Consolidated Financial Statements and Supplementary Information

Saint Elizabeth Medical Center, Inc.
For the Year Ended December 31, 2021

Saint Elizabeth Medical Center, Inc.

Consolidated Financial Statements
and Supplementary Information

December 31, 2021 and 2020

Contents

Plante & Moran, PLLC
Suite 100
250 S. High Street
Columbus, OH 43215
Tel: 614.849.3000
Fax: 614.221.3535
plantemoran.com

Independent Auditor's Report

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

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saint Elizabeth Medical Center, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of December 31, 2021 and 2020 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise Saint Elizabeth Medical Center, Inc. and its subsidiaries' consolidated financial statements. The additional information, consisting of the consolidating balance sheet and consolidating statements of operations and changes in net assets, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2022 on our consideration of Saint Elizabeth Medical Center, Inc. and its subsidiares' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Saint Elizabeth Medical Center, Inc. and its subsidiares' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saint Elizabeth Medical Center, Inc. and its subsidiares' internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 5, 2022

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2021 and 2020
(in thousands)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 29,493**	$ 30,657
Short-term investments *(Note 3)*	**70,557**	70,682
Patient accounts receivable *(Note 1)*	**182,574**	162,591
Inventories and supplies	**44,940**	39,958
Prepaid expenses and other current assets	**56,486**	32,468
Total current assets	**384,050**	336,356
Cash and cash equivalents - Restricted *(Note 1)*	**72,845**	22,062
Assets limited as to use *(Note 3)*	**1,657,409**	1,409,891
Right of use operating lease assets	**140,776**	100,991
Property, plant and equipment, net *(Note 5)*	**732,167**	650,758
Goodwill *(Note 6)*	**17,651**	17,651
Intangible assets *(Note 6)*	**4,960**	6,198
Foundation pledge receivables	**15,021**	11,841
Pension asset *(Note 11)*	**14,588**	11,853
Other assets	**138,997**	111,297
Total assets	**$ 3,178,464**	$ 2,678,898

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2021 and 2020
(in thousands)

	2021	2020
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 88,096**	$ 83,041
Accrued employee compensation	**167,625**	149,198
Accrued interest	**1,780**	1,065
Accrued third-party settlements *(Note 7)*	**75,803**	55,614
Deferred revenue	**8,403**	20,367
Other current liabilities	**10,707**	11,775
Current portion of long-term debt *(Note 8)*	**8,983**	8,708
Current portion of lease liabilities - Operating *(Note 9)*	**14,116**	12,493
Current Medicare advanced funds payable *(Note 14)*	**61,929**	38,699
Total current liabilities	**437,442**	380,960
Long-term debt *(Note 8)*	**354,740**	257,688
Long-term lease liabilities - Operating (Note 9)	**129,780**	90,879
Liability for self-insurance	**70,476**	61,898
Fair value of interest rate swap *(Note 8)*	**17,568**	27,487
Long-term Medicare advanced funds payable *(Note 14)*	**–**	64,498
Other long-term liabilities	**71,709**	57,070
Total liabilities	**1,081,715**	940,480
Net assets:		
Net assets without donor restriction	**2,060,056**	1,710,523
Net assets with donor restriction *(Note 1)*	**36,695**	27,842
Total net assets excluding noncontrolling interest	**2,096,751**	1,738,365
Noncontrolling interest	**(2)**	53
Total net assets	**2,096,749**	1,738,418
Total liabilities and net assets	**$ 3,178,464**	$ 2,678,898

Saint Elizabeth Medical Center, Inc.

Consolidated Statements of Operations and Changes in Net Assets

Years Ended December 31, 2021 and 2020
(in thousands)

	2021	2020
Patient service revenue *(Note 7)*	**$ 1,750,513**	$ 1,413,748
Net assets released from restriction for operations	**615**	796
Other revenue	**156,424**	155,973
Total revenue	**1,907,552**	1,570,517
Expenses:		
Salaries and wages	**855,533**	706,603
Employee benefits	**204,841**	169,169
Purchased services	**132,783**	100,001
Interest	**8,062**	7,801
Depreciation and amortization	**80,336**	69,170
Supplies	**348,860**	297,080
Other	**158,349**	109,182
Total expenses *(Note 10)*	**1,788,764**	1,459,006
Operating income	**118,788**	111,511
Unrestricted contributions	**545**	523
Other gains, net *(Note 3)*	**225,439**	106,797
Excess of revenue over expenses	**344,772**	218,831
Excess of expenses over revenue attributable to noncontrolling interest	**(55)**	(106)
Excess of revenue over expenses attributable to St. Elizabeth Medical Center, Inc.	**344,827**	218,937
Net assets without donor restriction:		
Pension change other than net periodic costs *(Note 11)*	**4,654**	5,949
Other	**(75)**	(84)
Net assets released from restriction for capital	**127**	2,159
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	**349,533**	226,961
Net assets with donor restrictions:		
Net increase in cash, cash equivalents, and restricted cash	**9,595**	10,824
Net assets released from restriction	**(742)**	(2,955)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	**8,853**	7,869
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	**358,386**	234,830
Non-controlling interest:		
Excess of expenses over revenue attributable to noncontrolling interest	**(55)**	(106)
Paid in capital by equity owners	**–**	185
(Decrease) increase in net assets attributable to noncontrolling interest	**(55)**	79
Increase in net assets	**358,331**	234,909
Net assets at beginning of period	**1,738,418**	1,503,509
Net assets at end of period	**$ 2,096,749**	$ 1,738,418

Saint Elizabeth Medical Center, Inc.

Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020
(in thousands)

	2021	2020
Operating activities and gains		
Increase in net assets	**$ 358,331**	$ 234,909
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash provided by operating activities and (gains) losses:		
Depreciation and amortization	**80,336**	69,170
Amortization of bond premium/discount and issuance costs	**(991)**	(1,005)
Interest and dividends received on long-term investments	**(21,708)**	(22,835)
Net unrealized and realized gains on long-term investments	**(188,269)**	(91,694)
Change in pension other than net periodic costs	**(4,654)**	(5,949)
Change in fair value of interest rate swap	**(9,919)**	12,373
Inherent contribution gain from acquisition	**–**	(4,762)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(19,983)**	(16,308)
Inventory, supplies, prepaid expenses, and other current assets	**(28,999)**	(13,089)
Other assets	**(68,748)**	(32,405)
Accounts payable	**5,055**	11,452
Medicare advanced funds payable	**(41,268)**	103,197
Other liabilities	**89,023**	67,391
Net cash provided by operating activities and gains	**148,206**	310,445
Investing activities		
Change in short-term investments, net	**124**	(60,236)
Change in assets limited to use, net	**(45,298)**	(72,087)
Expenditures for property, plant, and equipment	**(160,491)**	(161,006)
Asset purchase acquisitions	**–**	(4,057)
Net cash used in investing activities	**(205,665)**	(297,386)
Financing activities		
Proceeds from long-term debt	**108,029**	–
Payments on long-term debt	**(8,708)**	(8,479)
Net cash used in financing activities	**99,321**	(8,479)
Net increase in cash, cash equivalents, and restricted cash	**41,862**	4,580
Cash, cash equivalents, and restricted cash at beginning of period	**67,367**	62,787
Cash, cash equivalents, and restricted cash at end of period	**$ 109,229**	$ 67,367
Consolidated balance sheet classification of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	**29,493**	30,657
Restricted cash	**72,845**	22,062
Assets limited as to use - Restricted cash and cash equivalents	**6,891**	14,648
Total cash, cash equivalents, and restricted cash	**$ 109,229**	$ 67,367

1. Summary of Significant Accounting Policies

Organization and Mission

Saint Elizabeth Medical Center, Inc. (St. Elizabeth Healthcare or SEH) is a Kentucky Corporation founded by the Franciscan Sisters of the Poor in 1861. Sponsorship of St. Elizabeth Healthcare was transferred in 1973 to the Roman Catholic Diocese of Covington, Kentucky. St. Elizabeth Healthcare is comprised of St. Elizabeth Hospitals and Summit Medical Group, doing business as St. Elizabeth Physicians (SEP). St. Elizabeth Hospitals includes all hospital facilities of St. Elizabeth Healthcare, which are located in Covington, Edgewood, Florence, Fort Thomas, and Williamstown Kentucky, and Dearborn Indiana (beginning late 2020; see Note 13). St. Elizabeth Healthcare's primary mission is to provide comprehensive and compassionate care that improves the health of the people we serve. All significant intercompany balances and transactions have been eliminated in consolidation.

SEP has approximately 234 full-time equivalent primary care physicians, 143 full-time equivalent specialty physicians, and 196 advanced practice providers operating in 146 offices throughout Northern Kentucky, Ohio, and Indiana. SEP performs most of the physician billings for St. Elizabeth Healthcare's hospital facilities.

Bioskills Lab, LLC (Bioskills) is an orthopedic bioskills laboratory for surgical training joint venture between SEH and OrthoCincy Orthopaedics & Sports Medicine, P.S.C., that was formed on June 20, 2018. SEH is the 65 percent (previously 75% at December 31, 2020) majority partner of this joint venture and has a controlling interest in Bioskills; therefore, Bioskills is consolidated in SEH.

The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) as of December 31, 2021 and 2020 and for the years ended December 31, 2021 and 2020.

Use of Estimates

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

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Restricted Cash

At December 31, 2020, $5,000,000 of cash was classified as restricted due to the acquisition disclosed in Note 13. This restriction was released in 2021; see more information in Note 13.

