

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Sisters of Charity of Leavenworth Health System, Inc.
Years Ended December 31, 2020 and 2019
With Reports of Independent Auditors

Ernst & Young LLP



Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

We have audited the accompanying consolidated financial statements of Sisters of Charity Leavenworth Health System, Inc. (SCL Health), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCL Health as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 27, 2021

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Balance Sheets

	December 31	
	2020	2019
	<i>(In Millions)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 475.9	\$ 215.0
Current portion of investments	160.4	159.0
Accounts receivable:		
Patient	267.2	291.6
Other	101.0	73.1
Inventory	56.8	51.4
Prepays and other assets	53.5	55.5
Total current assets	<u>1,114.8</u>	<u>845.6</u>
Investments, net of current portion	2,321.4	1,961.7
Assets limited as to use:		
Self-insured risks	72.5	68.7
Trustee-held funds	21.2	13.8
	<u>93.7</u>	<u>82.5</u>
Land, buildings, and equipment, net	2,148.8	2,144.3
Other assets:		
Investments in joint ventures	33.0	29.5
Operating lease right-of-use assets	77.8	55.9
Other assets	32.2	30.1
	<u>143.0</u>	<u>115.5</u>
Total assets	<u><u>\$ 5,821.7</u></u>	<u><u>\$ 5,149.6</u></u>

	December 31	
	2020	2019
	<i>(In Millions)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 235.4	\$ 146.6
Accrued salaries, wages, and benefits	123.6	131.3
Advance payments	183.2	-
Third-party settlements	49.1	54.6
Current maturities of long-term obligations	193.0	145.7
Operating lease liability	19.9	17.4
Total current liabilities	<u>804.2</u>	495.6
Other noncurrent liabilities:		
Reserve for self-insured risks	40.9	49.5
Long-term operating lease liability	64.0	40.9
Other liabilities	94.9	61.8
	<u>199.8</u>	152.2
Bonds payable, other notes, and finance leases, net of current maturities		
	<u>1,069.3</u>	1,155.4
Total liabilities	<u>2,073.3</u>	1,803.2
Net assets:		
Net assets without donor restrictions:		
Attributable to SCL Health	3,655.4	3,259.5
Attributable to noncontrolling interests	1.9	1.4
Total net assets without donor restrictions	<u>3,657.3</u>	3,260.9
Net assets with donor restrictions	91.1	85.5
Total net assets	<u>3,748.4</u>	3,346.4
Total liabilities and net assets	<u>\$ 5,821.7</u>	<u>\$ 5,149.6</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31,	
	2020	2019
	<i>(In Millions)</i>	
Operating revenue		
Net patient service revenue	\$ 2,669.4	\$ 2,754.2
Other operating revenue	210.7	90.6
Total operating revenue	<u>2,880.1</u>	<u>2,844.8</u>
Operating expenses		
Salaries and wages	1,209.3	1,167.9
Associate benefits	259.9	249.1
Supplies	511.6	506.9
Other operating expenses	570.3	543.5
Depreciation and amortization	184.5	176.8
Interest	39.8	52.6
Total operating expenses	<u>2,775.4</u>	<u>2,696.8</u>
Income from continuing operations	104.7	148.0
Nonoperating income		
Income tax expense	(2.3)	(3.4)
Investment income, net	248.4	249.4
Loss on early extinguishment of debt	-	(4.0)
Total nonoperating income	<u>246.1</u>	<u>242.0</u>
Excess of revenue over expenses	350.8	390.0
Less amounts attributable to noncontrolling interests	2.0	2.7
Excess of revenue over expenses attributable to SCL Health	<u>\$ 348.8</u>	<u>\$ 387.3</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31,	
	2020	2019
	<i>(In Millions)</i>	
Net assets without donor restrictions		
Excess of revenue over expenses	\$ 350.8	\$ 390.0
Gain from discontinued operations	-	2.1
Amortization of accumulated losses on interest rate swaps	1.8	1.8
Distributions to noncontrolling interests	(1.5)	(3.4)
Pension-related benefits other than net periodic pension cost	45.5	12.5
Net assets released from restrictions for capital acquisitions	2.2	1.2
Change in accounting principle	-	(2.4)
Other	(2.4)	(0.8)
	396.4	401.0
Net assets with donor restrictions		
Contributions	17.2	16.1
Investment income, net	6.4	5.7
Net assets released from restrictions	(20.4)	(10.0)
Other	2.4	1.2
	5.6	13.0
Increase in net assets	402.0	414.0
Beginning net assets	3,346.4	2,932.4
Ending net assets	\$ 3,748.4	\$ 3,346.4

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2020	2019
	<i>(In Millions)</i>	
Operating activities		
Increase in net assets	\$ 402.0	\$ 414.0
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	172.3	176.3
Noncash lease expense	22.3	18.0
Change in accounting principle	-	2.4
Loss on early extinguishment of debt	-	4.0
Amortization of accumulated losses on interest rate swaps	(1.8)	(1.8)
Restricted contributions	(17.2)	(16.1)
Pension-related benefit other than net periodic pension costs	(45.5)	(12.5)
Net income from joint ventures	(13.7)	(1.7)
Net loss (gain) from disposal of assets	10.0	(5.4)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3.5)	(23.2)
Increase in investments and assets limited as to use	(372.3)	(335.1)
Increase in other assets	(5.5)	(15.7)
Increase (decrease) in liabilities	312.0	(13.5)
Net cash provided by operating activities	<u>459.1</u>	<u>189.7</u>
Investing activities		
Acquisition of land, buildings, and equipment	(190.5)	(201.0)
Proceeds from disposals of land, buildings, and equipment	-	8.2
Distributions from (contributions to) joint ventures	10.2	(1.5)
Net cash used in investing activities	<u>(180.3)</u>	<u>(194.3)</u>
Financing activities		
Restricted contributions	17.2	16.1
Proceeds from the issuance of long-term debt, net	-	740.7
Proceeds from draws on lines of credit	200.0	-
Payments on bonds, notes, lines of credit, and finance leases	(235.1)	(765.7)
Net cash used in financing activities	<u>(17.9)</u>	<u>(8.9)</u>
Net increase (decrease) in cash and cash equivalents	260.9	(13.5)
Beginning cash and cash equivalents	215.0	228.5
Ending cash and cash equivalents	<u>\$ 475.9</u>	<u>\$ 215.0</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 45.0</u>	<u>\$ 66.3</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements

December 31, 2020

1. Organization

The Sisters of Charity of Leavenworth Health System, Inc. (SCL Health) is a Catholic ministry that operates as a Kansas not-for-profit corporation headquartered in Denver, Colorado. Leaven Ministries is a canonical entity and the sponsor of SCL Health. The mission of SCL Health is to reveal and foster God’s healing love by improving the health of the people and communities SCL Health serves, especially those who are poor and vulnerable.

