



**UNIVERSITY HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Directors
University Health System, Inc.:

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Health System, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations, the changes in their net assets 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 1(r) to the consolidated financial statements, in 2019, UHS adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2020 on our consideration of UHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of UHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UHS' internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
March 24, 2020

**UNIVERSITY HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 87,755	85,502
Short-term investments	11,584	8,164
Current portion of assets limited as to use	854	789
Patient accounts receivable, net	95,401	99,506
Other receivables	16,957	10,560
Estimated third-party settlements	21,763	17,988
Inventories	13,473	9,541
Prepaid expenses and other current assets	4,734	3,459
Total current assets	252,521	235,509
Assets limited as to use, less current portion	38,789	30,985
Operating lease right-of-use assets	28,022	—
Long-term investments	224,571	188,330
Property and equipment, net	300,610	295,439
Investments in affiliated organizations	2,359	2,400
Other assets	4,921	8,203
Total assets	\$ 851,793	760,866
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 7,327	7,225
Accounts payable	90,870	88,682
Accrued payroll and related liabilities	53,497	46,731
Accrued expenses and other current liabilities	28,095	29,455
Estimated third-party settlements	10,792	7,281
Current installments of obligations under finance leases in 2019 and capital leases in 2018	10,400	3,104
Current installments of operating lease liabilities	5,616	—
Total current liabilities	206,597	182,478
Long-term debt, less current portion	335,512	343,824
Obligations under finance leases in 2019 and capital leases in 2018, excluding current installments	2,407	10,227
Operating lease liabilities, excluding current installments	23,751	—
Other liabilities	14,014	16,220
Total liabilities	582,281	552,749
Net assets:		
Without donor restrictions	252,001	193,717
With donor restrictions	17,511	14,400
Total net assets	269,512	208,117
Commitments and contingencies		
Total liabilities and net assets	\$ 851,793	760,866

See accompanying notes to consolidated financial statements.

**UNIVERSITY HEALTH SYSTEM, INC.
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Consolidated Statements of Operations
Years ended December 31, 2019 and 2018
(In thousands)

	2019	2018
Revenue:		
Patient care service revenue, net	\$ 921,368	836,367
Other revenue	89,667	62,883
Total revenue	1,011,035	899,250
Operating expenses:		
Salaries, wages, and benefits	416,613	381,957
Supplies and stores	298,282	263,001
Purchased services	149,607	127,875
Graduate medical education reimbursement	40,189	38,019
Rent, utilities, insurance, and other	31,324	33,021
Depreciation and amortization	29,994	31,195
Interest	14,274	13,745
Total operating expenses	980,283	888,813
Operating income	30,752	10,437
Nonoperating gains (losses):		
Contributions used for purchase of property and equipment	4,469	1,161
Investment income (loss)	21,699	(2,046)
Change in fair value of interest rate swap	—	542
Interest rate swap termination gain	1,364	—
Total nonoperating gains (losses), net	27,532	(343)
Revenue and gains in excess of expenses and losses	\$ 58,284	10,094

See accompanying notes to consolidated financial statements.

**UNIVERSITY HEALTH SYSTEM, INC.
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Consolidated Statements of Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at December 31, 2017	\$ 183,623	13,329	196,952
Revenue and gains less than expenses and losses	10,094	—	10,094
Contributions	—	2,593	2,593
Net losses on investments	—	(856)	(856)
Net assets released from restriction used in operations	—	(666)	(666)
Balance at December 31, 2018	193,717	14,400	208,117
Revenue and gains in excess of expenses and losses	58,284	—	58,284
Contributions	—	6,220	6,220
Net gains on investments	—	2,265	2,265
Net assets released from restriction used in operations	—	(5,374)	(5,374)
Balance at December 31, 2019	\$ <u>252,001</u>	<u>17,511</u>	<u>269,512</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY HEALTH SYSTEM, INC.
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Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Increase in total net assets	\$ 61,394	11,165
Adjustments to reconcile increase in total net assets to net cash provided by operating activities:		
Depreciation and amortization	29,994	31,195
Gifts and contributions for endowment and capital projects	—	(857)
Equity in gain from investments in affiliated organizations	(3,097)	(2,289)
Imputed interest on capital lease obligation	2,787	2,632
Net realized and unrealized (gains) losses on trading securities	(16,453)	4,468
Change in fair value of interest rate swap	—	(542)
Interest rate swap termination gain	(1,364)	—
Amortization of financing costs	183	198
Amortization of bond premium	(1,329)	(1,466)
Loss on sale of assets, net	473	118
Changes in assets and liabilities affecting operating activities:		
Patient accounts receivable, net	4,199	6,650
Operating lease right-of-use	1,345	—
Other receivables	(6,534)	(1,748)
Estimated third-party settlements, net	(263)	2,292
Inventories	(3,932)	(962)
Prepaid expenses and other assets	(1,277)	(1,167)
Accounts payable	(2,045)	4,732
Accrued payroll and related liabilities	6,766	(4,224)
Accrued expenses and other liabilities	(3,328)	9,049
Net cash provided by operating activities	67,519	59,244
Cash flows from investing activities:		
Proceeds from sale of investments	190,370	315,949
Purchases of investments	(214,348)	(300,972)
Purchases of property and equipment	(31,879)	(36,367)
Capital distributions from affiliated organization	3,138	2,374
Finance lease equipment/obligation	656	—
Net cash used in investing activities	(52,063)	(19,016)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,087	1,241
Payments of long-term debt	(8,153)	(8,100)
Gifts and contributions for endowment and capital projects	—	857
Principal payments of finance and capital lease obligations in 2019 and 2018, respectively	(3,880)	(2,161)
Net cash used in financing activities	(10,946)	(8,163)
Net increase in cash and cash equivalents	4,510	32,065
Cash and cash equivalents at beginning of year	90,443	58,378
Cash and cash equivalents at end of year	\$ 94,953	90,443

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Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018
(In thousands)

	<u>2019</u>	<u>2018</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 87,755	85,502
Money market funds in short-term investments	2,145	1,981
Money market funds in long-term investments	<u>5,053</u>	<u>2,960</u>
Total cash and cash equivalents	<u>\$ 94,953</u>	<u>90,443</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized of \$565 and \$284, respectively	\$ 13,201	13,857
Noncash investing activity – additions to property and equipment included in accounts payable	4,234	4,856
See note 15 for supplemental disclosure of cash flow information related to leases.		

See accompanying notes to consolidated financial statements.

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(In thousands)

(1) Summary of Significant Accounting Policies

(a) Organization, Principles of Consolidation, and Operations

University Health System, Inc. (UHS), a Tennessee nonprofit corporation, comprises the following: (1) University of Tennessee Medical Center (Medical Center); (2) UHS Ventures, Inc. (UHSV); (3) Regional Trauma Service, LLC (RTS); (4) University Cardiology Group, LLC (UCG); (5) University Health Network, LLC (UHN); and (6) UT Urgent Care Centers (UTUCC). All significant intercompany balances and transactions have been eliminated in consolidation. The mission of UHS is to serve as a regional healthcare provider, as well as a research and educational facility.

UHS was created on December 21, 1998 for the purpose of restructuring the operation, management, and governance of the Medical Center, and to negotiate agreements with The University of Tennessee (the University) to facilitate the restructuring. Effective July 29, 1999, UHS acquired certain assets and the operations of the Medical Center from the University, and the Medical Center became an operating division of UHS. Prior to July 29, 1999, the Medical Center operated as a budget entity of the University.

