527,195 | 327,682 | (2,397) | 325,285 | (264,550) | 2,587,930 |
| Total liabilities and net assets | \$ 4,923,057 | 603,101 | 24,461 | 627,562 | (326,865) | 5,223,754 |

See accompanying independent auditors' report on supplementary information and notes to supplementary information.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Supplementary Information – Schedule of Operations

Year ended December 31, 2018

(In thousands of dollars)

| | <u>Obligated group</u> | <u>Other nonobligated group</u> | <u>5805 Euclid Inc.</u> | <u>Total nonobligated group</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|----------------------------|---|-----------------------------|---|---------------------|---------------------|
| Revenues: | | | | | | |
| Patient service revenue | \$ 2,698,371 | 1,195,545 | — | 1,195,545 | — | 3,893,916 |
| Other revenue | 173,146 | 221,025 | 253 | 221,278 | (170,556) | 223,868 |
| Total revenues | <u>2,871,517</u> | <u>1,416,570</u> | <u>253</u> | <u>1,416,823</u> | <u>(170,556)</u> | <u>4,117,784</u> |
| Expenses: | | | | | | |
| Salaries, wages and employee benefits | 1,334,212 | 999,340 | — | 999,340 | (8,256) | 2,325,296 |
| Purchased services | 125,691 | 266,105 | 40 | 266,145 | (110,103) | 281,733 |
| Patient care supplies | 577,999 | 145,609 | — | 145,609 | — | 723,608 |
| Other supplies | 32,121 | 14,238 | — | 14,238 | — | 46,359 |
| Insurance | 25,833 | 46,586 | — | 46,586 | (23,228) | 49,191 |
| Other | 295,817 | 73,737 | — | 73,737 | (28,762) | 340,792 |
| Depreciation and amortization | 145,032 | 18,260 | 270 | 18,530 | — | 163,562 |
| Interest | 46,212 | — | 207 | 207 | (207) | 46,212 |
| Special charges | 7,599 | — | — | — | — | 7,599 |
| | <u>2,590,516</u> | <u>1,563,875</u> | <u>517</u> | <u>1,564,392</u> | <u>(170,556)</u> | <u>3,984,352</u> |
| Net operating income (loss) | 281,001 | (147,305) | (264) | (147,569) | — | 133,432 |
| Nonoperating revenues (expenses): | | | | | | |
| Investment loss | (17,584) | (2,009) | — | (2,009) | — | (19,593) |
| Change in fair value of derivative instruments | 10,195 | — | — | — | — | 10,195 |
| Loss on extinguishment of debt | (442) | — | — | — | — | (442) |
| Pension settlement costs | (42,539) | — | — | — | — | (42,539) |
| Other nonservice periodic pension costs | (21,496) | — | — | — | — | (21,496) |
| Excess (deficiency) of revenues over expenses | <u>\$ 209,135</u> | <u>(149,314)</u> | <u>(264)</u> | <u>(149,578)</u> | <u>—</u> | <u>59,557</u> |

See accompanying independent auditors' report on supplementary information and notes to supplementary information.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Notes to Supplementary Information

December 31, 2019 and 2018

(In thousands of dollars)

(1) Basis of Presentation

In the accompanying supplementary information, the Obligated group includes the following:

- University Hospitals Health System, Inc.
- University Hospitals Cleveland Medical Center
- University Hospitals Geauga Medical Center
- University Hospitals Ahuja Medical Center, Inc.
- Parma Community General Hospital Association d/b/a University Hospitals Parma Medical Center
- EMH Regional Hospital Medical Center d/b/a University Hospitals Elyria Medical Center
- University Hospitals St. John Medical Center

Certain affiliated or controlled entities of the System required to be consolidated with the System in accordance with accounting principles generally accepted in the United States of America are presented in the supplementary information as Nonobligated group totals. Entities included in the Nonobligated group include the following:

- University Hospitals Health Care Enterprises, Inc.
- University Hospitals Regional Hospitals Richmond Medical Center Campus
- University Hospitals Conneaut Medical Center
- University Hospitals Geneva Medical Center
- University Hospitals Regional Hospitals Bedford Medical Center Campus
- University Hospitals Medical Group, Inc.
- University Primary Care Practices, Inc.
- University Hospitals Holdings, Inc.
- Western Reserve Assurance Company Ltd., SPC
- University Hospitals Samaritan Medical Center
- University Hospitals Portage Medical Center
- University Hospitals Accountable Care Organization
- UH Health Solutions, LLC
- University Hospitals Home Care Services, Inc.
- UH Ventures, LLC
- 5805 Euclid, Inc.