The bonds issued by St. Elizabeth Healthcare during the year ended December 31, 2021 required amounts to be set aside for the purpose of financing acquisition, construction, installation and equipping of facilities suitable for use by SEH as healthcare and health related facilities. These amounts were classified as restricted cash on the consolidated balance sheet in 2021 and represented $50,106,000 of the restricted cash balance.

The remaining amount in restricted cash for 2021 and 2020 is from restricted contributions.

Accounts Receivable

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

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

1. Summary of Significant Accounting Policies (continued)

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

	2021	**2020**
Medicare	**28%**	29%
Medicaid	**11**	12
Anthem Blue Cross	**23**	23
Humana	**2**	2
United Healthcare	**10**	7
Other insurance and workers' compensation	**14**	16
Self-pay and residual self-pay	**12**	11
Total	**100%**	100%

Patient accounts receivable were approximately $182,574,000, $162,591,000 and $146,282,000 at December 31, 2021, 2020, and 2019, respectively.

Short-term Investments

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

Inventories

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

Assets Limited as to Use and Investments

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. The fair value of the hedge fund of funds, real estate funds, defensive equity funds, emerging markets funds, infrastructure funds, private equity funds, commingled funds, and venture capital funds has been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the fund managers or general partners. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is

1. Summary of Significant Accounting Policies (continued)

included within excess of revenue over expenses unless the income or loss is restricted by donor or law.

Fair Value Measurements

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

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

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

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

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

In order to meet the requirements of ASC 820, St. Elizabeth Healthcare utilized two basic valuation approaches to determine fair value of its assets and liabilities required to be recorded at fair value. The first approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of St. Elizabeth Healthcare, including

1. Summary of Significant Accounting Policies (continued)

those traded on exchanges, to determine value. The second approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of St. Elizabeth Healthcare's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as the cash flow approach).

Derivative Instruments

St. Elizabeth Healthcare has entered into certain interest rate swap arrangements in connection with its debt. Under ASC 815, *Derivatives and Hedging*, St. Elizabeth Healthcare records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. The remaining derivative balance in net assets to be amortized on previously designated hedges excluded from the excess of revenue over expenses was $789,000 and $859,000 at December 31, 2021 and 2020, respectively. The accumulated derivative asset on previously designated hedges is being amortized as a reduction to interest expense through 2033, which is when the swap agreement expires. As of December 31, 2021, and 2020, St. Elizabeth Healthcare reduced its interest expense by $70,000 each period for amortization of the accumulated derivative asset on previously designated hedges.

The change in the fair market value of interest rate swaps is included within other gains within excess of revenue over expenses.

Property, Plant, and Equipment and Depreciation

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

Goodwill and Intangible Assets

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

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

1. Summary of Significant Accounting Policies (continued)

Foundation Pledges Receivables

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

Other Assets

Other assets include investments in joint ventures and limited liability partnerships, which are accounted for using the equity method of accounting. These investments were $22,020,000 and $19,669,000 as of December 31, 2021 and 2020, respectively. The following reflects total unaudited financial information for these joint ventures and limited liability partnerships as of and for the years ended December 31 (in thousands):

	2021	**2020**
Total assets	**129,633**	110,744
Total net assets	**68,087**	33,945
Total net income	**27,739**	697

Other assets also include the plan assets of a 457(b) plan, as well as a non-qualified welfare benefit plan, both available to certain employees of St. Elizabeth Healthcare. Each of these balances are included in other assets on the consolidated balance sheet. The 457(b) plan assets were approximately $51,078,000 and $41,982,000 at December 31, 2021 and 2020, respectively, and included in the fair value hierarchy table in Note 4.

Unamortized Bond Issue Costs

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

Malpractice and General Liability Contingencies

St. Elizabeth Healthcare maintains a policy of self-insuring its professional liability risks for individual losses up to specified amounts per claim. In addition, the self-insurance plan has

1. Summary of Significant Accounting Policies (continued)

specified annual aggregate limits. St. Elizabeth Healthcare carries insurance coverage for incidents that would exceed coverages specified by the self-insurance program.

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

Malpractice and general liability claims for incidents that may give rise to litigation have been asserted against St. Elizabeth Healthcare by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2021 that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients; however, because the annual excess insurance policy covers only claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by excess insurance. The liability for medical malpractice at December 31, 2021 and 2020 includes estimated amounts for claims and related legal expenses for these unreported incidents.

At December 31, 2021 and 2020, St. Elizabeth Healthcare's management recorded its best estimate of these contingent losses based upon recommendations of professional actuaries. Recorded malpractice and general liability self-insurance liabilities, discounted at 1.10 percent, are adequate in management's opinion. As the actuarially determined accrual for professional and general liability is an estimate, the possibility exists that the estimate could be revised by a material amount.

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

St. Elizabeth Healthcare is also self-insured for workers' compensation, unemployment compensation, and employee medical insurance coverage. At December 31, 2021 and 2020, St. Elizabeth Healthcare's management recorded its best estimates of known and incurred, but not reported claims for losses. Recorded self-insured liabilities are adequate in management's opinion.

Net Assets with Donor Restrictions

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

1. Summary of Significant Accounting Policies (continued)

At December 31, 2021 and 2020, net assets with donor restrictions of $36,695,000 and $27,842,000, respectively, were subject to expenditure for specified purpose.

Revenue Recognition – Patient Service Revenue

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

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

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

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

In assessing collectability, management elected the portfolio approach as St. Elizabeth Healthcare has a large volume of similar contracts with similar classes of customers. Management reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the

1. Summary of Significant Accounting Policies (continued)

contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Revenue Recognition – Other Operating Revenue

Other operating revenue consists of income (loss) from equity ventures, pharmacy, gift shop, cafeteria sales, grant revenue, which includes Provider Relief Fund (Note 14), and sundry revenues related to the operations of St. Elizabeth Healthcare. For those revenues subject to ASC 606, revenues are recorded at a point-in-time or over time based on the nature of the services provide. For the year ended December 31, 2021 and 2020, St. Elizabeth Healthcare recognized $84,161,000 and $65,469,000 of other operating revenues at a point-in-time.

Charity Care

St. Elizabeth Healthcare provides care, without charge or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Amounts determined to qualify as charity care are not reported as patient service revenue. The cost to St. Elizabeth Healthcare to provide charity care was approximately $7,877,000 and $9,794,000 for the years ended December 31, 2021 and 2020, respectively. The cost to St. Elizabeth Healthcare to provide charity care was determined through application of the ratio of patient costs to charges, per Schedule H of Form 990 filed with the Internal Revenue Service, to current-year charity care charges included as a deduction from gross patient revenue.

The Affordable Care Act (ACA) was passed to provide Americans better access to health care coverage. A major component of increasing access to coverage was new federal funding for states to expand their Medicaid eligibility to 138 percent of the Federal Poverty Level. Previously these patients qualified under the Kentucky State Indigent Program and were included in St. Elizabeth Healthcare's charity care program. The percent of Medicaid patient service revenue to total patient service revenue was 20 percent and 17 percent in 2021 and 2020, respectively.

Federal law requires that state Medicaid programs make Disproportionate Share Hospital (DSH) payments to qualifying hospitals that serve a large number of Medicaid and uninsured individuals. Uninsured individuals qualified under the Kentucky DSH/Indigent program are reported under hospital charity. For the years ended December 31, 2021 and 2020, St. Elizabeth Healthcare had an increase (decrease) to charity expenses of $4,949,000 and ($10,596,000), respectively, for payments received under the Kentucky DSH program. St. Elizabeth Healthcare's deferred revenue balance sheet amounts related to these DSH payments were $0 and $5,367,000 for years ended December 31, 2021 and 2020, respectively. St. Elizabeth Healthcare has DSH reserves of

1. Summary of Significant Accounting Policies (continued)

$64,957,000 and $48,732,000 at December 31, 2021 and 2020, respectively, that are included in accrued third-party settlements on the consolidated balance sheets.

St. Elizabeth Healthcare also paid provider tax to the State in the amount of $12,549,000 for the years ended December 31, 2021 and 2020 and recorded these amounts to other operating expense. Kentucky uses these taxes to draw matching DSH funds from the federal government.

Hospital Rate Improvement Program

On November 6, 2019, the Centers for Medicare and Medicaid Services (CMS) approved a Hospital Rate Improvement Program (HRIP) to enhance reimbursement for Medicaid patients covered by managed care organizations in Kentucky for year ended June 30, 2020. This approval was retroactive to July 1, 2019. The estimated funding in the first year, known as an Upper Payment Limit (UPL) gap, was based upon the estimated variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 95% of the Medicare inpatient base rate. The CMS reapproved the program for the year ended June 30, 2021 on May 27, 2020.

In October 2020, the Kentucky Cabinet for Health and Family Services filed an amendment to the plan proposing to change the UPL gap calculation based on the variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 90% of the statewide Average Commercial Rate (ACR). The CMS approved this on January 14, 2021 retroactive to July 1, 2020. The CMS reapproved the program through December 31, 2022.

The HRIP is largely funded by CMS with a portion funded by participating hospitals through an additional provider tax. The provider tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report. For the years ended December 31, 2021 and 2020, St. Elizabeth Healthcare recognized Medicaid UPL provider tax of approximately $28,478,000 and $2,932,000, respectively, while recognizing Medicaid reimbursement of approximately $117,604,000 and $11,320,000, respectively, in patient service revenue in the consolidated statement of operations.