UHS entered into the following agreements to acquire the operations of the Medical Center from the University: (1) the Lease and Transfer Agreement, whereby UHS leases certain real property and acquired certain personal property from the University; (2) the Employee Services Agreement, whereby UHS leases certain of the Medical Center's employees from the University; and (3) the Affiliation Agreement, whereby UHS and the University agree to continue the Medical Center's historical relationship with the University of Tennessee Graduate School of Medicine (GSM). The effective date of the transfer of Medical Center operations to UHS was July 29, 1999. The transaction was accounted for as a purchase. The restructuring of Medical Center's operations and the transfer agreements are explained in more detail in note 2.

(i) UHS and Medical Center

The Medical Center, an operating division of UHS, is an academic medical center delivering tertiary medical care to a 21-county region in eastern Tennessee. The Medical Center is a regional referral center for eastern Tennessee, western North Carolina, and southeastern Kentucky. The Medical Center is licensed for 685 acute care beds and has been designated by the state of Tennessee (State) as a Level 1 adult and pediatric Trauma Center, supported by five aeromedical helicopters. The State has also designated the Medical Center as a Regional Perinatal Center for high-risk pregnancy.

(ii) UHSV

UHSV, a Tennessee nonprofit taxable organization and wholly owned subsidiary of UHS, has a 11.1% ownership interest in ContinuumRx. The purpose of ContinuumRx is to provide home infusion therapy services and other pharmacy and pharmacy-related services. ContinuumRx is accounted for using the equity method. Through August 2018, UHSV had three after-hour clinics to provide medical services to east Tennessee residents of Knox, Blount, Loudon, Sevier, and surrounding counties and a rural health clinic in Claiborne County. Effective September 1, 2018, ownership of the three after-hour clinics was fully transferred to UTUCC.

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(iii) *RTS*

RTS, a nonprofit organization and wholly owned subsidiary of UHS, was established to provide physician services to patients of the Medical Center who have suffered a traumatic injury.

(iv) *UCG*

UCG, a nonprofit organization and wholly owned subsidiary of UHS, was established to provide cardiology physician services to patients of the Medical Center.

(v) *UHN*

UHN, a nonprofit organization and wholly owned subsidiary of UHS, was established to provide a clinically integrated network that spans the entire episode of care.

(vi) *UTUCC*

UTUCC, a nonprofit organization and wholly owned subsidiary of UHS, was established in 2018 to serve the urgent care needs of the general public.

Also, see note 8, *Investments in Affiliated Organizations*.

(b) Use of Estimates

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

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts, implicit price concessions and contractual adjustments, estimated third-party settlements, useful lives assigned to capital assets, and reserves for workers' compensation and professional and general liability costs.

In addition, laws and regulations concerning government programs, including Medicare and TennCare/Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge UHS' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon UHS. In addition, the contracts UHS has with commercial payors also provide for retroactive audit and review of claims.

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(c) Cash and Cash Equivalents

UHS considers all highly liquid, interest-bearing investments with a maturity of three months or less when purchased, excluding amounts limited as to use by board, management, or donor designation and amounts included in certain debt reserve funds, to be cash equivalents.

(d) Investments and Investment Income

Investments held by UHS are classified as trading securities. Investment income on borrowed funds held by a trustee, to the extent not reinvested during a construction period, is recorded as other revenue. Investment income or loss, including realized and unrealized gains or losses, from all other investments is recorded as nonoperating gains (losses) unless restricted by donors.

(e) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees in endowment funds, nonqualified deferred compensation plan assets, and project funds. Amounts required to meet current liabilities and current capital expenditure budget requirements have been classified as current assets in the accompanying consolidated balance sheets.

(f) Inventories

Supply inventories are stated at the lower of cost or net realizable value, determined on the weighted average cost basis or on the first-in, first-out basis. Pharmacy inventories are stated at the lower of cost or net realizable value, determined on the first-in, first-out basis.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is calculated on the straight-line basis over the estimated useful lives of the respective assets, except for leasehold improvements, which are amortized over the shorter of the expected useful life of the asset or related lease term. Buildings under finance and capital lease obligations are amortized using the straight-line method over 20 years or longer (note 15(a)). Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements. Interest expense related to qualified construction projects is capitalized during the construction period.

(h) Leases

UHS is a lessee in several noncancelable (1) operating leases, primarily for medical and office equipment, office space, and (2) finance leases, for medical equipment.

UHS accounts for leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* (notes 1(r) and 15). UHS determines if an arrangement is or contains a lease at contract inception. UHS recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

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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. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how UHS determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

- ASC Topic 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, UHS 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, UHS generally uses its incremental borrowing rate as the discount rate for the lease. UHS'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 UHS does not generally borrow on a collateralized basis, UHS obtained discount rates determined by existing debt values and adjusted market yield curve. UHS utilized an independent third-party professional services firm to research these rates.
- The lease term for all of UHS's leases includes the noncancellable period of the lease plus any additional periods covered by either an option to extend (or not to terminate) the lease that UHS is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise the following:
 - Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties UHS would owe if the lease term assumes UHS's exercise of a termination option)
 - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date
 - Amounts expected to be payable under a residual value guarantee
 - The exercise price of UHS's option to purchase the underlying asset if UHS is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, 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 expense for lease payments is recognized on a straight-line basis over the lease term.

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For finance leases, 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 the end of the lease term unless the lease transfers ownership of the underlying asset to UHS or UHS is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with UHS's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in UHS's consolidated statements of operations in the same line item as expense arising from fixed lease payments (operating leases) or amortization of the ROU asset (finance leases).

ROU assets for operating and finance leases are periodically reduced by impairment losses. UHS uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. See note 1(i).

UHS monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in revenue and gains in excess of expenses and losses.

Operating lease ROU assets are presented as operating lease ROU assets on the consolidated balance sheet. The current portion of operating lease liabilities is presented with other current liabilities and the long-term portion is presented separately as operating lease liabilities, excluding current installments on the consolidated balance sheet. Finance lease ROU assets are included in property, plant, and equipment. The current portion of finance lease liabilities is included in current installments of obligations under finance leases, and the long-term portion is included in obligations under finance leases, excluding current portion on the accompanying 2019 consolidated balance sheet.

Under the short-term lease exemption under ASC 842, UHS has elected not to recognize ROU assets and lease liabilities for short-term leases of office equipment and advertising structures that have a lease term of 12 months or less. UHS recognizes the lease payments associated with its short-term equipment leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other UHS leases.

UHS's leases occasionally include nonlease maintenance services (i.e., equipment maintenance or common area maintenance). UHS allocates the consideration in the contract to the lease and nonlease maintenance component based on each component's relative stand-alone price. UHS determines stand-alone prices for the lease components based on the prices for which other lessors lease similar assets on a stand-alone basis. UHS determines stand-alone prices for the nonlease components (i.e.,

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maintenance services) based on the prices that several suppliers charge for maintenance services for similar assets on a stand-alone basis. If observable stand-alone prices are not readily available, UHS estimates the stand-alone prices maximizing the use of observable information. For leases of property, UHS has elected the practical expedient to account for the lease and nonlease components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract.

(i) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

(j) Deferred Financing Costs

Deferred financing costs consist of bond issuance costs and are amortized over the terms of the related debt. Such unamortized amounts are reflected as a component of long-term debt in the accompanying consolidated balance sheets.

(k) Net Assets

Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of UHS and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that are available for use either by the passage of time or for specific purposes; certain of these net assets are subject to donor-imposed stipulations that they be maintained permanently by UHS. Generally, the donors of these assets permit UHS to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

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Donor-restricted contributions, whose restrictions are met in the same reporting period as the contributions are recorded, are reported as increases in net assets without donor restrictions.