The primary ministry of SCL Health is to witness the Gospel of Jesus by striving to provide high-quality health care in a spirit of justice and charity. Services are provided based on community need and available resources, with special concern for the poor and underserved. The ministry is carried out in many ways, including the provision of health care services at various locations.

SCL Health controls a group of related entities identified as Affiliates (collectively referred to as SCL Health). The following organizations comprise the Affiliates that are owned by or affiliated with SCL Health directly or indirectly through sole or shared corporate membership or management control. All Affiliates listed below are included in the accompanying consolidated financial statements. Restricted Affiliates is a defined term under the Master Trust Indenture (MTI). See Note 6 for discussion regarding the Restricted Affiliates.

Restricted Affiliates	Location
Colorado	
SCL Health – Front Range, Inc. (d/b/a Lutheran Medical Center) (LMC)	Denver, Colorado
Lutheran Medical Center Foundation	Wheat Ridge, Colorado
Good Samaritan Medical Center, LLC (GSMC)	Lafayette, Colorado
Good Samaritan Medical Center Foundation	Lafayette, Colorado
Saint Joseph Hospital, Inc. (SJH)	Denver, Colorado
St. Mary’s Hospital & Medical Center, Inc.	Grand Junction, Colorado
SCL Health Research Institute, Inc. ⁽¹⁾	Broomfield, Colorado
Montana	
Holy Rosary Healthcare	Miles City, Montana
SCL Health Medical Group – Miles City, LLC	Miles City, Montana
St. James Healthcare	Butte, Montana
St. Vincent Healthcare	Billings, Montana

⁽¹⁾ Newly created entity in July 2020.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

Other Affiliates	Location
Kansas	
Caritas Clinics, Inc.	Leavenworth and Kansas City, Kansas
Marian Clinic, Inc.	Topeka, Kansas
Caritas, Inc. and Subsidiaries	Lenexa, Kansas
Colorado	
Saint Joseph Hospital Foundation	Denver, Colorado
SCL Health Medical Group – Denver, LLC	Denver, Colorado
St. Mary’s Hospital Foundation	Grand Junction, Colorado
SCL Health Medical Group – Grand Junction, LLC	Grand Junction, Colorado
Platte Valley Medical Center (PVMC)	Brighton, Colorado
Platte Valley Medical Group	Denver, Colorado
Mount St. Vincent Home, Inc.	Denver, Colorado
SCL Home Health Solutions, LLC	Denver, Colorado
SCL Health Partners, LLC	Denver, Colorado
SCL Health Foundation	Denver, Colorado
Montana	
SCL Health Medical Group – Butte, LLC	Billings, Montana
SCL Health Medical Group – Billings, LLC	Billings, Montana
St. Vincent Healthcare Foundation, Inc.	Billings, Montana
St. James Healthcare Foundation, Inc.	Butte, Montana
Holy Rosary Healthcare Foundation, Inc.	Miles City, Montana
Grand Cayman, BWI	
Leaven Insurance Company, Ltd.	Georgetown, Grand Cayman, BWI

2. Summary of Significant Accounting Policies

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. Joint ventures are consolidated if SCL Health has the ability to control the entity through direct or indirect ownership of a majority voting interest or through management control.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Patient accounts receivable are reported at the amount that reflects the consideration to which SCL Health expects to be entitled in exchange for providing care, which is generally based on certain assumptions determined for each payor.

Inventory

Inventory consists primarily of medical supplies and pharmaceuticals and is stated at the lower of cost, generally on the first-in, first-out basis, or net realizable value.

Investments and Investment Earnings

Investments, including assets limited as to use, include assets set aside by SCL Health for future long-term purposes. SCL Health holds the majority of its investments in the Comprehensive Investment Program (CIP), an investment pool of funds in which a limited number of unaffiliated nonprofit entities also participate. SCL Health does not consolidate the entire investment pool of funds, as a portion of the investments represents the interests of other unconsolidated entities. Accordingly, SCL Health's investments recorded in the accompanying consolidated financial statements at fair value consist only of SCL Health's units of the CIP. Units are measured at fair value based upon the net asset value practical expedient. Investments held outside the CIP include direct investments in marketable debt and equity securities, mutual funds, and real estate and have been recorded at fair value in the consolidated balance sheets.

Investments are considered to be trading securities. Net investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to the disposition of marketable securities are based on the specific-identification method. Net investment income or loss related to donor-restricted investments is included in net assets with donor restrictions.

Assets Limited as to Use

Assets limited as to use include trustee-held funds and self-insured risk funds. Trustee-held funds represent reserve funds required to be held under the U.S. Department of Housing and Urban Development (HUD) insured mortgage. Self-insured risk funds are set aside by SCL Health to satisfy insurance claims and other related expenditures.

Derivative Financial Instruments

SCL Health uses interest rate swap contracts in managing its capital structure. SCL Health recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The presentation of changes in the fair value (e.g., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Prior to 2016, SCL Health's interest rate swaps were designated and qualified as cash flow hedges, and the effective portion of the gain or loss was reported as a component of net assets without donor restrictions and subsequently reclassified into net investment income or loss in the period during which the cash flows of the hedged transaction were settled. Because SCL Health's interest rate swaps no longer qualify for hedge accounting, changes in the fair value are recorded in net investment income or loss and cumulative amounts included in net assets without donor restrictions are amortized over the life of the derivative into net investment income or loss.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost if purchased or if donated at fair value at the date of donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed when incurred. Interest incurred in connection with borrowings to finance major construction or expansion of facilities is capitalized during the construction period and subsequently amortized over the lives of the related assets. Depreciation expense is calculated using the straight-line method. Buildings are depreciated over estimated useful lives of 5 to 80 years, land improvements over 2 to 50 years, and equipment over 2 to 30 years.