Tax Status

No provision has been made for income taxes since St. Elizabeth Healthcare is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation by the Internal Revenue Service. Management has analyzed the tax positions taken by St. Elizabeth Healthcare and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. St. Elizabeth Healthcare is not under review by any state or

1. Summary of Significant Accounting Policies (continued)

local tax authorities. St. Elizabeth Healthcare's federal tax returns for the year ended prior to December 31, 2018 and prior years are no longer subject to examination as the statute of limitations has expired for those years.

Contributions

Contributions are recorded at fair value in the period received or pledged. Donor-restricted contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor-restricted contributions whose restrictions are met within the same year as received are accounted for as net assets without donor restrictions.

Consolidated Statements of Operations and Changes in Net Assets

For the purpose of reporting, transactions deemed by management to be directly related to the provision of healthcare services are reported as revenue and expenses from operations. Operating revenues include those generated from direct patient care, related support services, income (loss) from equity ventures in core business patient service facilities, gains (losses) on the disposition of assets, grant revenues, which includes Provider Relief Fund (Note 14), and sundry revenues related to the operations of St. Elizabeth Healthcare.

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

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

Upcoming Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional guidance for a limited time to ease the burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The guidance would apply to all entities, subject to meeting certain criteria, for contract modifications or hedging relationships that are referencing LIBOR or another

1. Summary of Significant Accounting Policies (continued)

reference rate expected to be discontinued due to reference rate reform. The amendments in this ASU are effective for all entities from the beginning of an interim period that includes March 12, 2020. An entity may elect to apply the amendments prospectively through December 31, 2022. St. Elizabeth is currently evaluating the impact ASU 2020-04 will have on its consolidated financial statements and interest rate swap agreements disclosed in Note 8.

2. Availability and Liquidity

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

	2021	2020
Cash and cash equivalents	**29,493**	30,657
Short-term investments	**70,557**	70,682
Patient accounts receivable	**182,574**	162,591
Cash and cash equivalents – Restricted	**72,845**	22,062
Assets limited to use	**1,657,409**	1,409,891
Foundation pledge receivables	**15,021**	11,841
Other assets	**96,700**	68,723
Financial assets at year-end	**$ 2,124,599**	$ 1,776,447

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

Contractual or donor-imposed restrictions:		
Patient accounts receivable	**$ (7,490)**	$ (6,670)
Cash and cash equivalents – Restricted	**(72,845)**	(22,062)
Foundation pledge receivables	**(15,021)**	(11,841)
Other assets	**(62,931)**	(51,824)
Board designations:		
Assets limited to use designated for capital needs (*Note 3*)	**(1,594,305)**	(1,353,229)
Assets limited to use for self-insurance needs *(Note 3)*	**(63,104)**	(56,662)
Total	**$ (1,815,696)**	$ (1,502,288)
Financial assets available to meet general expenditures within one year	**$ 308,903**	$ 274,159

2. Availability and Liquidity (continued)

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

As part of St. Elizabeth Healthcare's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. St. Elizabeth Healthcare has a goal to maintain financial assets, which consist of cash and cash equivalents, short-term investments, and patient accounts receivable, on hand to meet 30 days of normal operating expenses, which are on average approximately $140,419,000.

As fully described in Note 8, St. Elizabeth Healthcare also has a committed line of credit in the amount of $10,000,000, which it could draw upon in the event of an unanticipated liquidity need.

As of December 31, 2021, St. Elizabeth Healthcare was in compliance with required debt covenants outlined in Note 8.

3. Assets Limited as to Use and Investments

The following is a description of the aggregate carrying amount of assets limited as to use and investments by major type of investment carried at fair value for the different investment groupings at December 31 (in thousands):

	2021	2020
Money market funds	**$ 6,891**	$ 14,648
Certificates of deposit	**1,127**	1,174
U.S. government obligations	**120,652**	102,581
Asset-backed securities	**37,221**	44,451
Corporate bonds	**143,131**	122,389
Municipal bonds	**14,475**	16,537
Foreign bonds	**15,253**	10,120
Government-backed securities	**21,516**	14,071
Federal agency bonds	**1,203**	2,077
Common stock	**177,649**	202,475
Mutual funds:		
All cap core	**38,378**	35,629
International large cap	**66,040**	71,551
International emerging markets	**2,993**	43,170
Fixed income	**60,922**	62,902
Hedge fund of funds	**148,514**	113,727
Real estate funds	**211,135**	155,319
Infrastructure funds	**70,840**	60,790
Private debt fund	**32,294**	14,237
Defensive equity fund	**89,626**	73,624
Emerging markets fund	**53,534**	50,249
Venture capital fund	**1,897**	1,044
Commingled funds	**412,675**	267,808
Total assets limited as to use and investments	**$ 1,727,966**	$ 1,480,573
Assets limited as to use and investments:		
Internally designated for operating needs	**$ 70,557**	$ 70,682
Internally and board-designated for capital needs (*Note 2)*	**1,594,305**	1,353,229
Designated for self-insurance needs *(Note 2)*	**63,104**	56,662
Total assets limited as to use and investments	**$ 1,727,966**	$ 1,480,573

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

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

	2021	2020
Realized gains on sales of investments, net	**$ 107,560**	$ 20,484
Interest and dividend income, net	**21,708**	22,835
Change in unrealized gains on investments, net	**80,709**	71,210
Total investment income	**209,977**	114,529
Change in fair market value of interest rate swap	**9,919**	(12,373)
Other periodic pension cost excluding service cost	**(1,919)**	(3,923)
Inherent contribution gain from acquisition *(Note 13)*	**–**	4,762
Other	**7,462**	3,802
Total	**$ 225,439**	$ 106,797

4. Assets and Liabilities Measured at Fair Value

Cash and Cash Equivalents and Assets Limited as to Use

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

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

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

The level in the fair value hierarchy within which the fair value measurement in its entirety is determined based on the lowest level of input that is significant to the fair value measurement in its entirety. The following is a summary of the inputs and valuation techniques as of December 31, 2021 and 2020 used for valuing Level 2 financial instruments:

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

Interest Rate Swap Agreements

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

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

The following table summarizes St. Elizabeth Healthcare's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021, aggregated by the level in the fair value hierarchy within which those measurements are measured (in thousands):

		Fair Value Measurements Using		
	Balance at December 31, 2021	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use and investments				
Money market funds	$ 6,891	$ 6,891	$ –	$ –
Certificates of deposit	1,127	1,127	–	–
U.S. government obligations	120,652	–	120,652	–
Asset-backed securities	37,221	–	37,221	–
Corporate bonds	143,131	–	143,131	–
Municipal bonds	14,475	–	14,475	–
Foreign bonds	15,253	–	15,253	–
Government-backed securities	21,516	–	21,516	–
Federal agency bonds	1,203	–	1,203	–
Common stock	177,649	177,649	–	–
Mutual funds:				
All cap core	38,378	38,378	–	–
International large cap	66,040	66,040	–	–
International emerging markets	2,993	2,993	–	–
Fixed income	60,922	60,922	–	–
Other assets – Mutual funds	51,078	51,078	–	–
Assets measured at fair value levels	$ 758,529	$ 405,078	$ 353,451	$ –
Hedge fund of funds	148,514	–	–	–
Real estate funds	211,135	–	–	–
Infrastructure funds	70,840	–	–	–
Private debt fund	32,294	–	–	–
Defensive equity fund	89,626	–	–	–
Emerging markets fund	53,534	–	–	–
Venture capital funds	1,897	–	–	–
Commingled funds	412,675	–	–	–
Total assets limited as to use and investments	$ 1,779,044	$ 405,078	$ 353,451	$ –
Liabilities – Fair value of interest rate swaps	$ 17,568	$ –	$ –	$ 17,568

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

The following table summarizes St. Elizabeth Healthcare's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020, aggregated by the level in the fair value hierarchy within which those measurements are measured (in thousands):

		Fair Value Measurements Using		
	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use and investments				
Money market funds	$ 14,648	$ 14,648	$ –	$ –
Certificates of deposit	1,174	1,174	–	–
U.S. government obligations	102,581	–	102,581	–
Asset-backed securities	44,451	–	44,451	–
Corporate bonds	122,389	–	122,389	–
Municipal bonds	16,537	–	16,537	–
Foreign bonds	10,120	–	10,120	–
Government-backed securities	14,071	–	14,071	–
Federal agency bonds	2,077	–	2,077	–
Common stock	202,475	202,475	–	–
Mutual funds:				
All cap core	35,629	35,629	–	–
International large cap	71,551	71,551	–	–
International emerging markets	43,170	43,170	–	–
Fixed income	62,902	62,902	–	–
Other assets – Mutual funds	41,982	41,982	–	–
Assets measured at fair value levels	$ 785,757	$ 473,531	$ 312,226	$ –
Hedge fund of funds	113,727	–	–	–
Real estate funds	155,319	–	–	–
Infrastructure funds	60,790	–	–	–
Private debt fund	14,237	–	–	–
Defensive equity fund	73,624	–	–	–
Emerging markets fund	50,249	–	–	–
Venture capital funds	1,044	–	–	–
Commingled funds	267,808	–	–	–
Total assets limited as to use and investments	$ 1,522,555	$ 473,531	$ 312,226	$ –
Liabilities – Fair value of interest rate swaps	$ 27,487	$ –	$ –	$ 27,487

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

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

The following table is a roll forward of the consolidated balance sheets amounts for financial instrument liabilities classified by St. Elizabeth Healthcare within Level 3 of the fair value hierarchy defined above for years ended December 31 (in thousands):

	Interest Rate Swaps	
	2021	**2020**
Balance at January 1	**$ (27,487)**	$ (15,114)
Change in fair market value of interest rate swaps	**9,919**	(12,373)
Balance at December 31	**$ (17,568)**	$ (27,487)

Investments in Entities that Calculate Net Asset Value per Share

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

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

Hedge Fund of Funds

The hedge fund of funds investments are comprised of AQR GRP EL Offshore Fund, Ltd. (AQR) and Magnitude International (Magnitude).