Regarding endowments, UHS applies FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations*, and ASC Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC Subtopic 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective July 1, 2007, the State adopted legislation that incorporates the provisions outlined in UPMIFA. UHS's endowment consists of 26 individual donor-restricted endowment funds established for a variety of purposes.

UHS has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UHS considers the endowment corpus to be (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The endowment corpus is classified as net assets with donor restrictions in perpetuity. The remaining portion of the donor-restricted endowment fund that is not considered to be the endowment corpus is classified as net assets with donor restrictions until those amounts are approved for expenditure by UHS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, UHS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of UHS and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of UHS, and (7) the investment policies of UHS.

UHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in equities, fixed income, and cash equivalents.

UHS has a policy of annually approving for distribution investment income on endowments unless the endowment specifically states that the income should be accumulated in the fund until a maximum level is reached in the fund. For the years ended December 31, 2019 and 2018, there was approximately \$291 and \$263, of investment income earned, appropriated, and recognized as investment income in the accompanying consolidated statements of operations, respectively.

From time to time, it is possible that the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires UHS to retain as a fund of perpetual duration. These deficiencies could result from unfavorable market fluctuations that occur

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shortly after the investment of new restricted contributions whose corpus is to be held in perpetuity. There were no such deficiencies as of December 31, 2019 or 2018.

(l) Consolidated Statements of Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(m) Patient Care Service Revenue and Estimated Third-Party Settlements

Patient care service revenue is reported at the amount that reflects the consideration to which UHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, UHS bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by UHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. UHS 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 in UHS's hospital receiving inpatient acute care services or patients receiving services in UHS's outpatient centers. UHS measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to UHS's patients and customers in a retail setting (e.g., pharmaceuticals) as a component of other revenue in the accompanying consolidated statements of operations and UHS does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, UHS has elected to apply the optional exemption provided in FASB ASC Paragraph 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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UHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with UHS's policy, and implicit price concessions provided to patients. UHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

Consistent with UHS's mission, care is provided to patients regardless of their ability to pay. Therefore, UHS has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts UHS expects to collect based on its collection history with those patients.

UHS estimates third-party payor settlements related to retrospective adjustment of cost reports filed with the Centers for Medicare and Medicaid Services. Such adjustments arise, as final determination is made related to claims, payment, cost, and rate setting data. Estimated third-party settlements also include expected tentative settlements for current period cost reports that are filed subsequent to year-end. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and UHS's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., as new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Inpatient Medicare charges are reimbursed on a periodic interim payment basis, which settles annually throughout the cost report. These accounts are reported at their estimated net realizable value as estimated third-party settlements in the accompanying consolidated balance sheets.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. UHS also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. UHS estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years ended December 31, 2019 and 2018, additional revenue of \$6,035 and \$5,197, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. The additional revenue primarily represents patient account recoveries that were previously written off as uncollectible. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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(n) Charity Care

UHS provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. UHS does not report as revenue the charges that qualify as charity care because UHS does not pursue collection of those amounts.

(o) Derivative Financial Instrument

UHS has not elected to use hedge accounting with respect to its derivative financial instrument as of December 31, 2018. The derivative financial instrument is recognized as an asset or a liability in the accompanying 2018 consolidated balance sheet at fair value. UHS includes the accrued differential interest payment or receipt on its derivative in operating income. The estimated gain or loss on the fair value of the derivative is included in nonoperating gains (losses), net in the accompanying consolidated statements of operations. The derivative financial instrument was terminated during 2019.

(p) Income Taxes

UHS has been recognized as a tax-exempt organization pursuant to Section 501(a) of the Internal Revenue Code as an entity described under Section 501(c)(3). RTS, UCG, UHN, and UTUCC are single member limited liability companies disregarded as entities separate from UHS for federal tax purposes. UHSV is a Tennessee nonprofit corporation that is not exempt from federal income taxes. Income tax expense for UHSV for the years ended December 31, 2019 and 2018 was not significant and was offset by operating losses in prior years for tax purposes.

(q) Fair Value Measurements

The following methods and assumptions were used by management in estimating fair values for financial instruments:

Current assets and current liabilities – The carrying amounts reported in the accompanying consolidated balance sheets for current assets and liabilities approximate their fair value because of the short-term nature of these accounts.

Investments and assets limited as to use – The carrying amounts reported in the accompanying consolidated balance sheets for long-term investments and assets limited as to use are at fair value, which is based on quoted market prices.

Derivative instrument – The fair value of UHS's derivative instrument as of December 31, 2018 is derived from a discounted cash flow analysis based on terms of the contract and the interest rate curve. UHS's derivative instrument is recorded at fair value as of December 31, 2018.

(r) New Accounting Pronouncements

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers*. ASC Topic 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. As a result, amounts previously classified as the provision for bad debts in the consolidated statement of operations is now reflected as implicit price concessions and therefore

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included as a reduction to net operating revenue. ASC Topic 606 also requires expanded disclosures regarding UHS's revenue recognition policies and significant judgments employed in the determination of revenue. UHS adopted ASC Topic 606 with a retrospective approach in 2018. Other than these changes in presentation and disclosure, the adoption of ASC Topic 606 did not have a material impact on the accompanying consolidated balance sheets or consolidated statements of operations and changes in net assets for the years ended December 31, 2019 and 2018.

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost, such as long-term debt. This provision of ASU No. 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. UHS implemented the aforementioned provision during fiscal year 2016. UHS is currently evaluating the impact of the remaining provisions of the new standard on its current policies for recognition and measurement of financial assets and liabilities.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 (1) reduces the number of net asset classes presented from three to two, (2) requires the presentation of expenses by functional and natural classification in one location, and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. UHS implemented the provisions of ASU No. 2016-14 effective January 1, 2018 and has included the required disclosures in notes 16 and 17. UHS's adoption of the standard did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU No. 2018-15 clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. ASU No. 2018-15 requires entities in a service contract hosting arrangement to follow the guidance in Subtopic 350-40 to determine which implementation costs related to the service contract to either capitalize as an asset or expense. The capitalized implementation costs are expensed over the term of the service contract hosting arrangement. ASU No. 2018-15 is effective for UHS for annual periods in fiscal years beginning after December 15, 2019, with early adoption permitted. The ASU is applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. UHS is currently evaluating the impact of the new standard.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that a statement of cash flows explains the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

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Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included in cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. If cash and cash equivalents are presented in more than one line item on the balance sheet, the amounts and corresponding line items must be disclosed and reconciled to the total cash and cash equivalents shown in the statement of cash flows, either on the face of the statement of cash flows or in the notes to the financial statements. The new guidance is effective for fiscal periods beginning after December 15, 2019 with a requirement to apply the amendments in the ASU using a retrospective transition method to each period presented. UHS adopted ASU No. 2016-18 for the year ended December 31, 2019, which had an immaterial impact to the accompanying consolidated statements of cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The amendments in ASU No. 2016-02 create FASB ASC Topic 842 and supersede the requirements in ASC Topic 840, *Leases*. ASU No. 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU No. 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a ROU asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU No. 2016-02 is largely unchanged from that applied under Topic 840. The new standard is effective for UHS for years beginning after December 15, 2018. ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, amends ASC Topic 842 so that entities may elect not to recast their comparative periods in transition (the Comparatives Under 840 Option). The ASU allows entities to change their date of initial application to the beginning of the period of adoption. Therefore, an entity with a calendar year-end could elect to have a date of initial application of January 1, 2019. UHS adopted ASC Topic 842 and the Comparatives Under 840 Option as of January 1, 2019, resulting in the following:

- UHS has continued to apply ASC Topic 840 in the accompanying 2018 consolidated financial statements and related notes.
- The notes to the 2018 accompanying consolidated financial statements include disclosures required by Topic 840 as of and for the year ended December 31, 2018, which continue to be presented in accordance with ASC Topic 840.
- The effects of applying ASC Topic 842 resulted in UHS recognizing additional lease liabilities of \$33,313 and corresponding ROU assets in the same amount at January 1, 2019. As a result, there was no cumulative-effect adjustment.