As of December 31, land, buildings, equipment, and accumulated depreciation were as follows:

	2020	2019
	<i>(In Millions)</i>	
Land	\$ 183.7	\$ 168.5
Land improvements	157.8	171.4
Buildings	2,279.8	2,320.7
Equipment	1,209.6	1,577.0
Construction-in-progress	69.9	68.8
	<u>3,900.8</u>	<u>4,306.4</u>
Less accumulated depreciation	1,752.0	2,162.1
	<u>\$ 2,148.8</u>	<u>\$ 2,144.3</u>

Asset Impairment

SCL Health considers whether indicators of impairment are present or performs the necessary test to determine whether the carrying value of an asset, or group of assets, is appropriate. Impairment charges are recognized in income from continuing operations at the time the impairment is identified.

Investments in Joint Ventures

SCL Health accounts for investments in joint ventures using the cost, equity, or consolidation method, depending on the nature of the investment and extent of influence or ownership by SCL Health.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Reclassifications of net assets with donor restrictions on the consolidated statements of changes in net assets represent donor changes or subsequent clarification of the intended purpose of previously recorded contributions or modifications based on donor direction.

Contributions, Bequests, and Grants

Donors' unconditional pledges to give cash and other assets are reported at fair value at the date the promise is received. Donors' conditional pledges to give, and indications of intentions to give, are reported at fair value at the date the condition is satisfied. All contributions, bequests, and grants without donor restrictions are included in excess of revenues over expenses. Contributions, bequests, and grants are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied (as to either time or purpose), net assets with donor restrictions are reclassified and are reported as other operating revenues in the consolidated statements of operations or as net assets released from restrictions for capital acquisitions in net assets without donor restrictions in the consolidated statements of changes in net assets, depending on the nature of the contribution. Resources restricted by donors for additions to land, buildings, and equipment whose purposes have been met are recorded as net assets released for capital acquisitions in the consolidated statements of changes in net assets.

COVID-19 Pandemic and CARES Act Funding

In March 2020, the World Health Organization declared the coronavirus disease 2019 (COVID-19) outbreak a pandemic and the federal government declared COVID-19 a national emergency. The impact of the COVID-19 pandemic has had a material unfavorable effect on SCL Health's operations and financial results since that time, before giving effect to the revenues recorded in connection with the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Patient volumes were most significantly reduced in March and April 2020 and began experiencing gradual and continued improvement since May 2020 as stay-at-home restrictions were eased and hospitals were permitted to resume elective surgeries and procedures. Despite intermittent increases in COVID-19 infections, non-COVID-19 patient volumes have not been as dramatically impacted in recent months.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The CARES Act contained several provisions which provided financial and cash flow relief to SCL Health. For the year ended December 31, 2020, SCL Health received \$121.2 million in general and targeted distributions from the Provider Relief Fund. These funds are recorded initially as a refundable advance when received and are recognized as other operating revenue in the accompanying statement of operations as all terms and conditions are considered met. The terms and conditions are subject to interpretation, changes, and future clarification, the most recent of which have been considered through the date that the financial statements were issued. In addition, this program may be subject to oversight, monitoring, and audit. Failure by a provider that received a payment from the Provider Relief Funds to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For the year ended December 31, 2020, the entire \$121.2 million of Provider Relief Funds received have been recognized as other operating revenue in the consolidated statement of operations.

The CARES Act also provides an expansion for the Medicare Accelerated and Advance Payment Program (Accelerated Payment Program), which allows inpatient acute care hospitals to request accelerated payment up to 100% of their Medicare payment amount for a six-month period. In April 2020, SCL Health received \$183.2 million under the program. Those advanced payments will begin being repaid in 2021. Additionally, the CARES Act allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021, and the remainder due December 31, 2022. SCL Health began deferring these payroll tax payments on April 1, 2020. As of December 31, 2020, SCL Health has deferred \$53.4 million, of which \$26.7 million is included in accrued salaries, wages, and benefits, with the remaining \$26.7 million included in other liabilities.

The adverse impact that COVID-19 will have on future operations and financial results will depend upon many factors, most of which are beyond SCL Health's capacity to control or predict. Such factors include, but are not limited to, continued declines in patient volumes, the timing and extent of vaccinations in the communities SCL Health serves, the number of uninsured and underinsured patients as a result of business closures and restrictions, and increased incremental costs of supplies and professional and general liability exposure. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of COVID-19 on its operations.

Endowments

SCL Health is subject to the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), as separately enacted in Kansas, Colorado, and Montana. Collectively, these statutes establish requirements for the management, investment, and expenditure of endowed funds. SCL Health has adopted investment and spending policies for the endowments that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the various endowments' assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Operating and Performance Indicators

SCL Health's primary mission is to meet the health care needs of its service areas through a broad range of general and specialized health care services, including inpatient, acute care, outpatient, physician, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Since substantially all resources are derived from providing health care services, similar to a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

Operating Indicator (income from continuing operations) – Includes all revenue, gains, and other support without donor restrictions; equity income or loss of unconsolidated health care subsidiaries; and expenses directly related to the recurring and ongoing health care operations during the reporting period. Other activities that result in gains or losses peripheral to SCL Health's primary mission are considered to be nonoperating. The operating indicator excludes income tax expense, net investment income or loss (including changes in unrealized gains and losses on investments), losses on early extinguishment of debt, and gains and losses deemed by management to not be directly related to providing health care services, including contributions or costs associated with the acquisition and disposition of health care entities.

Performance Indicator (excess of revenues over expenses attributable to SCL Health) – Includes income from continuing operations and nonoperating income. The performance indicator excludes the amortization of accumulated losses on interest rate swaps, income, or loss attributable to noncontrolling interests of joint ventures, pension-related charges other than net periodic pension costs, contributions for capital expenditures, and the results of discontinued operations.