AQR GRP EL Offshore Fund, Ltd.

AQR operates a diversified set of global risks covering equities, government bonds, and commodities. These include exposure to global developed and emerging stocks, global inflation protected bonds, and other exposures. There were no unfunded commitments at December 31, 2021 or 2020.

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

Magnitude International

Magnitude fund is a global, multi-strategy "fund-of-funds" managed by Magnitude Capital, LLC. Magnitude's investment strategies can involve the purchase and sale of various financial instruments, including but not limited to stocks, bonds, options, futures contracts, derivative instruments, insurance and reinsurance-related products, and cash and cash equivalents. St. Elizabeth Healthcare has subscribed to Magnitude's Class A shares. There were no unfunded commitments at December 31, 2021 or 2020.

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

Real Estate Funds

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

Morgan Stanley Prime Property Fund

PRIME is a core open-end commingled equity real estate investment fund diversified by property type and geographic location across the United States. The focus is on high-quality office buildings, Class A multifamily communities, warehouse distribution and storage facilities, and top tier super regional malls and shopping centers in targeted primary markets. There were no unfunded commitments at December 31, 2021 or 2020.

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

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

Principal Enhanced Property Fund, L.P.

Principal Property is an open-end, commingled fund which invests in U.S. real estate properties and portfolios. Principal Property invests only in office, retail, industrial and multifamily properties in U.S. markets with metropolitan statistical area populations greater than one million. There were no unfunded commitments at December 31, 2021 or 2020.

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

Infrastructure Funds

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

J.P. Morgan Infrastructure Investments Fund

IIF is managed by J.P. Morgan Asset Management. The purpose of IIF is to invest in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-Operation and Development with a primary focus on the US, Canada, Western Europe, and Australia. These assets may include toll roads, bridges, tunnels, oil and gas pipelines, electricity transmission and distribution facilities, contracted power generation assets, communication assets, water distribution and wastewater collection and processing assets, railway lines and rapid transit links, seaports and airports. St. Elizabeth Healthcare made an additional long-term operating fund commitment of $45,000,000 in 2021 that is unfunded at December 31, 2021. St. Elizabeth Healthcare had no unfunded commitments at December 31, 2020.

IIF is subject to a 4-year soft lock period. Redemptions are possible prior to the expiration of the 4-year term but are subject to a 4 percent penalty. After the initial term has expired, funds may be redeemed with 60 days written notice.

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

IFM Global Infrastructure

IFM makes investments into infrastructure assets and companies located principally in Europe and the Americas. IFM invests in a diversified portfolio of global infrastructure assets. Infrastructure consists of physical facilities for the delivery, generation and transportation of energy, information, people, products and real property from which services to the community or government are delivered. The target investment sub-sectors are: electricity generation, transmission and distribution including renewable energy, gas transmission, distribution, processing and storage, toll roads, rail infrastructure, seaports, airports, marine terminals, steam and hot air supply, water and waste water, pipelines and related infrastructure, telecommunications infrastructure, social infrastructure with principally government backed cash flow (e.g. hospitals, schools, aged care, courthouses, community housing, etc.) and infrastructure assets. St. Elizabeth Healthcare had no unfunded commitments at December 31, 2021 and December 31, 2020.

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

Private Debt Funds

The private debt investments are comprised of H.I.G. WhiteHorse Principal Lending Fund, L.P (HIG PL) and H.I.G. WhiteHorse Direct Lending Fund - 2020, L.P. (HIG DL)

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

HIG PL is a private equity fund that originates tailored, senior secured financing solutions for U.S. companies. The fund originates investments in senior secured loans to lower to middle market companies that are primarily secured by the borrower's assets and current and future cash flows. At December 31, 2021 and 2020, St. Elizabeth Healthcare had unfunded commitments of $7,573,000 and $33,228,000, respectively.

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

H.I.G. WhiteHorse Direct Lending Fund - 2020, L.P.

HIG DL is a private equity fund that invests principally in privately originated first lien, senior secured loans. The fund acquires loans to lower to middle market companies at moderate loan-to-value ratios to maintain strong free cash flow and interest coverage. In March 2021 St. Elizabeth

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

Healthcare made a $30,000,000 commitment to HIG DL. At December 31, 2021, St. Elizabeth Healthcare had unfunded commitments of $26,961,000.

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

Private Equity Funds

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

Fort Washington Fund VIII

Fund VIII is a private equity fund of funds formed by Fort Washington Capital Partners Group. Fund VIII endeavors to realize capital appreciation primarily by investing in a diversified portfolio of leading private equity funds including buyout, venture capital/growth equity, and special situations funds (primarily distressed, credit, and real assets), among others; up to 20 percent of capital in secondary investments, structured transactions and direct investments; and up to 30 percent of the private equity fund investments in international funds. Fund VIII has a maximum limitation of 10 percent of its capital in any one investment. At December 31, 2021 and 2020, St. Elizabeth had unfunded commitments of $2,700,000.

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

Fort Washington Fund IX

Fund IX is a private equity fund of funds that was formed by Fort Washington Capital Partners Group in 2016. Similar to Fund VIII, Fund IX seeks to realize capital appreciation primarily by investing in a diversified portfolio of leading private equity funds including buyout, venture capital, growth equity, real assets and special situations; up to 20 percent of capital in secondary investments, structured transactions, and direct investments; and up to 30 percent of the private equity fund investments in international funds. Fund IX has a maximum limitation of 10 percent of its capital in any one investment. At December 31, 2021 and 2020, St. Elizabeth Healthcare had unfunded commitments of $1,525,000 and $1,775,000, respectively.

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

Fund IX does not have a redemption period or redemption frequency. Limited Partners can request an assignment of interest at the General Partner's discretion. The investment period is four years from the final closing date (May 2017). The commitment term is 12 years after the expiration of the investment period, subject to two one-year extensions with the consent of the advisory committee.

Defensive Equity Fund

Neuberger Berman U.S. Equity Index PutWrite Fund LLC

Neuberger Berman U.S. Equity Index PutWrite Fund LLC (Neuberger) seeks long-term growth of capital through a strategy of writing collateralized put options on the S&P 500 Index. Neuberger attempts to generate returns through the receipt of option premiums from selling puts, as well as through investments in fixed income instruments, which collectively are intended to reduce volatility relative to holding the underlying equity index on which the options are written due to the receipt of income from options and fixed income instruments. There were no unfunded commitments at December 31, 2021 or 2020.

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

Emerging Markets Fund

Logan Circle Partners Emerging Markets Debt, L.P.

The Logan Circle Partners Emerging Markets Debt, L.P. (Logan Circle) invests primarily in debt securities of issuers located in emerging market countries. Emerging market countries are countries that major international financial institutions, such as the World Bank, generally consider to be less economically mature than developed nations. Emerging market countries can include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. Logan Circle normally will hold fixed-income securities of government and government-related issuers and corporate issuers in emerging market countries. The investment adviser may invest in capital securities, which are hybrid securities that combine the characteristics of bonds and preferred stocks, in order to take advantage of the mispricing of subordinated risk within the marketplace. There were no unfunded commitments at December 31, 2021 or 2020.

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

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

Venture Capital Funds

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

Cintrifuse Syndicate Fund II, LLC

Cintrifuse venture capital focuses on early-stage venture capital funds that are currently, or have a plan for being, engaged in the Cincinnati region and that are likely to generate high rates of return. Cintrifuse seeks to expose mid-size and larger organizations in Greater Cincinnati to disruptive innovation to solve technological challenges and to increase the amount of venture capital activity in the Cincinnati region, thereby enhancing the region's innovation ecosystem and overall economic competitiveness. While Cintrifuse's focus is on the Cincinnati region, it is not required to invest a specified amount in companies in the Cincinnati region and can invest in companies outside of the region. St. Elizabeth Healthcare had unfunded commitments of $412,000 and $738,000 at December 31, 2021 and 2020, respectively.

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

CFSPV5, LLC dba Connetic Ventures

Connetic is a venture capital fund that uses proprietary technology to identify early stage, post minimum viable product startup companies in core states that include but are not limited to Kentucky, Indiana, Illinois, Ohio, Pennsylvania and North Carolina. At December 31, 2021 and 2020, St. Elizabeth Healthcare had unfunded commitments of $800,000 and $1,200,000, respectively.

Connetic does not have a redemption period or redemption frequency. Voluntary withdrawal from the Fund is not permitted. Capital contributions to the fund are irrevocable. The investment term is five years. The term of the fund is ten years, subject to two one-year extensions. It is not expected or reasonable to expect any distributions during the investment period. If any distributions are made, they are anticipated to begin at the end of the 6th year.

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

Commingled Funds

Northern Trust Global Investments Common Funds Trust

The Northern Trust Global Investments Common Funds Trust is a commingled trust comprised of common trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Common trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in two of the common trust funds within the Northern Trust Global Investments Common Funds Trust, which are the (1) Northern Trust Common All Country World Index (ACWI) Ex-US Fund and the (2) Northern Trust Common Russell 3000 Index Fund (funds collectively referred to as "Northern Trust Funds"). The Northern Trust Funds invest predominantly in U.S. and foreign equity securities. There were no unfunded commitments at December 31, 2021 or 2020.