Additionally, in 2018, the FASB issued ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, and in March of 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. ASU No. 2018-01 clarified the applicability of ASC Topic 842 to land easements and provided an optional transition practical expedient for existing land easements. ASU No. 2018-10 made certain technical corrections to ASC Topic 842. ASU No. 2018-11 allows companies to adopt ASC Topic 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and nonlease components of a contract if certain criteria are met. ASU No. 2019-01 provides

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guidance for certain lessors on determining the fair value of an underlying asset in a lease and on the cash flow statement presentation of lease payments received. ASU No. 2019-01 also clarifies disclosures required in interim periods after adoption of ASU No. 2016-02 in the year of adoption. ASU No. 2016-02 is effective for UHS on January 1, 2019, with early adoption permitted. The ASUs issued in 2018 and 2019 for ASC Topic 842 are effective for UHS at the time it adopts ASU No. 2016-02.

UHS adopted ASC Topic 842 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU No. 2018-11. As a result, UHS was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e., January 1, 2018). UHS has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. UHS did not elect the practical expedient to use hindsight for leases existing at the adoption date.

The adoption of ASC Topic 842 had a material impact to UHS's accompanying 2019 consolidated balance sheet, but did not materially impact the accompanying 2019 consolidated statement of operations. The most significant changes to the consolidated balance sheet relate to the recognition of new ROU assets and lease liabilities for operating leases. UHS's accounting for finance leases remains substantially unchanged. The adoption of ASC Topic 842 also had no material impact on operating, investing, or financing cash flows in the accompanying 2019 consolidated statement of cash flows. However, ASC Topic 842 has significantly affected UHS's disclosures about noncash investing and financing activities (note 15). Additionally, UHS's lease-related disclosures have significantly expanded as of and for the year ended December 31, 2019 as compared to prior years. See note 15 to the consolidated financial statements.

As a result of adopting ASU No. 2016-02, UHS recognized additional operating liabilities of \$33,313 (of which \$5,799 was current) with corresponding ROU assets of the same amount as of January 1, 2019.

(s) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 consolidated financial statement presentation. These reclassifications have not changed the results of operations of prior periods.

(2) Acquisition of Medical Center Operations from the University

During 1999, UHS entered into the Lease and Transfer Agreement, the Employee Services Agreement, and the Affiliation Agreement to acquire the operations of the Medical Center from the University.

Under terms of the Lease and Transfer Agreement, UHS purchased, on July 29, 1999, all of the operating assets of the Medical Center, including all personal property, equipment, inventory, current assets, fund reserves, and other assets used by the Medical Center, other than real property. The real property used by the Medical Center is leased from the University to UHS through July 2099 (note 15).

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Under terms of the Employee Services Agreement, existing UHS employees and all employees hired subsequent to July 28, 1999 are UHS employees. All other Medical Center employees as of July 28, 1999 are leased by UHS from the University and retain all university benefits. The Employee Services Agreement continues until the earlier of the termination of the Lease and Transfer Agreement or the separation from service of the last leased university employee.

The Affiliation Agreement governs the continued relationship between GSM and UHS. UHS will pass through certain federal and state funds earmarked for graduate medical education (note 11). The Medical Center will continue to be the primary teaching site for GSM.

(3) Charity Care

UHS provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The criteria for charity care considers household income in relation to the federal poverty guidelines and the equity value of real property assets. UHS provides qualifying services without charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For patients with adjusted gross income between 200% and 300% of the federal poverty guidelines, a partial charity write-off can be applied. If the patient's household income exceeds 300% of the poverty guidelines, the patient may still receive charity care services under the UHS's catastrophic medical policies.

UHS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone and estimated costs incurred for services and supplies furnished under its charity care policy and equivalent service statistics. The cost of charity care provided totaled approximately \$22,157 and \$17,272 for the years ended December 31, 2019 and 2018, respectively. Costs incurred are estimated based on the ratio of department costs to gross charges plus overhead. UHS also provided other community benefits, for which the value has not been quantified.

(4) Patient Care Service Revenue

UHS has determined that the nature, amount, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. The following tables provide details of these factors.

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 433,043	379,292
TennCare	138,205	126,459
Other third-party payors	340,906	326,434
Patients	<u>9,214</u>	<u>4,182</u>
	<u>\$ 921,368</u>	<u>836,367</u>

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

The composition of patient care service revenue, net based on UHS's lines of business for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Services lines:		
Hospital – inpatient	\$ 426,578	386,867
Hospital – outpatient	393,765	357,108
Physician services	101,025	92,392
	\$ 921,368	836,367

Substantially, all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Those rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medicare reimbursement reports have been audited, and final settlements have been determined by the Medicare Fiscal Intermediary through the year ended December 31, 2009. Periods for which final settlements have not been made are subject to audit by program representatives. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements.

Effective January 1, 1994, the State replaced the existing Medicaid program with its TennCare program for providing healthcare to the poor and uninsured. TennCare beneficiaries enroll directly with a managed care organization (MCO) who then contract directly with healthcare providers to provide services to their enrollees. The basis for payment to UHS includes per diem rates, rates per discharge, discounts from established charges, and performance-based incentives.

UHS also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to UHS under these agreements includes per diem rates, rates per discharge, discounts from established charges, and performance-based incentives.

Pursuant to the Affiliation Agreement (notes 2 and 11), UHS is required to pass through to GSM certain federal and state funds earmarked for graduate medical education.

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Revenue from the Medicare and TennCare programs accounted for approximately 47% and 15%, respectively, of UHS's net patient care service revenue for the year ended December 31, 2019. Revenue from the Medicare and TennCare programs accounted for approximately 45% and 15%, respectively, of UHS's net patient care service revenue for the year ended December 31, 2018. Patient care service revenue increased by approximately \$1,456 and \$784 in 2019 and 2018, respectively, due to final settlements and revised estimated settlements in excess of amounts previously recorded, removal of allowances previously estimated that are no longer necessary as a result of final settlements, and years that are no longer subject to audits, reviews, and investigations.

UHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net UHS receivables from patients and third-party payors at December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	25 %	27 %
TennCare/Medicaid	19	24
Other third-party payors	51	44
Other agencies	4	3
Patients	1	2
	<u>100 %</u>	<u>100 %</u>

(5) Investments

Investments at December 31, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
U.S. Treasury and agency obligations	\$ 124,838	102,649
U.S. corporate bonds	21,746	31,272
Asset-backed securities	12,088	10,854
Mortgage-backed securities	8,922	9,212
International fixed-income bonds	4,698	6,111
Mutual funds and equity securities	61,718	34,415
Money market funds	2,145	1,981
	<u>236,155</u>	<u>196,494</u>
Less short-term investments	<u>11,584</u>	<u>8,164</u>
Long-term investments	<u>\$ 224,571</u>	<u>188,330</u>

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Investment income comprises the following for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 4,647	2,423
Realized gain on sales of securities, net	2,509	1,173
Unrealized gain (loss) on securities, net	14,543	(5,642)
	\$ 21,699	(2,046)

(6) Assets Limited as to Use

Assets limited as to use at December 31, 2019 and 2018 include the following:

	2019	2018
Endowment funds – held for investment:		
Money market funds	\$ 790	615
Mutual funds and equity securities	15,050	11,632
	15,840	12,247
Nonqualified retirement funds:		
Money market funds	2,478	1,939
Mutual funds and equity securities	19,540	16,367
	22,018	18,306
Other:		
Money market funds	1,785	406
Mutual funds and equity securities	—	815
	1,785	1,221
	39,643	31,774
Less current portion	854	789
	\$ 38,789	30,985

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(7) Property and Equipment

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

	2019	2018
Land	\$ 3,557	3,557
Equipment	199,457	189,571
Buildings and leasehold improvements	421,745	402,475
Buildings under finance/capital lease obligations	15,500	15,500
	640,259	611,103
Less accumulated depreciation and amortization	351,919	327,662
	288,340	283,441
Construction in progress	12,270	11,998
Property and equipment, net	\$ 300,610	295,439

UHS had outstanding commitments under construction contracts for renovation projects totaling approximately \$1,934 and \$895 at December 31, 2019 and 2018, respectively, which are expected to be financed primarily from project funds and operations (note 9).

(8) Investments in Affiliated Organizations

(a) DL/UHS, Inc.

UHS and Dynacare Laboratory Management Limited entered into an agreement for ownership in DL/UHS, Inc. (the Partnership) to operate an efficient, cost-effective, and competitive laboratory service organization. The Partnership provides UHS with laboratory testing required for its patients, as well as referral laboratory services. UHS's ownership interest is 5% and is accounted for using the equity method. For the years ended December 31, 2019 and 2018, UHS's share of the Partnership earnings was approximately \$955 and \$884, respectively. UHS received distributions of approximately \$1,112 and \$828 during the years ended December 31, 2019 and 2018, respectively. UHS's investment in the Partnership at December 31, 2019 and 2018 was approximately \$996 and \$1,153, respectively.

Under a services agreement renewed at the end of 2019, UHS agreed to pay a flat base rate per lab test performed. The term of the agreement is for 60 months through 2024. For the years ended December 31, 2019 and 2018, UHS incurred costs of approximately \$18,587 and \$17,854, respectively, related to this agreement. As of December 31, 2019 and 2018, UHS had accounts payable due to the Partnership of approximately \$4,895 and \$4,378, respectively.

The Partnership entered into an operating lease with UHS for the space occupied by the laboratory on UHS's premises. The term of the lease was for 10 years expiring January 31, 2026, and a monthly payment of approximately \$51 due the first of each month. In December 2019, the Partnership entered into another operating lease with UHS for space and furnishings at the Lenoir City Medical Office

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Building location. The term of the second lease was for three years expiring December 31, 2022, including a monthly payment of approximately \$3 due the first of each month.

Under an employee services agreement, the Partnership agreed to reimburse UHS for the actual cost of laboratory employees. These costs were approximately \$1,393 and \$1,644 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, UHS had accounts receivable due from the Partnership of approximately \$336 and \$568, respectively, which is included in other receivables in the accompanying consolidated balance sheets.

Condensed financial information of the Partnership is as follows:

	2019	2018
	(Unaudited)	
Revenue	\$ 79,283	75,045
Expenses	60,173	57,362
Net income	\$ 19,110	17,683

(b) University of Tennessee Medical Center Home Care Services, LLC

UHS is a 33% owner of University of Tennessee Medical Center Home Care Services, LLC (UTMCHCS) with Tennessee Health Care Group, LLC (67%). The purpose of UTMCHCS is to provide home health and hospice services. The investment is accounted for using the equity method. For the years ended December 31, 2019 and 2018, UHS's share of UTMCHCS earnings was approximately \$2,141 and \$1,405, respectively. UHS received distributions of approximately \$1,963 and \$1,484 during the years ended December 31, 2019 and 2018, respectively. UHS's investment in UTMCHCS at December 31, 2019 and 2018 was \$1,300 and \$1,122, respectively.

Under an employee services agreement, UTMCHCS agreed to reimburse UHS for the actual cost of home health and hospice employees who are leased. These costs were approximately \$174 and \$203 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, UHS had accounts receivable due from UTMCHCS of approximately \$28 and \$54, respectively, which is included in other receivables in the accompanying consolidated balance sheets.

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Condensed financial information of UTMCHCS is as follows:

	2019	2018
	(Unaudited)	
Financial position:		
Current assets	\$ 14,472	13,692
Property, plant, and equipment, net	75	101
Other assets	7,251	6,761
Total assets	\$ 21,798	20,554
Current liabilities	\$ 1,222	782
Other liabilities – finance lease obligation	263	—
Other liabilities – minority interest	436	303
Total liabilities	1,921	1,085
Stockholders' equity	19,877	19,469
Total liabilities and stockholders' equity	\$ 21,798	20,554
Results of operations:		
Revenue	\$ 37,909	30,034
Expenses	33,562	27,182
Net income	\$ 4,347	2,852

(c) Inpatient Rehabilitation Hospital

On March 8, 2019, UHS, along with Tennova Healthcare (Tennova) and Kindred Healthcare, collectively announced their intent to create a joint venture to construct and operate a 57-bed inpatient rehabilitation hospital on land currently owned by Tennova in Knoxville, Tennessee. Each of the three joint venture partners will own a one-third interest in the newly created inpatient rehabilitation hospital, which will provide care for patients across an 11-county region suffering from impairments resulting from medical events, such as stroke, serious spinal cord and brain injury, neurologic illness, major multiple trauma, and orthopedic conditions with complex or profound impairments. The joint venture partners jointly filed a certificate of need application with the Health Services and Development Agency of the state of Tennessee, which sought to relocate 57 licensed inpatient rehabilitation beds from Tennova hospitals to the new inpatient rehabilitation facility. The certificate of need was subsequently approved in June 2019. UHS' total capital commitment to the joint venture is a cash contribution of \$3,530, which will be made at such time as unanimously approved by the Board of Directors of the joint venture. UHS expects construction to be completed on the facility in April 2021.

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(9) Long-Term Debt

Long-term debt, including unamortized premiums and issuance costs at December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Revenue bonds, 2017 Series, net of unamortized premium and issuance cost of \$5,435 and \$6,155 at December 31, 2019 and 2018, respectively	\$ 119,285	124,335
Revenue bonds, 2016 Series, net of unamortized premium and issuance cost of \$6,775 and \$7,213 at December 31, 2019 and 2018, respectively	114,325	116,388
Revenue bonds, 2015 Series, net of unamortized premium and issuance cost of \$(186) and \$(195) at December 31, 2019 and 2018, respectively	88,180	88,615
Revenue bonds, 2014 Series, net of unamortized premium and issuance cost of \$(72) and \$76 at December 31, 2019 and 2018, respectively	9,928	9,924
Notes payable	11,121	11,787
	342,839	351,049
Less current portion	7,327	7,225
	\$ 335,512	343,824

(a) Revenue Bonds

(i) 2017 Series

On February 1, 2017, the Health, Educational, and Housing Facilities Board of the County of Knox issued on behalf of UHS \$124.5 million Revenue Bonds, Series 2017. Under the terms of the bond indenture, the proceeds, together with other financing sources, were used to (i) refund a portion of the Series 2007 Bonds and (ii) pay costs of issuing the Series 2017 Bonds. The Revenue Bonds, Series 2017 were issued as tax-exempt bonds and bear interest, payable semiannually, at a rates ranging from 2% to 5%. The Revenue Bonds, Series 2017 constitute serial bonds due April 1, 2036, subject to installments commencing on April 1, 2017.