Noncontrolling Interests in Subsidiaries

SCL Health attributed an excess of revenue over expenses of \$2.0 million and \$2.7 million for the years ended December 31, 2020 and 2019, respectively, to the noncontrolling interests of joint ventures based on contractual terms and the ownership percentage of the noncontrolling interests in certain of the consolidated subsidiaries. These amounts are reflected in net assets without donor restrictions in the accompanying consolidated balance sheets, net of distributions.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

SCL Health and its hospital, foundation, and clinic Affiliates have been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Income tax expenses in the accompanying consolidated statements of operations relate to unrelated business income tax of exempt organizations and income taxes of wholly owned for-profit entities.

Functional Expenses

SCL Health does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since SCL Health receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in the accompanying consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Reclassifications

Certain balances in the 2019 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets, net assets without donor restrictions, income from continuing operations, or excess of revenue over expenses.

New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU was effective for SCL Health on January 1, 2020, and did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for SCL Health for fiscal year 2021, with early adoption permitted. SCL Health early adopted this ASU on a prospective basis and capitalized \$7.5 million related to the implementation of a new Enterprise Resource Planning (ERP) system. This amount is recorded in land, buildings, and equipment, net on the consolidated balance sheets. The ERP system will be fully implemented in 2021, and, therefore, no amortization was recorded for the year ended December 31, 2020.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for SCL Health on January 1, 2022, with early adoption permitted. SCL Health is currently assessing the impact that ASU 2018-14 will have on its consolidated financial statements.

3. Charity Care

SCL Health has a mission to care for those who are poor and vulnerable and provides charity care to patients deemed to be either financially or medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets.

The cost to provide charity care measured using the consolidated cost to charge ratio was \$44.8 million and \$41.1 million for 2020 and 2019, respectively. The ratio of cost to charges is calculated based on SCL Health's total operating expenses less other operating revenue divided by gross patient service revenue.

In addition to traditional charity care services, SCL Health has a financial assistance policy that offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. SCL Health's financial assistance policy prohibits the use of collection practices that do not respect the dignity of its patients.

SCL Health benefits its communities in a variety of ways. To improve the health status of citizens in the communities served, it provides numerous community education programs that alert the public to various health problems and how they can be addressed. SCL Health offers health promotion and wellness programs and provides specific health care services and programs for senior citizens. Each of these programs helps contain the growth of community health care costs through prevention and positive intervention.

SCL Health addresses problems of the poor in the communities by providing services such as health fairs and screenings at no cost or at substantially reduced rates. It provides prenatal education classes, especially for low-income persons, and transportation for those who otherwise would have no access to medical services. SCL Health also supports organizations that provide other outreach programs for the poor, including the stand-alone clinics that serve only the medically underserved populations in their service areas.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Charity Care (continued)

SCL Health sponsors three stand-alone clinic affiliates (the Clinics) specifically for those individuals who have no other source of health care assistance. Generally, the Clinics do not serve persons with Medicare or any kind of private health insurance. Funding for the Clinics is generated from individual contributions, donations, foundations, grants, and in-kind services. The Clinics create access to health care for those individuals without access, provide channels for physicians to reach the poor, and make a difference in the communities where they are established.

4. Net Patient Service Revenue

Net patient service revenue generally relates to contracts with patients in which the performance obligations are to provide health care services to patients over a period of time. Revenue is estimated for patients who have not been discharged as of the reporting period based on actual charges incurred to date in relation to total expected charges. SCL Health believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The contractual relationship with patients also typically involves a third-party payor (Medicare, Medicaid, managed care plans, and commercial insurance companies), and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payors for the services provided to the related patients typically specify payment or reimbursement to SCL Health at other-than-standard charges.

Because all of its performance obligations relate to contracts with a duration of less than one year, SCL Health has elected to apply the optional exemption not to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above are primarily related to inpatient services at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Net patient service revenue is reported at estimated amounts from patients, third-party payors, and others for services rendered and includes estimates of implicit price concessions and retroactive revenue adjustments due to audits, reviews, and investigations. Implicit price concessions relate primarily to uninsured patients and patients with co-pays, co-insurance, and deductibles and are estimated based on historical collection data. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenue (continued)

The primary sources of consolidated net patient service revenue include Medicare, state-administered Medicaid programs, contracted rate payors (including health maintenance organizations and preferred provider organizations), commercial insurers, self-paying patients, and other sources. Approximately 74.1% and 74.0% of SCL Health's net patient service revenue for the years ended December 31, 2020 and 2019, respectively, is derived from Affiliates doing business in the state of Colorado. The following information provides consolidated net patient service revenue by payor for the years ended December 31:

	2020		2019	
	<i>(In Millions)</i>			
Medicare	\$ 841.3	32%	\$ 865.0	31%
Medicaid	251.1	9	251.7	9
Managed care, commercial, and other	1,505.2	56	1,565.1	57
Self-pay	71.8	3	72.4	3
	\$ 2,669.4	100%	\$ 2,754.2	100%

Three of SCL Health's Affiliates, GSMC, LMC, and SJH, have entered into provider services agreements with a Kaiser Permanente affiliate. The GSMC and LMC agreements specify payment terms and termination conditions and exclusive designation for inpatient services based on a designated geographic service area. The SJH agreement specifies payment terms and conditions, annual rate inflators, and volume guarantees that provide for additional rate adjustments in the event Kaiser Permanente admission volumes increase or decrease from the specified baseline. Revenue from Kaiser Permanente represented approximately 18.2% and 17.8% of SCL Health's net patient service revenue for the years ended December 31, 2020 and 2019, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Centers for Medicare & Medicaid Services have made inquiries regarding certain reimbursements claimed by SCL Health. SCL Health has adopted internal organizational responsibility and compliance programs to address these concerns and seeks to proactively respond to these requests. SCL Health does not expect that the ultimate resolution of these inquiries will be material to its consolidated financial statements.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments and Assets Limited as to Use

SCL Health's investments and assets limited as to use as of December 31 are composed of the following:

	2020	2019
	<i>(In Millions)</i>	
Cash and cash equivalents	\$ 10.6	\$ 5.3
U.S. government and agency obligations	14.5	14.2
Corporate debt	4.4	5.1
Mutual funds	63.0	55.8
Equities	33.1	25.5
Real estate	14.7	14.8
International mutual funds and other	41.6	41.0
Investments held in the CIP	2,393.6	2,041.5
	\$ 2,575.5	\$ 2,203.2

At December 31, the asset allocation percentages of the CIP, which represents the majority of SCL Health's investments, is as follows:

	2020	2019
Cash and cash equivalents	1	1
Equities	45	42
Domestic fixed income	29	31
Real return	6	8
Core hedge funds	6	5
Global infrastructure	5	5
Alternative fixed income	5	-
Opportunistic funds	3	4
Master Limited Partnership	-	4
	100	100

Following are descriptions of each asset class held within the CIP:

Domestic fixed income: The fixed-income pool is designed to provide SCL Health with a competitive current return and a high level of liquidity. It invests in a variety of fixed-income instruments ranging in duration up to 30 years, but the aggregate duration of the pool is generally five to seven years or less. The fixed-income pool may consist of pooled vehicles and/or separate accounts. Domestic fixed income has no restrictions in place as it pertains to redemption requests.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

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

Alternative fixed income: The alternative fixed-income pool consists of fund managers that invest in lower-rated bonds like high-yield, international bonds, emerging market debt, or lower-rated floating rate securities like bank loans. Underlying securities may be domiciled in developed and emerging market countries and will expose SCL Health to currency risk where bonds are denominated in a foreign currency. The credit quality of the bond may also be below investment grade in certain cases. The pool may consist of pooled vehicles and/or separate accounts. Alternative fixed-income fund managers have various restrictions and policies in place as it pertains to redemption requests, which range from next-day liquidity to monthly liquidity with a 30- to 90-day written notice.

Equity: The equity pool consists of domestic, global, and international securities listed on the various stock exchanges located in the United States (NYSE, AMEX, and NASDAQ) and on the major exchanges around the world. The global and international equity securities domiciled in developed and emerging markets may expose SCL Health to currency risk, as the equities may be denominated in the local currency of the market in which they trade. The domestic equity pool consists of pooled vehicles and/or separate accounts. Equity asset class has no restrictions in place as it pertains to redemption requests.

Real return: The real return pool consists of a variety of inflation-hedging strategies, including (but not limited to) public and private real estate, inflation-linked bonds, and commodities and commodity-linked equities. The real return pool consists of pooled vehicles only when custodial and administrative costs associated with separate accounts prove inefficient. The real return fund managers have various restrictions and policies in place as it pertains to redemption requests, which generally range from quarterly to semiannual liquidity with a 45- to 90-day written notice. In certain instances, it is possible that a full redemption could take longer than a year to receive all of the proceeds. In April 2019, SCL Health had given a full redemption notice to UBS, one of SCL Health's real estate investment fund managers, for its \$50.4 million investment in the UBS Trumbull Property Fund (TPF). As of December 31, 2020, the TPF manager has paid out \$10.3 million to SCL Health. Redemptions are calculated on a pro rata basis according to the ratio of SCL Health's units to the total units of all investors in the redemption pool. Redemption requests that are not fully honored will be executed in the following quarters until completed, and SCL Health will continue to participate as an investor in the fund with respect to its remaining units until fully redeemed.

Core hedge funds: The hedged equity pool consists of fund managers whose long-term target is an equity-like return with substantially less volatility than the equity market. The underlying managers may use leverage and short-term securities in implementing their investment style. The hedged equity pool may utilize separate accounts but will generally consist of pooled vehicles, including mutual funds and limited partnerships. Core hedge fund managers have various restrictions and policies in place as it pertains to redemption requests, which generally range from quarterly to semiannual liquidity with a 45- to 90-day written notice.

Global infrastructure: Global infrastructure consists of equities listed on exchanges in the U.S., developed international, and emerging markets. However, exposure is generally more in developed economies due to stronger regulations and property rights. The exposure is generally a more defensive, low-volatility return stream given the companies in the portfolio's own infrastructure vital to their particular region or industry. Common types of companies include, but are not limited to, toll roads, airports, public utilities, and broadcast towers. Global infrastructure has no restrictions in place as it pertains to redemption requests.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

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

Master Limited Partnership (MLP): MLPs are partnerships that derive greater than 90% of their income from real estate, natural resources, and commodities. They are traded on public exchanges like equity securities. This pool invests largely in commodity-related companies and generally consists of pooled vehicles but may include separate accounts when it is most efficient. MLPs had no restrictions in place as it pertains to redemption requests, and SCL Health fully exited the MLP asset class during 2020.

Opportunistic funds: The private equity/opportunistic pool consists of managers that seek to take advantage of specific opportunities, generally in the private markets. The pool will generally make investments with limited liquidity, sometimes known as lock-up funds. The opportunistic pool consists of pooled vehicles only and will usually be accessed through limited partnerships. Opportunistic funds have restrictions on liquidity withdrawals and typically return capital gradually starting seven to ten years after initial fund closing. Interim liquidity in opportunistic funds is only available after the investments realize profits. As of December 31, 2020, SCL Health has committed \$257.9 million to opportunistic funds and has funded \$176.2 million of this commitment.

SCL Health's interest in the CIP represented 83% and 82%, respectively, of the total funds held at December 31, 2020 and 2019.

SCL Health's investments are exposed to various kinds and levels of risk. Fixed-income securities expose SCL Health to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. SCL Health's investments are diversified across a broad range of asset classes, durations, and funds to avoid concentrations of risk in any particular company, region, or industry.

Equity securities expose SCL Health to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is that risk associated with a company's operating performance. Liquidity risk, as previously defined, tends to be higher for foreign equities and equities related to small capitalization companies.