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

Northern Trust Global Investments Collective Funds Trust

The Northern Trust Global Investments Collective Funds Trust is a commingled trust comprised of collective trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Collective trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in the Northern Trust Collective S&P 500 Index Fund, which invests predominantly in U.S. equity securities. There were no unfunded commitments at December 31, 2021 or 2020.

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

5. Property, Plant and Equipment

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

	2021	2020
Land	$ 23,604	$ 23,461
Buildings, building services, and land improvements	900,304	815,175
Equipment	447,651	416,143
Construction in process	49,474	53,359
Total cost	1,421,033	1,308,138
Less accumulated depreciation and amortization	(688,866)	(657,380)
Net property and equipment	$ 732,167	$ 650,758

Depreciation expense totaled $79,082,000 and $67,172,000 for the years ended December 31, 2021 and 2020, respectively, and is included in depreciation and amortization expense on the consolidated statement of operations.

In 2018, St. Elizabeth Healthcare embarked on a six-year master facility plan that aligns with its strategic plan. In addition to the Cancer Center substantially completed in 2020, The Board of Trustees approved several projects to renovate and expand surgical capabilities at its Florence and Ft. Thomas Facilities. In 2021, the Endoscopy Medical Arts and Outpatient Center opened at the Florence campus with an investment of $26,000,000 as of December 31, 2021. In addition, the Florence surgery suite, scheduled for completion late 2023 is well under way and has incurred investment of $24,800,000 as of the end of 2021, with a remaining commitment of $13,028,000. The Ft Thomas surgery suite is nearing completion with a total investment of $14,080,000 as of the end of 2021, with expected additional spend of $1,456,000.

6. Goodwill and Intangible Assets

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

	2021		2020	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets	**$ 20,974**	**$ 16,014**	$ 20,974	$ 14,776
Unamortized intangible assets	**$ 17,651**	**$ -**	$ 17,651	$ -

Identifiable intangible assets subject to amortization consist primarily of exclusivity and non-competition agreements. Amortization of the intangible assets is calculated using the straight-line method over estimated lives of the exclusivity and non-competition agreements ranging from one to twenty years. Amortization expense was $1,238,000 and $1,980,000 for the years ended December 31, 2021 and 2020, respectively, and is included in depreciation and amortization expense.

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

	Amount
2022	$ 510
2023	510
2024	510
2025	510
2026	510
Thereafter	2,410
Total	$ 4,960

St. Elizabeth Healthcare annually performs an evaluation of goodwill for impairment considering qualitative and quantitative factors. There are no indicators that an impairment loss should be recognized in 2021.

6. Goodwill and Intangible Assets (continued)

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

	2021	2020
Balance at January 1	**$ 17,651**	$ 17,651
Current year activity	–	–
Balance at December 31	**$ 17,651**	$ 17,651

7. Patient Service Revenue

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

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

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

7. Patient Service Revenue (continued)

Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were approximately $1,157,000 and $1,213,000 for the years ended December 31, 2021 and 2020, respectively.

Cost report settlements due from St. Elizabeth Healthcare and DSH reserves were approximately $75,803,000 and $55,614,000 at December 31, 2021 and 2020, respectively.

In 2020, St. Elizabeth Healthcare was among 54 rural hospitals in Kentucky that received state and federal dollars from a 13-year-old litigation settlement regarding Medicaid funding rates. The litigation began with an administrative action in 2007 followed by a lawsuit in 2013, all involving the rate-setting methodology used for acute care hospitals for 2007-2015. As part of the settlement, St. Elizabeth Healthcare received $51,965,000 and this amount has been included in patient service revenue in the accompanying consolidated statement of operations and changes in net assets at December 31, 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. St. Elizabeth Healthcare also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant.

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

7. Patient Service Revenue (continued)

In some circumstances, after settlement by the responsible third-party, the patient will be billed for the residual amount due to St. Elizabeth Healthcare. St. Elizabeth Healthcare has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less; however, St. Elizabeth Healthcare does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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

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

	2021	2020
Medicare	**$ 607,719**	$ 489,207
Medicaid	**348,126**	244,246
Anthem Blue Cross	**369,372**	319,770
Humana	**48,398**	42,706
United Healthcare	**155,869**	121,630
Other insurance and workers' compensation	**218,509**	181,449
Self-pay	**2,520**	14,740
Patient service revenue	**$ 1,750,513**	$ 1,413,748

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

8. Long-Term Debt

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

	2021	2020
Kentucky Economic Development Finance Authority Adjustable Rate Hospital Facilities Revenue Refunding Bonds, Series 2009B, maturing in various amounts through 2033 with an adjustable rate set every seven days (0.34 percent and 0.10 percent at December 31, 2021 and 2020, respectively)	**$22,800**	$ 24,325
Kentucky Bond Development Corporation Hospital Facilities Revenue Bonds, Series 2015A, maturing in various amounts through 2045 with a fixed rate of 2.17 percent through 2027	**42,525**	43,850
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2015B, maturing in various amounts through 2045 with an adjustable rate set every 30 days (0.68 percent and 0.71 percent at December 31, 2021 and 2020, respectively)	**44,700**	46,075
Kentucky Bond Development Corporation Hospital Facilities Revenue Refunding Bonds, Series 2016, maturing in various amounts through 2039 with various fixed rates ranging from 3.00 percent through 5.00 percent	**71,675**	74,520
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2019A, maturing in various amounts through 2049 with an adjusting rate set every 30 days (0.53 percent and 0.58 percent at December 31, 2021 and 2020, respectively)	**70,996**	72,633
National Finance Authority Hospital Facilities Revenue Bonds, Series 2021A, maturing in various amounts through 2051 with various fixed rates ranging from 4.00 percent through 5.00 percent	**49,480**	**-**
National Finance Authority Hospital Facilities Revenue Bonds, Series 2021B Taxable Series, maturing in various amounts through 2051 with various fixed rates ranging from 3.172 percent to 3.272 percent	**50,520**	**-**
Total debt	**352,696**	**261,403**
Less current portion	**(8,983)**	**(8,708)**
Less unamortized debt issuance costs	**(3,143)**	**(2,283)**
Plus unamortized premium	**14,170**	**7,276**
Long-term debt	**$ 354,740**	**$ 257,688**

8. Long-Term Debt (continued)

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

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

In December 2015, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Bonds, Series 2015A of $50,000,000 and Adjustable Rate Hospital Facilities Revenue Bonds, Series 2015B of $50,000,000. The Series 2015A and 2015B bonds were issued for the purpose of financing acquisition, construction, installation, and equipping of facilities suitable for use by St. Elizabeth Healthcare. The Series 2015A and 2015B bonds were originally issued pursuant to a master trust indenture dated June 15, 1991, as supplemented by the eleventh and twelfth supplemental trust indentures dated December 14, 2015 and December 28, 2015, respectively. The bonds were restated pursuant to the amended and restated master trust indenture dated May 1, 2016, as supplemented by the first supplemental trust indenture dated May 12, 2016. Redemption of the Series 2015A bonds could occur, in whole or in part, on and after January 2, 2018 at a redemption price of 100 percent of the principal plus accrued interest. Redemption could occur prior to January 2, 2018 at a premium. The Series 2015A bonds are subject to a mandatory tender and purchase by St. Elizabeth Healthcare on December 1, 2027. Redemption of the Series 2015B bonds can occur prior to maturity, in whole or in part, at the option of St. Elizabeth Healthcare, at a redemption price of 100 percent of the principal amount plus interest. The holder of the Series 2015B bonds may require St. Elizabeth Healthcare to purchase the bonds on December 1, 2025 at a redemption price of 100 percent of the principal plus accrued interest.

8. Long-Term Debt (continued)

In May 2016, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Refunding Bonds, Series 2016 of $85,000,000. The Series 2016 bonds were used to advance refund the outstanding Series 2009A bonds. The bonds were issued pursuant to the amended and restated master trust indenture dated May 1, 2016, as supplemented by the first supplemental trust indenture dated May 12, 2016. Redemption of the Series 2016 bonds can occur, in whole or in part, on and after May 1, 2026 at a redemption price of 100 percent of the principal plus accrued interest.

In June 2019, the Kentucky Bond Development Corporation, on behalf of St. Elizabeth Healthcare, issued Adjustable Rate Hospital Facilities Revenue Bonds, Series 2019A of $75,000,000. The Series 2019A bonds were issued for the purpose of financing acquisition, construction, installation, and equipping of facilities suitable for use by St. Elizabeth Healthcare. The bonds were issued pursuant to a revised and restated master trust indenture dated May 1, 2016, as supplemented by the fourth supplemental trust indenture dated June 1, 2019. Redemption of the Series 2019A bonds can occur prior to maturity, in whole or in part, at the option of St. Elizabeth Healthcare, at a redemption price of 100 percent of the principal amount plus interest. The Series 2019A bonds are subject to a mandatory tender and purchase by St. Elizabeth Healthcare on June 1, 2029.

In October 2021, the National Finance Authority, on behalf of St. Elizabeth Healthcare, issued Hospital Facilities Revenue Bonds, Series 2021A of $49,480,000 at a premium of $8,029,000, and Hospital Facilities Revenue Bonds, Series 2021B of $50,520,000. The Series 2021A and 2021B bonds were issued for the purpose of financing construction, installation, and equipping of facilities suitable for use by St. Elizabeth Healthcare. The bonds were issued pursuant to the amended and restated master trust indenture dated May 1, 2016, as supplemented by the sixth supplemental trust indenture dated October 1, 2021. Redemption of the Series 2021A and 2021B bonds could occur, in whole or in part, on and after May 1, 2031 at a redemption price of 100 percent of the principal plus accrued interest.