Under the terms of the bond indenture, UHS is required to maintain certain covenants, including a minimum debt service coverage ratio, as defined, of 1.10 as long as the Revenue Bonds, Series 2017 are outstanding.

The Revenue Bonds, Series 2017 are subject to redemption at the option of UHS, in whole or in part, at any time, at the redemption price of 100% plus accrued interest.

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(ii) 2016 Series

On November 17, 2016, the Health, Educational, and Housing Facilities Board of the County of Knox issued on behalf of UHS \$110.9 million Revenue Bonds, Series 2016. Under the terms of the bond indenture, the proceeds, together with other financing sources, will be used to (i) refund a portion of the Series 2007 Bonds; (ii) pay costs of acquiring, constructing, reconstructing, improving, equipping, furnishing, bettering, and/or extending the Medical Center; (iii) fund capitalized interest; and (iv) pay costs of issuing the Series 2016 Bonds. The Revenue Bonds, Series 2016 were issued as tax-exempt bonds and bear interest, payable semiannually, at rates ranging from 3% to 5%. The Revenue Bonds, Series 2016 constitute serial bonds due September 1, 2047, subject to installments commencing on March 1, 2017.

Under the terms of the bond indenture, UHS is required to maintain certain covenants, including a minimum debt service coverage ratio, as defined, of 1.10 as long as the Revenue Bonds, Series 2016 are outstanding.

The Revenue Bonds, Series 2016 are subject to redemption at the option of UHS, in whole or in part, at any time, at the redemption price of 100% plus accrued interest.

(iii) 2015 Series

On June 25, 2015, the Health, Educational, and Housing Facilities Board of the County of Knox issued on behalf of UHS \$32 million Revenue Bonds, Series 2015A and \$58 million Revenue Bonds, Series 2015B, which were used to (i) finance or reimburse the cost of additions and improvements to the Medical Center, (ii) finance the acquired outpatient care facility in Sevierville, Tennessee, and (iii) advance refund the Revenue Bonds, Series 2010. In February 2019, the 2015 Series A and 2015 Series B bonds were amended in connection with the change in maximum corporate tax rate resulting from the Tax Cuts and Jobs Act of 2017. The Revenue Bonds, Series 2015A were issued as tax-exempt bonds and bear interest, payable semiannually, at a variable rate equal to 79.0000% of LIBOR plus .968, which resulted in a 2.7300% average interest rate for the year ended December 31, 2019. The Revenue Bonds, Series 2015B were issued as tax-exempt bonds and bear interest, payable semiannually, at a fixed rate equal to 2.7429%. The Revenue Bonds, Series 2015A constitute serial bonds due July 1, 2045, subject to installments commencing on July 1, 2037. The Revenue Bonds, Series 2015B constitute serial bonds due July 1, 2045, subject to installments commencing on July 1, 2016.

Under the terms of the bond indenture, UHS is required to maintain certain covenants, including a minimum debt service coverage ratio, as defined, of 1.20 and days cash on hand, as defined, of not less than 60 days, as long as the Revenue Bonds, 2015 Series are outstanding.

The Revenue Bonds, Series 2015 are subject to redemption at the option of UHS, in whole or in part, at any interest payment date, at the redemption price of 100% plus accrued interest plus a prepayment fee.

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(iv) *2014 Series*

On July 1, 2014, the Health, Educational, and Housing Facilities Board of the County of Knox issued on behalf of UHS \$10 million Revenue Bonds, Series 2014. Under the terms of the bond indenture, the proceeds, together with other financing sources, were used to finance or reimburse the cost of additions and improvement to the Medical Center. The Revenue Bonds, Series 2014 were issued as tax-exempt bonds and bear interest, payable semiannually, at the lower of daily rate, the weekly rate, the commercial paper rate, the long-term rate, or the bank rate. The long-term rate is equal to 79.00% of LIBOR plus .70 basis points, which resulted in a 2.49% average interest rate for the year ended December 31, 2019. The Revenue Bonds, Series 2014 constitute serial bonds due January 1, 2043, subject to installments commencing on January 1, 2037.

Under the terms of the bond indenture, UHS is required to maintain certain covenants, including a minimum debt service coverage ratio, as defined, of 1.20 and days cash on hand, as defined, of not less than 60 days, as long as the Revenue Bonds, Series 2014 are outstanding.

The Revenue Bonds, Series 2014 are subject to redemption at the option of UHS, in whole or in part, at any time, at the redemption price of 100% plus accrued interest.

(b) Notes Payable

On September 8, 2017, UHS entered into a 10-year \$10,725 note payable with Pinnacle Bank. The note has a fixed-interest rate of 4.09% and a maturity date of September 15, 2027. At December 31, 2019, \$9,760 was outstanding on this note.

Scheduled principal payments on long-term debt at December 31, 2019 are as follows:

	<u>Revenue bonds</u>	<u>Notes payable</u>	<u>Total</u>
2020	\$ 6,695	632	7,327
2021	7,010	744	7,754
2022	7,335	766	8,101
2023	7,700	715	8,415
2024	8,085	649	8,734
2025 and thereafter	282,941	7,615	290,556
Less amounts representing:			
Unamortized issuance cost on long-term debt	(2,146)	—	(2,146)
Unamortized premium on long-term debt	14,098	—	14,098
	<u>\$ 331,718</u>	<u>11,121</u>	<u>342,839</u>

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(10) Derivative Instrument

The following table summarizes the general terms of UHS's swap agreement as of December 31, 2018:

		<u>May 2006 interest rate swap</u>
Effective date		May 26, 2006
Term		23 years
Notional amount	\$	176,000
Rate UHS pays		SIFMA ⁽¹⁾
Rate UHS receives		68.00% of three-month LIBOR ⁽²⁾ plus 0.425%

(1) Securities Industry and Financial Markets Association (SIFMA) represents the Bond Market Association Municipal Swap Index.

(2) LIBOR represents the London Interbank Offered Rate.

The fair value as of December 31, 2018 of approximately \$3,327 is included in other assets in the accompanying consolidated balance sheet. The change in the fair value of the derivative instrument was \$0 in 2019 and approximately \$542 in 2018. The recurring periodic net settlement amount received on the swap totaled approximately \$503 and \$1,035 for the years ended December 31, 2019 and 2018, respectively, and is included as a reduction to interest expense in the accompanying consolidated statements of operations. In July 2019, UHS terminated the interest rate swap, which resulted in a gain of \$1,364 in the accompanying 2019 consolidated statement of operations.

(11) Related-Party Transactions

The University

Pursuant to the Employee Services Agreement (note 2), the Medical Center's employees as of July 28, 1999 were leased by UHS from the University and retained all university benefits for which they were eligible at that date. For the years ended December 31, 2019 and 2018, UHS paid approximately \$34,523 and \$38,472, respectively, to the University for salaries, wages, and benefits, including retirement benefits, of the leased employees.

Pursuant to the Affiliation Agreement (note 2), UHS is required to pass through to GSM certain federal and state funds earmarked for graduate medical education. For the years ended December 31, 2019 and 2018, the graduate medical education reimbursements totaled approximately \$40,189 and \$38,019, respectively, and were recorded in the accompanying consolidated financial statements as patient care service revenue and as an offsetting amount in operating expenses. UHS had amounts due to GSM of approximately

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\$7,081 and \$7,158 at December 31, 2019 and 2018, respectively, which are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

(12) Employee Benefit Plans

(a) UHS, Inc. Savings Plan

UHS maintains a 403(b) savings plan (the Savings Plan) to provide its employees a tax-sheltered annuity. All employees of UHS who work 20 or more hours per week or more than 1,000 hours per calendar year and have attained age 18 are eligible to participate in the Savings Plan from the first day of employment.