The real return investments and opportunistic investments present similar risks to all of the traditional investments, with some additional risks. Due to the fact that these investments are invested in limited partnerships, private real estate investment trusts, insurance separate accounts, or other limited-access-type vehicles, pricing is infrequent. These investments may also employ leverage that may lead to additional risk of loss. Although these investments are diversified by region and property type, they may at times have concentrations in a particular region or property type, which may cause additional risk.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

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

The composition of net investment income is as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Interest and other investment income	\$ 41.3	\$ 44.8
Net realized and unrealized gains	207.1	204.6
	<u>\$ 248.4</u>	<u>\$ 249.4</u>

6. Capital Structure

Long-term debt consists of the following:

	<u>Annual Interest Rates</u>	<u>2020</u>	<u>2019</u>
		<i>(In Millions)</i>	
Tax-exempt bond issues:			
2019, due through December 2040	4.00% to 5.00%	\$ 624.2	\$ 624.2
2016, due through December 2045	Variable rate, 0.63% and 1.44%	111.0	111.0
2013, due through January 2044	4.00% to 5.50%	300.0	300.0
2011, due through January 2039	Variable rate, 0.89% and 1.84%	52.9	54.1
2010, due through January 2040	3.625% to 5.25%	-	27.1
Total under the SCL Health MTI		<u>1,088.1</u>	1,116.4
PVMC mortgage (HUD insured)		62.2	66.6
Notes payable and finance leases		12.3	6.2
		<u>1,162.6</u>	1,189.2
Original issue premium, net		107.5	120.2
Unamortized debt issuance costs		(7.8)	(8.3)
Current maturities of long-term debt		(193.0)	(145.7)
		<u>\$ 1,069.3</u>	<u>\$ 1,155.4</u>

SCL Health is the sole member of an Obligated Group, of which the Restricted Affiliates are included under the terms of an MTI amended and restated as of October 1, 2019. Under the terms of the MTI, debt can be incurred for which the Obligated Group is jointly and severally liable. The Obligated Group has agreed to certain covenants, including, among other things, a specified debt service coverage ratio, a debt-to-capitalization ratio transaction test, and a restriction on certain types of additional indebtedness. The consolidated results of the Obligated Group and Restricted Affiliates are used to determine compliance with certain covenants of the MTI. As of December 31, 2020 and 2019, SCL Health was in compliance with all MTI covenants.

On November 17, 2020, the revolving line of credit with Bank of America, N.A. expired, and SCL Health renewed its revolving line of credit agreement with Wells Fargo Bank, N.A. and entered a new revolving line of credit with Royal Bank of Canada. The lines of credit have two-year terms and total \$225.0 million. As of December 31, 2020, there were no outstanding balances drawn on the lines of credit.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

6. Capital Structure (continued)

On October 10, 2019, SCL Health completed the conversion of the \$111.0 million Colorado Series 2016B and 2016D variable-rate bonds from being backed by third-party Standby Purchase Agreements to being backed by SCL Health's liquidity.

On October 3, 2019, SCL Health issued the following fixed-rate refunding bonds: Colorado Series 2019A in the par amount of \$400.7 million, Montana Series 2019A in the par amount of \$125.4 million, and Colorado Series 2019B in the par amount of \$98.1 million. Proceeds of the issuance were used to legally defease all or a portion of the outstanding amounts of the following bonds: Colorado Series 2010A and 2010B, Colorado Series 2016A and 2016C, Kansas Series 2010A, and Montana Series 2010A and 2010B.

On May 1, 2005, PVMC entered into a \$118.4 million loan agreement with Adams County, Colorado, to fund the costs of acquiring, constructing, and equipping a replacement hospital facility. PVMC's obligation to repay its debt under the loan agreement is evidenced by a Deed of Trust Note payable to the order of the trustee and secured by a mortgage on the PVMC's fee simple interest in land, buildings, and improvements, along with the PVMC's fixtures, furnishings, and equipment. The mortgage is insured by HUD acting by and through the Commissioner of the Federal Housing Administration under Section 242 of Title II of the National Housing Act and the regulations and rules thereunder. The financing arrangement through HUD requires the PVMC to comply with certain regulatory requirements, including maintenance of a mortgage reserve fund. As of December 31, 2019, the mortgage reserve fund requirement was \$12.8 million, and the balance was \$13.8 million. The mortgage reserved fund requirement increased to \$20.8 million in 2020 due to an amended agreement, and as of December 31, 2020, the mortgage reserve fund balance was \$21.2 million.

Scheduled principal repayments on long-term debt (excluding issuance costs and original issue premium) are as follows:

Years Ending December 31	Scheduled	Scheduled With Variable Rate Demand Bonds Classified as Current
	<i>(In Millions)</i>	
2021	\$ 30.3	\$ 193.0
2022	34.1	32.8
2023	33.4	32.1
2024	31.2	29.8
2025	32.7	31.3
Thereafter	1,000.9	843.6
	<u>\$1,162.6</u>	<u>\$1,162.6</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Derivative Instruments

SCL Health has entered into three interest rate swaps, which qualified for hedge accounting treatment until May 12, 2016. Details of the interest rate swaps are outlined below:

Notional amount	\$11,880,000	\$60,000,000	\$11,880,000
Fixed annual payment rate	3.789%	4.215%	3.18%
Variable receiver rate	SIFMA rate	SIFMA rate	68% of LIBOR
Termination date	December 1, 2023	December 1, 2031	December 1, 2023
Reset	Weekly	Weekly	Monthly
Settlement	Monthly	Monthly	Monthly
Classification	Economic hedge	Economic hedge	Economic hedge
Fair value at December 31, 2020	\$(0.8) million	\$(16.9) million	\$(0.8) million
Fair value at December 31, 2019	\$(0.8) million	\$(14.2) million	\$(1.0) million

Amortization of the accumulated loss on the three swaps was \$1.8 million for the years ended December 31, 2020 and 2019. The fair value of the swaps is recorded in other liabilities at December 31, 2020 and 2019. The unrecognized accumulated loss on the three swaps was \$14.1 million and \$15.9 million at December 31, 2020 and 2019, respectively.

8. Leases

SCL Health leases real estate and medical equipment primarily under operating leases. SCL Health determines if an arrangement contains a lease at contract inception. Lease assets and liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of SCL Health's leases do not provide an implicit rate of return, SCL Health has made a policy election to use a risk-free rate based on the daily treasury yield curve corresponding to the lease term at lease commencement, to determine the present value of the lease payments.