St. Elizabeth Healthcare has unconditionally guaranteed the payment of principal and interest on the Series 2009B, Series 2015A, Series 2015B, Series 2016, Series 2019A, Series 2021A, and Series 2021B bonds that are secured by a first security interest in substantially all of St. Elizabeth Healthcare's pledged revenue. This pledged revenue includes all revenue, rents, receipts, investment income, gains and losses or other monies received by St. Elizabeth Healthcare, excluding restricted donations, proceeds from additional debt as allowed by the master trust indenture, and any other revenue, where the granting of a lien is prohibited by law.

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

8. Long-Term Debt (continued)

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

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

	Amount
2022	$ 8,983
2023	9,604
2024	10,057
2025	10,486
2026	10,918
Thereafter	302,648
Total payments	$ 352,696

Total interest paid was approximately $8,360,000 and $8,823,000 for the years ended December 31, 2021 and 2020, respectively.

In 2009, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2009B bonds, with a 30-year term and a notional amount of $22,800,000 and $24,325,000 at December 31, 2021 and 2020, respectively. Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 3.07 percent and receives a floating rate on the basis of 67 percent of the one-month U.S. dollar London Interbank Offered Rate (USD LIBOR). The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2009B bonds align with the notional amount remaining each year in the interest rate swap agreement.

In 2015, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2015B bonds, with a 30-year term and a notional amount of $44,700,000 and $46,075,000 at December 31, 2021 and 2020, respectively. Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 1.735 percent and receives a floating rate on the basis of 70 percent of the one-month USD LIBOR plus 0.53 percent multiplied by 1.13 percent. The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2015B bonds align with the notional amount remaining each year in the interest rate swap agreement.

In 2018, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2019A bonds, with a 30-year term and a notional amount of $70,996,000 and $72,633,000 as of December 31, 2021 and 2020, respectively.

8. Long-Term Debt (continued)

Under the terms of the interest rate swap agreement, St. Elizabeth Healthcare pays a fixed rate of 2.455 percent and receives a floating rate on the basis of 79 percent of the one-month USD LIBOR. The interest differential to be paid or received under the interest rate swap agreement will be accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the interest rate swap align with the notional amount remaining each year in the Series 2019A bond issuance.

The fair market value of the interest rate swap agreements at December 31, 2021 and 2020 was a liability of $17,568,000 and $27,487,000, respectively, and included on the consolidated balance sheets.

Net cash paid under the interest rate swap agreements was $3,166,000 and $2,587,000 for the years ended December 31, 2021 and 2020, respectively, and are included as an increase in interest expense.

In April 2020, St. Elizabeth Healthcare amended an agreement with a bank to increase its operating line of credit to a maximum commitment of $80,000,000. The increase was to secure access to operating cash due to the Covid-19 pandemic. The original line of credit maximum commitment was $40,000,000. The term of the agreement was unchanged and set to expire in November 2020. The line of credit was subject to interest at a floating rate per annum equal to 0.90% in excess of the one-month USD LIBOR rate. The line of credit was subject to a one-month USD LIBOR floor of 0.50% and an unused fee of 0.20% per annum of the difference between the outstanding principal amount and the committed principal amount. The line of credit was collateralized by a security interest in a portion of St. Elizabeth Healthcare's assets and gross revenue

In November 2020, St. Elizabeth Healthcare amended the operating line of credit agreement to revert to the original maximum commitment of $40,000,000 and extending the agreement term by one year. The line of credit bears interest at a floating rate per annum equal to 0.40 percent in excess of the one-month USD LIBOR rate, which was 0.14 percent at December 31, 2020, for a total interest rate of 0.54 percent at December 31, 2020. The line of credit is subject to a one-month USD LIBOR floor of 0.25% and an unused fee of 0.20% per annum of the difference between the outstanding principal amount and the committed principal amount. There was no outstanding balance at December 31, 2020.

In December 2021, in preparation for the 2023 cessation of the publication of one-month USD LIBOR, St. Elizabeth Healthcare amended the line of credit to replace the term rate from one-month USD LIBOR to Secured Overnight Financing Rate (SOFR). The term of the agreement is one year and has a maximum commitment of $10,000,000. In March 2022 the line of credit was amended to allow for a maximum commitment of $40,000,000, which is consistent with the limit

8. Long-Term Debt (continued)

in place in 2020. The line of credit bears interest at a floating rate per annum equal to 0.40 percent in excess of the SOFR rate, which was 0.05 percent at December 31, 2021, for a total interest rate of 0.45 percent at December 31, 2021. The line of credit is subject to an unused fee of 0.10% per annum of the difference between the outstanding principal amount and the committed principal amount. There was no outstanding balance at December 31, 2021.

9. Operating Leases

St. Elizabeth Healthcare is obligated under operating leases primarily for facilities and equipment, expiring at various dates through November 2046. Some leases contain renewal options. The weighted average remaining lease term under operating leases at December 31, 2021 and 2020 is 13.74 years and 10.36 years, respectively.

Minimum lease payments include rents for renewal options when it is known to be likely St. Elizabeth Healthcare will exercise those options. The right of use asset and related lease liability have been calculated using discount rates ranging from 0.13 percent to 2.90 percent. The weighted average discount rate under operating leases is 1.99 percent and 2.58 percent at December 31, 2021 and 2020, respectively.

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

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

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

Total expenses recognized under operating leases was $16,618,000 and $15,643,000 for the years ended December 31, 2021 and 2020, respectively. Expenses related to leases with a term of 12 months or less was $2,818,000 and $1,755,000 for December 31, 2021 and 2020, respectively. Cash paid in 2021 and 2020 for operating leases was $16,060,000 and $14,878,000, respectively, which is included in operating cash flows on the consolidated statement of cash flows.

9. Operating Leases (continued)

Noncash right of use assets obtained for operating lease obligations for the years ended December 31, 2021 and 2020 were $44,993,000 and $3,931,000, respectively. Future minimum rent on noncancelable leases as of December 31, 2021 for each of the next five years, and in aggregate, thereafter, are as follows for years ending December 31 (in thousands):

	Amount
2022	$ 14,947
2023	15,716
2024	14,527
2025	13,214
2026	12,644
Thereafter	93,543
Total future minimum lease payments	164,591
Less imputed remaining interest	(20,695)
Present value of net minimum lease payments	143,896
Less current obligation portion of lease liabilities	(14,116)
Long term lease liabilities	$ 129,780

10. Functional Expenses

St. Elizabeth Healthcare provides inpatient, outpatient, and other healthcare services in support of its mission in the local market. Expenses related to providing these services for the year ended December 31, 2021 are as follows (in thousands):

	Healthcare Services		Support Services		
	Hospital	**Physician**	**Management and General**	**Fundraising**	**Total**
Salaries and wages	**$ 431,941**	**$ 239,966**	**$ 182,462**	**$ 1,164**	**$ 855,533**
Employee benefits	**80,556**	**43,332**	**80,747**	**206**	**204,841**
Purchased services	**63,453**	**3,772**	**65,052**	**506**	**132,783**
Interest	**4,744**	**7**	**3,298**	**13**	**8,062**
Depreciation and amortization	**45,204**	**2,367**	**32,643**	**122**	**80,336**
Supplies	**315,277**	**17,026**	**16,306**	**251**	**348,860**
Other	**39,259**	**17,017**	**101,730**	**343**	**158,349**
Total	**$ 980,434**	**$ 323,487**	**$ 482,238**	**$ 2,605**	**$ 1,788,764**

Expenses related to providing these services for the year ended December 31, 2020 are as follows (in thousands):

	Healthcare Services		Support Services		
	Hospital	**Physician**	**Management and General**	**Fundraising**	**Total**
Salaries and wages	$ 347,706	$ 202,944	$ 154,912	$ 1,041	$ 706,603
Employee benefits	68,350	37,519	63,105	195	169,169
Purchased services	57,335	2,815	39,170	681	100,001
Interest	4,362	6	3,422	11	7,801
Depreciation and amortization	36,776	2,182	30,115	97	69,170
Supplies	263,665	17,448	15,692	275	297,080
Other	32,378	17,549	58,933	322	109,182
Total	$ 810,572	$ 280,463	$ 365,349	$ 2,622	$ 1,459,006

10. Functional Expenses (continued)

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

11. Pension and Other Retirement Plans

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

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

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

During the years ended December 31, 2021 and 2020, St. Elizabeth Healthcare recorded contribution expense of $40,226,000 and $39,984,000, respectively, to its defined contribution plan.