Participants may elect to have certain percentages or dollars of their compensation withheld and contributed to the Savings Plan. Total contributions cannot exceed limitations set forth in the Employee Retirement Income Security Act guidelines. The employer contribution is 5% of each participant's compensation (no matching required). Employer contributions begin after the eligible employee has worked 12 months. Contributions and/or voluntary deductions are made to funds selected by the UHS Benefits Committee. The participant identifies the funds in which he/she wishes to participate and participants who do not select funds are enrolled in the target date funds. Participants are immediately vested in their voluntary deductions and earnings. Prior to January 1, 2003, participants with one year of employment but less than two years of employment became 20% vested in UHS contributions, and their vested percentage increased by 20% each year of employment thereafter until they were fully vested after five years. For participants joining UHS on or after January 1, 2003, the vesting is a five-year cliff vesting whereby the employee becomes fully vested after five years of employment. Beginning January 1, 2007, the vesting for all active employees changed to a six-year graduated vesting. Participants with two years of employment become 20% vested in UHS contributions, and their vested percentage increases by 20% each year of employment thereafter until they are fully vested after six years. Each employee with at least three years of service on January 1, 2007, who was not 100% vested, was permitted to make an irrevocable election regarding the applicable vesting schedule.

Participants are eligible to receive the vested value of their account upon reaching the age of 59½, death, disability, or termination of employment. Hardship distributions may be requested from the employee's voluntary deductions but not the employer's contributions. Participants may elect to receive a lump-sum payment or payments over a period of time not to exceed the life expectancy of the participant or the joint life expectancy of the participant and his or her beneficiary.

As discussed in note 11, employees leased from the University retain all university benefits. Leased employees are not eligible to participate in the Savings Plan.

(b) UHS, Inc. Nonqualified Plans

UHS maintains a nonqualified deferred compensation plan for senior management, vice presidents and equivalents, and physicians. All employer contributions are subject to a seven-year vesting schedule or attainment of age 60, and contributions are made at the close of each payroll cycle.

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UHS maintains a separate nonqualified plan for senior management. The employer's contributions become vested according to the age of the participant at the time the contribution was made. Contributions to a participant's account made in a year in which the participant attains the age of 57 shall vest fully on January 1 of the year the participant attains the age of 60. Contributions made no later than the year in which the participant attains the age of 58, and each year thereafter, shall vest fully on the last business day of the year in which the contribution is made. Contributions are made at the end of each payroll cycle.

UHS maintains a separate nonqualified plan for certified registered nurse anesthetists. All employer contributions are subject to a seven-year vesting schedule or attainment of age 60, and contributions are made at the close of each payroll cycle.

Expenses related to the Savings Plan and the nonqualified plans described above totaled approximately \$15,440 and \$12,381, for the years ended December 31, 2019 and 2018, respectively, and are included in salaries, wages, and benefits in the accompanying consolidated statements of operations.

(13) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction among market participants at the measurement date. ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to measurements involving significant unobservable inputs (Level 3 inputs). The classification of an investment within the hierarchy is based upon the pricing transparency or ability to redeem the investment and does not necessarily correspond to the perceived risk of that investment. Inputs are used in applying various valuation techniques that are assumptions, which market participants used to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates, and other factors.

Assets and liabilities measured and reported at fair value are classified within the fair value hierarchy as follows:

- Level 1 – Valuations are based on quoted market prices in active markets.
- Level 2 – Investments that trade in markets that are considered to be active but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs
- Level 3 – Investments classified within Level 3 have significant unobservable inputs as they trade infrequently or not at all.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

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The following table presents financial instruments that are measured at fair value on a recurring basis at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Level 4</u>
Cash and cash equivalents	\$ 87,755	—	—	87,755
Assets limited as to use:				
Money market funds	5,053	—	—	5,053
Mutual funds and equity securities	34,590	—	—	34,590
	<u>39,643</u>	<u>—</u>	<u>—</u>	<u>39,643</u>
Investments:				
Money market funds	2,145	—	—	2,145
U.S. corporate bonds	—	21,746	—	21,746
Asset-backed securities	—	12,088	—	12,088
Mortgage-backed securities	—	8,922	—	8,922
International fixed-income bonds	4,698	—	—	4,698
U.S. Treasury and agency bonds	96,206	28,632	—	124,838
Mutual funds and equity securities	61,718	—	—	61,718
	<u>164,767</u>	<u>71,388</u>	<u>—</u>	<u>236,155</u>
Total	<u>\$ 292,165</u>	<u>71,388</u>	<u>—</u>	<u>363,553</u>

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The following table presents financial instruments that are measured at fair value on a recurring basis at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 85,502	—	—	85,502
Assets limited as to use:				
Money market funds	2,960	—	—	2,960
Mutual funds and equity securities	28,814	—	—	28,814
	<u>31,774</u>	<u>—</u>	<u>—</u>	<u>31,774</u>
Interest rate derivative asset	—	3,327	—	3,327
Investments:				
Money market funds	1,981	—	—	1,981
U.S. corporate bonds	—	31,272	—	31,272
Asset-backed securities	—	10,854	—	10,854
Mortgage-backed securities	—	9,212	—	9,212
International fixed-income bonds	6,111	—	—	6,111
U.S. Treasury and agency bonds	93,770	8,879	—	102,649
Mutual funds and equity securities	34,415	—	—	34,415
	<u>136,277</u>	<u>60,217</u>	<u>—</u>	<u>196,494</u>
Total	<u>\$ 253,553</u>	<u>63,544</u>	<u>—</u>	<u>317,097</u>

There were no transfers among any of the levels during the year ended December 30, 2019 or 2018.

(14) Commitments and Contingencies

(a) Risk Management Programs

UHS purchases professional and general liability insurance, subject to certain deductibles, to cover medical malpractice and other general liability claims. Effective July 28, 2002, UHS assumed a self-insured retention to cover medical malpractice and other general liability claims. On January 1, 2005, UHS assumed a self-insured retention for workers' compensation. The insurance carrier pays claims, including the deductible on behalf of UHS, and UHS reimburses the insurance carrier on a monthly basis for paid claims. Workers' compensation claim payments made by the insurance carriers within the deductible are secured by UHS via standby letters of credit in the amounts of \$2,313 and \$213 issued by Wells Fargo. UHS also maintains an umbrella policy that provides \$50 million of excess

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liability coverage over and above the primary coverage for professional, general, automobile, workers' compensation, aviation, and ambulance liability.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients, workers' compensation, and other risks. UHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accordingly, accrued professional, general, workers' compensation, and other liability losses of approximately \$21,133 and \$23,340 are recorded in accrued expenses and other current liabilities and other liabilities in the accompanying consolidated financial statements at December 31, 2019 and 2018, respectively, which, in management's opinion, provide an adequate accrual for such claims.

(b) Healthcare Services

The federal government has been given substantial resources and authority to conduct fraud and abuse investigations, and substantial fines and penalties have been established for offenders. Management continues to implement policies, procedures, and a compliance overview organizational structure to enforce and monitor compliance with government statutes and regulations. UHS's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time.

(15) Leases

(a) Finance Leases in 2019 and Capital Leases in 2018

UHS is obligated under finance leases covering certain medical equipment that expire at various dates.