Many of SCL Health's leases include escalation clauses, renewal options, and/or termination options that are factored into the lease payments. For the purpose of calculating lease assets and liabilities, lease terms include options to extend or terminate when it is reasonably certain that those options will be exercised. SCL Health has made an accounting policy election not to separate lease and non-lease components when calculating lease assets and liabilities. A policy election has also been made to not apply the guidance to leases with terms of 12 months or less at inception; expenses for those short-term leases are recognized on a straight-line basis over the lease term. Finance leases are immaterial to the consolidated financial statements and have been excluded from the disclosures below.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

8. Leases (continued)

Operating lease right-of-use assets and liabilities at December 31 are as follows:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Lease assets		
Operating right-of-use assets	\$ 77.8	\$ 55.9
Lease liabilities		
Operating lease liability	19.9	17.4
Long-term operating lease liability	64.0	40.9
	<u>\$ 83.9</u>	<u>\$ 58.3</u>

The following table summarizes the future maturity and weighted average remaining lease term and discount rate of operating lease liabilities.

<u>Years Ending December 31,</u>	<u>Scheduled</u>
	<i>(In Millions)</i>
2021	\$ 21.1
2022	16.8
2023	12.2
2024	10.2
2025	6.3
Thereafter	20.8
Total operating lease payments	87.4
Less imputed interest	(3.5)
Total operating lease liabilities	<u>\$ 83.9</u>
Weighted average remaining lease term	6.2 years
Weighted average discount rate	1.4%

Operating lease expense of \$25.7 million and \$20.4 million was recorded within other operating expenses for the years ended December 31, 2020 and 2019, respectively. Cash paid for amounts included in the measurement of operating lease liabilities of \$21.6 million and \$21.1 million is included within operating cash flows for the years ended December 31, 2020 and 2019, respectively.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements

Fair value is 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. Accounting Standards Codification 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of SCL Health's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed-income, equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of assumptions a market participant would utilize to determine fair value.

The CIP's investments include equities, various fixed-income securities, and alternative investments as detailed in Note 5. As of December 31, 2020, 59% of the CIP's underlying investments were classified as Level 1, 19% as Level 2, and 22% are reported at net asset value. As of December 31, 2019, 55% of the CIP's underlying investments were classified as Level 1, 23% as Level 2, and 22% are reported at net asset value.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs as of December 31, 2020:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Millions)</i>			
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	\$ 10.6	\$ 10.6	\$ –	\$ –
U.S. government and agency obligations	14.5	0.2	14.3	–
Corporate debt	4.4	0.3	4.1	–
Real estate	14.7	–	–	14.7
Mutual funds	63.0	63.0	–	–
Equities	33.1	33.1	–	–
Investments and assets limited as to use reported at fair value	<u>140.3</u>	<u>107.2</u>	<u>18.4</u>	<u>14.7</u>
Investments and assets limited as to use reported at net asset value	<u>2,435.2</u>			
	<u>\$ 2,575.5</u>			
Liabilities				
Obligations under swap contracts	\$ 18.5	\$ –	\$ 18.5	\$ –

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2019:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Millions)</i>			
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	\$ 5.3	\$ 5.3	\$ –	\$ –
U.S. government and agency obligations	14.2	0.1	14.1	–
Corporate debt	5.1	–	5.1	–
Real estate	14.8	–	–	14.8
Mutual funds	55.8	55.8	–	–
Equities	25.5	25.5	–	–
Investments and assets limited as to use reported at fair value	120.7	86.7	19.2	14.8
Investments and assets limited as to use reported at net asset value	2,082.5			
	<u>\$ 2,203.2</u>			
Liabilities				
Obligations under swap contracts	\$ 16.0	\$ –	\$ 16.0	\$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities related to fixed-income securities were determined through bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads. Estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party services where quoted market values are not available.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates approximate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) and Securities Industry and Financial Markets Association (SIFMA) discount curves in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to December 31, 2020. Level 3 includes real estate with fair value determined using recent appraisals and purchase data.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts and other receivables, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The methods described above may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, while SCL Health 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 reporting date.

The following table is a rollforward of the financial assets classified within Level 3 of the valuation hierarchy defined above.

	<u>Investments</u> <i>(In Millions)</i>
Fair value at January 1, 2019	\$ 32.6
Acquisitions	–
Dispositions	(0.5)
Unrealized losses	(17.3)
Fair value at December 31, 2019	<u>14.8</u>
Acquisitions	–
Dispositions	(0.1)
Unrealized losses	–
Fair value at December 31, 2020	<u>\$ 14.7</u>

10. Retirement Plans

Defined-Contribution Plans

SCL Health sponsors a defined-contribution retirement plan (the Defined-Contribution Plan), which is a 401(k) defined-contribution retirement plan that covers substantially all associates. Employer contributions to the Defined-Contribution Plan are based on a percentage of eligible compensation for participating associates and a percentage of participating associates' contributions. SCL Health funded \$42.0 million and \$38.6 million related to the Defined-Contribution Plan and recognized those amounts in associate benefits expense during 2020 and 2019, respectively.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

10. Retirement Plans (continued)

SCL Health participates in a supplemental executive retirement plan (SERP) under which the organization contributes to certain associates' retirement accounts. The Compensation Committee determines those associates who are eligible to participate in the SERP. SCL Health recognized \$2.8 million and \$3.8 million of associate benefits expense related to the SERP during 2020 and 2019, respectively. The SERP liability at December 31, 2020, was \$10.9 million, of which \$2.8 million is included in accrued salaries, wages, and benefits, and \$8.1 million is included in other liabilities on the consolidated balance sheets. The SERP liability at December 31, 2019, was \$10.4 million, of which \$2.4 million is included in accrued salaries, wages, and benefits, and \$8.0 million is included in other liabilities on the consolidated balance sheets.