11. Pension and Other Retirement Plans (continued)

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

	2021	2020
Net periodic pension cost		
Interest cost	**$ 15,173**	$ 18,155
Expected return on plan assets	**(20,203)**	(22,533)
Amortization of net loss	**6,949**	8,301
Net periodic pension cost	**$ 1,919**	$ 3,923

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

	2021	2020
Change in projected benefit obligation		
Benefit obligation at beginning of year	**$ 596,835**	$ 543,099
Interest cost	**15,173**	18,155
Actuarial (gain) loss	**(11,090)**	54,216
Benefits paid	**(19,986)**	(18,635)
Projected benefit obligation at end of year	**580,932**	596,835
Change in plan assets		
Fair value of plan assets at beginning of year	**608,688**	535,926
Actual return on plan assets	**6,818**	74,397
Employer contributions	**-**	17,000
Benefits paid	**(19,986)**	(18,635)
Fair value of plan assets at end of year	**595,520**	608,688
Funded status at end of year	**$ 14,588**	$ 11,853
Accrued pension asset	**$ 14,588**	$ 11,853

11. Pension and Other Retirement Plans (continued)

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

	2021	2020
Discount rate – Benefit obligation	**2.84%**	2.59%
Discount rate – Net periodic benefit cost	**2.59%**	3.41%
Rate of compensation increase	**N/A**	N/A
Expected return on plan assets	**3.38%**	4.29%

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

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

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

	2021	2020
Change in net assets without donor restrictions recognized:		
Net actuarial loss	**$ (2,295)**	$ (2,352)
Amortization of net actuarial loss	**6,949**	8,301
Total recognized in the consolidated statements of operations and changes in net assets	**$ 4,654**	$ 5,949

Included as a reduction in net assets without donor restrictions is the amount of $114,517,000, that has not yet been recognized in net periodic pension expense as of December 31, 2021.

The net actuarial loss included in net assets without donor restrictions that is expected to be recognized in net periodic pension cost during the year ending December 31, 2022 is $6,662,000.

11. Pension and Other Retirement Plans (continued)

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

	2021	2020
Fixed income mutual funds	**87%**	85%
Comingled funds	**5**	4
Private equity funds	**3**	2
Infrastructure funds	**3**	4
Real estate funds	**-**	2
Equity mutual funds	**-**	2
Cash and cash equivalents	**2**	1
Total	**100%**	100%

St. Elizabeth Healthcare's Investment and Pension Committees regularly review the investment allocation and approve changes to the investment policy as needed. In February 2017, the St. Elizabeth Healthcare Investment Committee voted to adopt a Liability Driven Investing (LDI) strategy for the St. Elizabeth Healthcare Employees' Pension Plan. The goal of this strategy is to reduce the funded status volatility caused by asset/liability duration mismatch, ultimately lessening the need for significant contributions through a more predictable long-term funded status. A glide path was developed to define the Pension asset allocation at trigger points based on funded status. The transition of Pension assets to this strategy began in May 2017, based upon the glide path allocation policy for the Plan's funded status as of December 31, 2016. Based upon the Plan achieving a funded status of 102.5 percent as of December 31, 2021, the average target allocation policy for the Plans' investments per the glide path is 90 percent fixed income, 5 percent U.S equity, 2.5 percent infrastructure, and 2.5 percent private equity, with cash maintained in an amount sufficient to cover benefit payments. Future asset allocations are expected to match the Plan's target allocations based upon the Plan's funded status, which is evaluated on a quarterly basis.

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare's defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2021, aggregated by the level in the fair value hierarchy as defined in Note 1 (in thousands):

		Fair Value Measurements Using		
	Balance at December 31, 2021	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 13,443	$ 13,443	$ –	$ –
U.S. Government Obligations	13,921	–	13,921	–
Asset-backed securities	1,785	–	1,785	–
Corporate bonds	439,058	–	439,058	–
Municipal bonds	8,549	–	8,549	–
Foreign bonds	56,310	–	56,310	–
Assets measured at fair value levels	533,066	13,443	519,623	–
Private equity funds	15,357	–	–	–
Infrastructure funds	15,677	–	–	–
Commingled funds	31,420	–	–	–
Assets measured at net asset value	62,454	–	–	–
Total assets	$ 595,520	$ 13,443	$ 519,623	$ –

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare's defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2020, aggregated by the level in the fair value hierarchy as defined in Note 1 (in thousands):

		Fair Value Measurements Using		
	Balance at December 31, 2020	**Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$ 6,937	$ 6,937	$ –	$ –
U.S. Government Obligations	173,720	–	173,720	–
Asset-backed securities	1,111	–	1,111	–
Corporate bonds	294,396	–	294,396	–
Municipal bonds	8,496	–	8,496	–
Foreign bonds	38,394	–	38,394	–
Mutual funds – International large cap	10,067	10,067	–	–
Assets measured at fair value levels	533,121	17,004	516,117	–
Real estate funds	12,672	–	–	–
Private equity funds	12,384	–	–	–
Infrastructure funds	22,946	–	–	–
Commingled funds	27,565	–	–	–
Assets measured at net asset value	75,567	–	–	–
Total assets	$ 608,688	$ 17,004	$ 516,117	$ –

11. Pension and Other Retirement Plans (continued)

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

The accumulated benefit obligation for St. Elizabeth Healthcare's defined benefit pension plan was $580,932,000 and $596,835,000 at December 31, 2021 and 2020, respectively.

St. Elizabeth Healthcare did not contribute to its defined benefit pension plan during 2021. Due to the 102.5 percent funded status of the Plan, St. Elizabeth Healthcare is not required to make any contributions in 2022.

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

	Amount
2022	$ 24,162
2023	25,900
2024	27,535
2025	28,694
2026	29,084
2027 – 2031	151,350

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

12. Commitments and Contingencies

In order to remain a self-insured employer, St. Elizabeth Healthcare maintains a continuous bond through Travelers Casualty and Surety Company of America in the amount of $8,539,000. The continuous bond had no outstanding balance as of December 31, 2021 and 2020.

13. Business Combination

Effective October 31, 2020, St. Elizabeth Healthcare entered into an asset acquisition agreement with Dearborn County Hospital, doing business as Highpoint Health. St. Elizabeth Healthcare assumed operations of Highpoint Health after significant collaborations between the two healthcare systems on several projects; and when Highpoint Health began facing significant challenges partly related to COVID-19. Additionally, it was important to the Dearborn, Indiana community and St. Elizabeth Healthcare to keep high-quality healthcare in the area, which was at risk with the financial challenges Highpoint Health was facing prior to the asset acquisition. This acquisition expanded the presence of St. Elizabeth Healthcare in the Southeast Indiana region, while keeping high-quality healthcare local to the community.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed (in thousands):

	Amount
Cash and cash equivalents	$ 943
Inventory and supplies	1,977
Prepaid expenses and other current assets	1,904
Property, plant, and equipment	12,785
Right of use operating lease assets	415
Other assets	504
Total assets acquired	18,528
Other current liabilities	$ 6,904
Accrued employee compensation	943
Lease liabilities – Operating	415
Other long-term liabilities	504
Total liabilities assumed	8,766
Total identifiable net assets	9,762
Inherent contribution gain from acquisition	(4,762)
Total fair value of consideration transferred	$ 5,000

The aggregate fair value of the net assets acquired and liabilities assumed of Highpoint Health exceeded the fair value of the consideration transferred by $4,762,000 which has been recognized as an inherent contribution gain in the accompanying consolidated statement of operations and changes in net assets at December 31, 2020. The inherent contribution gain resulted from a larger

13. Business Combination (continued)

business enterprise value than the purchase consideration transferred as part of the asset acquisition.

St. Elizabeth Healthcare has recognized an indemnification asset totaling $1,500,000 as part of the acquisition related to all of the obligations and liabilities, known or unknown, of Highpoint Health arising in connection with the business and operation of Highpoint Health, including the acquired assets, regardless of when discovered or asserted, other than obligations arising with respect to the excluded assets or the named excluded liabilities. The indemnification asset has been recognized at fair value. The maximum amount receivable under the arrangement is $1,500,000 and was received in 2021.

In addition to the purchase price, St. Elizabeth Healthcare agreed to place $5,000,000 in a restricted fund account to be used for potential liabilities if needed. The term of the restricted fund was for one year following the closing date. The requirements were not met resulting in the release of the restricted fund and recognized in nonoperating income at December 31, 2021.

For the period from the date of acquisition to December 31, 2020, St. Elizabeth Healthcare Dearborn, formerly Highpoint Health, had $13,653,000 of operating revenue, $1,057,000 of excess of expenses over revenues, and a decrease in net assets of $1,057,000.

14. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. Referred to as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. During 2020, St. Elizabeth Healthcare operations were significantly impacted, as shelter-in-place orders and government mandates to suspend elective procedures reduced volumes during 2020. A key strategy to reduce exposure risk of patients and caregivers was to launch video visits that were in infancy with approximately 20 visits in February and expanded to over 188,000 through December. Another was to designate one of St. Elizabeth Healthcare's hospitals as the location where confirmed COVID-19 patients would receive care provided by St. Elizabeth Healthcare's Infectious Disease Response Team, a highly trained, equipped, team prepared to properly address infectious disease events. Additionally, St. Elizabeth Healthcare opened Respiratory Care Clinics to triage non-emergent patients and developed a COVID-19 Helpline, staffed by St. Elizabeth associates to help answer patient and community questions/concerns regarding COVID-19.

During 2021, St. Elizabeth Healthcare experienced several surges as new COVID-19 variants spread globally. While elective procedures resumed as government mandates subsided, St.

14. COVID-19 Pandemic (continued)

Elizabeth Healthcare, like health systems across the country, faced staffing shortages, rising costs to retain and attract employees, and higher contract clinical labor costs.

Enacted on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was established, which authorizes $100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare and Medicaid-enrolled suppliers, and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenues from canceled procedures, and to provide support for related healthcare expenses, such as constructing temporary structures or emergency operation centers, retrofitting facilities, purchasing medical supplies and equipment including personal protective equipment and testing supplies, and increasing workforce. Further, these relief funds ensure uninsured patients receive testing and treatment for COVID-19.