Pursuant to the Lease and Transfer Agreement (note 2), UHS acquired a leasehold interest in the real property of the Medical Center from the University for a term of 50 years. The guaranteed lease payment of \$50 million will be paid subject to an inflation index tied to the change in net Medical Center operating revenue through 2019, as defined, in annual payments equal to the lesser of (i) 20% of UHS's annual net operating income, as defined, or (ii) \$3 million, subject to the index. The payment of \$50 million will be negotiated through future annual lease payments for the remaining 30 years of the lease.

UHS initially recorded an asset and capital lease obligation for the real property in the amount of approximately \$15,500, which represents the net present value of the guaranteed \$50 million discounted at 5.75% from December 31, 2019. The capital lease obligation is increased monthly by interest expense and is reduced by lease payments, if any. For the year ended December 31, 2018, the lease payment required under the agreement was approximately \$2,030. The 2018 amount was paid in March 2019 and is included in current installments of obligations under capital leases in the accompanying consolidated balance sheet at December 31, 2018.

A second amendment to the UT Lease and Transfer Agreement was executed on January 10, 2019. The amendment extends the term of the agreement to July 29, 2099. Any remaining payment due on March 15, 2021 may be paid in full, or UHS may elect to make the remaining payment under the

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original agreement over a period not to exceed five years. For the year ended December 31, 2019, the lease payment required under the agreement was approximately \$10,165. The 2019 amount was paid on March 12, 2020 and is included in current installments of obligations under finance leases in the accompanying consolidated balance sheet at December 31, 2019. Under the terms of the amendment, additional lease payments will be due through 2049 subject to certain terms and conditions.

UHS has entered into three finance lease obligations in 2019 and two capital lease obligations in 2018 for Medical Center equipment. The terms of the leases range from three to eight years at interest rates ranging from 1.4% to 13.2%.

At December 31, 2019 and 2018, the gross amounts of property and equipment and related accumulated amortization recorded under finance leases in 2019 and capital leases in 2018 were as follows:

	2019	2018
Buildings	\$ 15,500	15,500
Equipment	34,200	34,808
	49,700	50,308
Less accumulated amortization	45,610	43,876
	\$ 4,090	6,432

Amortization of assets held under finance leases in 2019 and capital leases in 2018 is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

(b) Operating Leases

UHS has several noncancellable operating leases, primarily for office equipment and office space that expire over the next 12 years. These leases contain various renewal options for periods ranging from one to five years. Because UHS is not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated potential option payments are excluded from lease payments. Payments due under the lease contracts include fixed payments plus, for a few of UHS's leases, variable payments. For office space leases that include variable payments, those include payments for UHS's proportionate share of the building's property taxes, insurance, and common area maintenance.

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The components of lease cost for the year ended December 31, 2019, which are included in rent, utilities, insurance, and other expenses in the accompanying consolidated statement of operations, were as follows:

Operating lease cost	\$	6,986
Finance lease cost:		
Amortization of ROU assets		1,283
Interest on lease liabilities		73
Total finance lease cost		1,356
Variable lease cost		811
Short-term lease cost		681
Sublease income		(870)
Total lease cost	\$	8,964

UHS's total lease expense for the year ended December 31, 2018 was approximately \$9,577 and is included in rent, utilities, insurance, and other expenses in the accompanying consolidated statement of operations.

(c) Other Lease Disclosures

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	\$	6,913
Operating cash flow from finance leases		74
Financing cash flow from finance leases		1,142

ROU assets obtained in exchange for lease obligations:

Finance leases	589
Operating leases	34,037

Weighted average remaining lease term (in years):

Operating leases	4.02
Finance leases	6.37

Weighted average discount rate:

Operating leases	4.00 %
Finance leases	3.16 %

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Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under noncancellable leases as of December 31, 2019 are as follows:

	<u>Finance leases</u>	<u>Operating leases</u>
2020	\$ 10,428	6,446
2021	2,035	5,791
2022	125	4,602
2022	124	3,933
2023	71	3,378
Thereafter	<u>104</u>	<u>8,438</u>
Total undiscounted lease payments	12,887	32,588
Less imputed interest	<u>(80)</u>	<u>(3,221)</u>
Total lease liabilities	<u>\$ 12,807</u>	<u>29,367</u>

The following is a schedule, by year, of minimum future rentals on noncancelable operating leases as of December 31, 2018:

2019	\$ 6,376
2020	5,588
2021	4,843
2022	3,661
2023	3,134
2024 and thereafter	<u>12,748</u>
	<u>\$ 36,350</u>

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(16) Functional Expenses

UHS provides healthcare services to residents within its geographic location. Expenses related to providing these services on a functional basis were as follows for the years ended December 31, 2019 and 2018:

	2019		
	Healthcare	Administrative	Total
Salaries, wages, and benefits	\$ 379,683	36,930	416,613
Medical supplies and drugs	297,341	941	298,282
Purchased services	127,752	21,855	149,607
Graduate medical education reimbursed to the University	40,189	—	40,189
Rent, utilities, insurance, and other	30,108	1,216	31,324
Depreciation and amortization	27,132	2,862	29,994
Interest	14,274	—	14,274
	<u>\$ 916,479</u>	<u>63,804</u>	<u>980,283</u>

	2018		
	Healthcare	Administrative	Total
Salaries, wages, and benefits	\$ 350,720	31,237	381,957
Medical supplies and drugs	262,525	476	263,001
Purchased services	110,741	17,134	127,875
Graduate medical education reimbursed to the University	38,019	—	38,019
Rent, utilities, insurance, and other	31,877	1,144	33,021
Depreciation and amortization	28,218	2,977	31,195
Interest	12,433	1,312	13,745
	<u>\$ 834,533</u>	<u>54,280</u>	<u>888,813</u>

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(17) Availability of Resources and Liquidity

As of December 31, 2019, UHS has \$195,000 of financial assets available to meet cash needs for general expenditure within one year of the consolidated balance sheet date consisting of cash of \$88,000; patient accounts receivable, net of \$95,000; and short-term investments of \$12,000. As of December 31, 2018, UHS had \$194,000 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash of \$86,000; patient accounts receivable, net of \$100,000; and short-term investments of \$8,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Patient accounts receivable is expected to be collected within one year. UHS has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$158,000 and \$140,000 for the years ended December 31, 2019 and 2018, respectively. UHS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, UHS invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury instruments.

(18) Subsequent Events

UHS is currently undertaking a process to issue bond obligations totaling approximately \$171,000 for the purposes of 1) refunding of approximately \$97,658 of principal bonds outstanding at December 31, 2019; 2) financing a portion of the costs of acquiring, constructing, renovating, and equipping certain hospital facilities of UHS; 3) funding related project capitalized interest; and 4) paying the related costs of issuance. This potential transaction is expected to close during the second quarter of 2020, subject to market conditions which could impact timing and ultimate consummation.

During the fourth quarter of 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world and in the U.S. during the first quarter of 2020 has caused significant volatility in the global financial markets, including those in the U.S. There is continued uncertainty as to the breadth and duration of this pandemic and the resultant market disruption to the extent that UHS is currently unable to determine the impact on its operations and financial condition of potential adverse effects specific to UHS, including reduced normal patient volumes, unfavorable payor reimbursement patterns, and market-driven downward valuation of equity securities, among others. UHS is currently pursuing a \$50 million line of credit with a financial institution with a term of one year to provide additional liquidity in case of potential unfavorable cash-flow impacts resulting from COVID-19.

UHS has evaluated subsequent events from the consolidated balance sheet date through March 24, 2020, the date the consolidated financial statements were available to be issued, and determined there are no other items to disclose.