As of December 31, 2021 and 2020, St. Elizabeth Healthcare received payments of approximately $18,854,000 and $74,034,000, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund, which were distributed between April 2020 and December 2021. These payments are not subject to repayment, provided St. Elizabeth Healthcare is able to attest to and comply with the terms and conditions of the funding outlined in the U.S. Department of Health and Human Services (HHS) June 11, 2021 Post-Payment Notice of Reporting Requirements, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on St. Elizabeth Healthcare's operating results through December 31, 2021, St. Elizabeth Healthcare believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of December 31, 2021 and 2020. Therefore, St. Elizabeth Healthcare has recognized approximately $25,854,000 and $61,034,000 as other operating revenue on the consolidated statement of operations for the years ended December 31, 2021 and 2020, respectively.

The initial estimate of the recognition of revenue related to the Provider Relief Fund was based upon guidance issued by HHS as of the date the consolidated financial statements were available to be issued for the year ended December 31, 2020. Subsequent to that period, HHS issued additional guidance to calculate lost revenue. These changes to the estimate are recorded prospectively as adjustments to other operating revenue. For the year ended December 31, 2021, changes in the estimate of the recognition of revenue related to the Provider Relief Fund was approximately $13,000,000.

14. COVID-19 Pandemic (continued)

St. Elizabeth Healthcare recorded approximately $6,000,000 and $13,000,000 within deferred revenue in the consolidated balance sheet as of December 31, 2021 and 2020, respectively. St. Elizabeth Healthcare will continue to monitor the terms and conditions of the CARES Act funds and the impact of the pandemic on revenue and expenses.

HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as other operating revenue during the years ended December 31, 2021 and 2020. If St. Elizabeth Healthcare is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

Medicare Advance Payments

St. Elizabeth Healthcare requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. The repayment terms of the accelerated Medicare payments begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments to St. Elizabeth Healthcare for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. As of December 31, 2020, St. Elizabeth Healthcare received approximately $103,197,000 from these accelerated Medicare payment requests, which is reflected on the consolidated balance sheets as current and long-term Medicare advanced funds. As of December 31, 2021, approximately $61,929,000 of the advances have not been recouped by Medicare and are reported as current Medicare advanced funds on the consolidated balance sheet.

Social Security Taxes

The CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes. Employers may defer deposits of the employer's share of Social Security tax due during the "payroll tax deferral period" and payments of the tax imposed on wages paid during that period. The payroll tax deferral period began on March 27, 2020 and ended on December 31, 2020. The deferred deposits of the employer's share of Social Security tax will be repaid over two years, with 50 percent of the eligible deferred amount due by December 31, 2021 and the remaining amount due by December 31, 2022.

14. COVID-19 Pandemic (continued)

As of December 31, 2021 and 2020, St. Elizabeth Healthcare deferred employer Social Security tax withholdings of $11,789,000 and $23,571,000, respectively, that are recorded within accrued employee compensation and other long-term liabilities, in 2020, on the consolidated balance sheets.

15. Subsequent Events

St. Elizabeth Healthcare has evaluated and disclosed any subsequent events through April 5, 2022, which is the date the consolidated financial statements were issued.

Supplementary Information

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Balance Sheets

December 31, 2021 and 2020
(in thousands)

	2021				
	Combined Hospitals	**Combined Physician Groups**	**Eliminations**	**Totals**	**2020**
Assets					
Current assets:					
Cash and cash equivalents	$ 30,696	$ (1,203)	$ –	$ 29,493	$ 30,657
Short-term investments	70,557	–	–	70,557	70,682
Patient accounts receivable	162,082	20,492	–	182,574	162,591
Inventories and supplies	44,380	560	–	44,940	39,958
Prepaid expenses and other assets	52,750	3,736	–	56,486	32,468
Total current assets	360,465	23,585	–	384,050	336,356
Cash and cash equivalents - Restricted	72,845	–	–	72,845	22,062
Assets limited as to use	1,657,409	–	–	1,657,409	1,409,891
Right of use operating lease assets	97,868	122,817	(79,909)	140,776	100,991
Property, plant and equipment, net	721,349	10,818	–	732,167	650,758
Goodwill	4,489	13,162	–	17,651	17,651
Intangible assets	4,960	–	–	4,960	6,198
Foundation pledge receivables	15,021	–	–	15,021	11,841
Pension Asset	14,588	–	–	14,588	11,853
Other assets	117,167	22,812	(982)	138,997	111,297
Total assets	$ 3,066,161	$ 193,194	$ (80,891)	$ 3,178,464	$ 2,678,898
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 84,683	$ 3,413	$ –	$ 88,096	$ 83,041
Accrued employee compensation	108,258	59,367	–	167,625	149,198
Accrued interest	1,780	–	–	1,780	1,065
Accrued third-party settlements	75,803	–	–	75,803	55,614
Deferred revenue	7,437	966	–	8,403	20,367
Other current liabilities	10,472	235	–	10,707	11,775
Current portion of long-term debt	8,983	–	–	8,983	8,708
Current portion of lease liabilities - Operating	8,193	11,332	(5,409)	14,116	12,493
Current Medicare advanced funds payable	60,674	1,255	–	61,929	38,699
Total current liabilities	366,283	76,568	(5,409)	437,442	380,960
Long-term debt	354,740	–	–	354,740	257,688
Long-term lease liabilities - Operating	92,455	112,807	(75,482)	129,780	90,879
Liability for self-insurance	68,238	2,238	–	70,476	61,898
Fair value of interest rate swap	17,568	–	–	17,568	27,487
Long-term Medicare advanced funds payable	–	–	–	–	64,498
Other long-term liabilities	71,219	490	–	71,709	57,070
Total liabilities	970,503	192,103	(80,891)	1,081,715	940,480
Net assets:					
Net assets without donor restriction	2,058,965	1,091	–	2,060,056	1,710,523
Net assets with donor restriction	36,695	–	–	36,695	27,842
Total net assets	2,095,660	1,091	–	2,096,751	1,738,365
Noncontrolling interest	(2)	–	–	(2)	53
Total net assets	2,095,658	1,091	–	2,096,749	1,738,418
Total liabilities and net assets	$ 3,066,161	$ 193,194	$ (80,891)	$ 3,178,464	$ 2,678,898

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Statements of Operations and Changes in Net Assets

December 31, 2021 and 2020
(in thousands)

	2021				December
	Combined Hospitals	Combined Physician Groups	Eliminations	Total	2020
Patient service revenue	$ 1,488,763	$ 261,750	$ –	$ 1,750,513	$ 1,413,748
Net assets released from restriction for operations	615	–	–	615	796
Other revenue	184,243	163,409	(191,228)	156,424	155,973
Total revenue	1,673,621	425,159	(191,228)	1,907,552	1,570,517
Expenses:					
Salaries and wages	576,689	278,844	–	855,533	706,603
Employee benefits	147,276	57,565	–	204,841	169,169
Purchased services	270,276	44,562	(182,055)	132,783	100,001
Interest	8,053	9	–	8,062	7,801
Depreciation and amortization	76,980	3,356	–	80,336	69,170
Supplies	331,594	17,437	(171)	348,860	297,080
Other	137,251	30,100	(9,002)	158,349	109,182
Total expenses	1,548,119	431,873	(191,228)	1,788,764	1,459,006
Operating income (loss)	125,502	(6,714)	–	118,788	111,511
Unrestricted contributions	545	–	–	545	523
Other gains (losses), net	225,581	(142)	–	225,439	106,797
Excess of revenue over expenses (expenses over revenue)	351,628	(6,856)	–	344,772	218,831
Excess of expenses over revenue attributable to noncontrolling interest	(55)	–	–	(55)	(106)
Excess of revenue over expenses (expenses over revenue) attributable to St. Elizabeth Medical Center, Inc.	351,683	(6,856)	–	344,827	218,937
Net assets without donor restriction:					
Transfer between entities	(16,947)	16,947	–	–	–
Pension change other than net periodic costs	4,654	–	–	4,654	5,949
Other	(75)	–	–	(75)	(84)
Net assets released from restriction for capital	127	–	–	127	2,159
Increase in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	339,442	10,091	–	349,533	226,961
Net assets with donor restrictions:					
Net increase in cash, cash equivalents, and restricted cash	9,595	–	–	9,595	10,824
Net assets released from restriction	(742)	–	–	(742)	(2,955)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	8,853	–	–	8,853	7,869
Increase in net assets attributable to St. Elizabeth Medical Center, Inc.	348,295	10,091	–	358,386	234,830
Noncontrolling interest:					
Excess of expenses over revenue attributable to noncontrolling interest	(55)	–	–	(55)	(106)
Paid in capital by equity owners	–	–	–	–	185
(Decrease) increase in net assets attributable to noncontrolling interest	(55)	–	–	(55)	79
Increase in net assets	348,240	10,091	–	358,331	234,909
Net assets at beginning of period	1,747,418	(9,000)	–	1,738,418	1,503,509
Net assets at end of period	$ 2,095,658	$ 1,091	$ –	$ 2,096,749	$ 1,738,418

plante moran

Plante & Moran, PLLC
Suite 100
250 S. High Street
Columbus, OH 43215
Tel: 614.849.3000
Fax: 614.221.3535
plantemoran.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, 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, the consolidated financial statements of Saint Elizabeth Medical Center, Inc. and its sudsidiaries (the "Organization"), which comprise the consolidated balance sheet as of December 31, 2021 and the related consolidated statements of operations and changes in nets assets and cash flows and for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated April 5, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

April 5, 2022