Defined-Benefit Plans

SCL Health historically participated in two defined-benefit retirement plans. The first plan relates to SCL Health – Front Range, Inc. (fka Exempla, Inc.). Prior to January 1, 1998, the predecessor to SCL Health – Front Range, Inc. sponsored a defined-benefit pension plan (the SCL Health – Front Range Plan) that covered substantially all of its associates. The benefits were based on years of service and associates' final average compensation. Benefits under the SCL Health – Front Range Plan have been frozen. SCL Health's funding policy for this plan is to contribute annually the minimum amount under the requirements of the Employee Retirement Income Security Act of 1974, as amended. Contributions are currently intended to provide for benefits attributed to services rendered through January 1, 1998.

The second plan is a single plan with multiple-employer participants that was frozen in 1996 for all participating associates except certain associates of St. James Healthcare. On January 1, 2015, this plan merged with the SCL Health – Front Range Plan to form a single plan known as the SCL Health Consolidated Retirement Plan (the Plan). In 2020, management made the determination that the funding status, plan liability, and market conditions are at reasonable levels to proceed with terminating the SCL Health Consolidated Retirement Plan. A formal recommendation was submitted and approved by the SCL Health Board of Directors on November 3, 2020. The Plan will terminate on May 31, 2021. The plan termination process may take up to 24 months from the plan termination date to conclude.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

10. Retirement Plans (continued)

The following sets forth the Plan's actuarially determined funded status as of December 31. The accrued pension asset at December 31, 2020 and 2019, is included in other assets on the consolidated balance sheets.

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 325.2	\$ 319.5
Service cost	0.6	0.4
Interest cost	8.4	12.0
Actuarial loss	19.0	31.7
Plan amendments	(1.0)	-
Settlements	(127.1)	(14.3)
Benefits paid	(23.2)	(24.1)
Projected benefit obligation at end of year	<u>201.9</u>	325.2
Change in plan assets		
Fair value of plan assets at beginning of year	333.2	314.7
Actual return on plan assets	31.0	53.4
Contributions	-	6.1
Benefits paid	(150.3)	(38.4)
Expenses paid	(2.3)	(2.6)
Fair value of plan assets at end of year	<u>211.6</u>	333.2
Accrued pension asset	<u>\$ 9.7</u>	<u>\$ 8.0</u>

The actuarial loss of \$19.0 million for the year ended December 31, 2020, was primarily driven by the change in the discount rate, which increased the pension benefit obligation (PBO) liability by \$24.9 million. The actuarial loss of \$31.7 million for the year ended December 31, 2019, was primarily driven by the change in the discount rate, which increased the PBO liability by \$34.1 million.

Included in net assets without donor restrictions at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Unrecognized actuarial losses	\$ 66.2	\$ 111.2
Unrecognized prior service costs	(1.0)	(0.5)
	<u>\$ 65.2</u>	<u>\$ 110.7</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

10. Retirement Plans (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions include the following:

	2020	2019
	<i>(In Millions)</i>	
Unrecognized actuarial losses (gains)	\$ 2.5	\$ (4.1)
Unrecognized prior service credit	(1.0)	-
Amortization of actuarial losses	(47.5)	(9.0)
Amortization of prior service costs	0.5	0.6
	<u>\$ (45.5)</u>	<u>\$ (12.5)</u>

Components of net periodic pension cost include the following:

	2020	2019
	<i>(In Millions)</i>	
Service cost	\$ 0.6	\$ 0.4
Interest cost	8.4	12.0
Expected return on plan assets	(14.5)	(17.5)
Expected administrative expenses	2.3	2.6
Amortization of prior service cost	(0.5)	(0.6)
Amortization of actuarial losses	5.8	4.2
Settlement expense	41.7	4.8
Net periodic pension cost	<u>\$ 43.8</u>	<u>\$ 5.9</u>

For the year ended December 31, 2020, the \$0.6 million service cost was recognized in associate benefits and the remaining \$43.2 million was recognized in net investment income on the consolidated statements of operations. For the year ended December 31, 2019, the \$0.4 million service cost was recognized in associate benefits and the remaining \$5.5 million was recognized in net investment income on the consolidated statements of operations. The prior service cost and actuarial losses included in net assets without donor restrictions and expected to be recognized in net periodic pension benefit during the year ending December 31, 2021, are \$3.8 million.

Weighted average assumptions used to determine the PBO as of December 31 are as follows:

	2020	2019
Discount rate	2.34%	3.10%
Expected long-term rate of return	3.05%	4.79%
Rate of increase in future compensation levels (age graded)	N/A	10% to 1%

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

10. Retirement Plans (continued)

Weighted average assumptions used to determine pension benefit cost for the year ended December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate PBO	3.11%	4.28%
Discount rate service cost	3.74%	4.75%
Expected return on plan assets	4.79%	5.51%
Rate of increase in future compensation levels (age graded)	10% to 1%	10% to 1%

Plan Assets

The expected return on plan assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the portfolio. The investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk.

The target and actual asset allocation percentages by asset category are as follows:

<u>Asset Category</u>	2020	<u>Actual Allocation</u>	
	Target Allocation	2020	2019
Cash	2	5	3
Fixed income	98	81	74
Global equity	-	-	14
Real return	-	14	9
	100	100	100

As described in Notes 2 and 5, SCL Health's investments, which include investments held for its retirement plans, are composed of its pro rata share of the CIP's funds and are recorded at net asset value.

Expected Benefit Payments

Expected benefits payments to participants, excluding lump-sum distributions, are as follows (in millions):

2021	\$ 14.6
2022	14.4
2023	14.1
2024	13.8
2025	13.5
2026–2030	\$ 60.8

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Endowment

At December 31, 2020, SCL Health's endowment consists of approximately 100 individual funds established by donors to provide funding for specific activities. The endowment also includes certain net assets without donor restrictions that have been designated by the Board of Directors.

Management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. At December 31, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, SCL Health retains in perpetuity the original value of the initial and subsequent gift amounts (including promises to give at fair value) donated to the endowments and any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. SCL Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policies of the institution

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Endowment (continued)

SCL Health had the following endowment net asset composition by fund and type:

	Without Donor Restriction	With Donor Restriction	Total
	<i>(In Millions)</i>		
December 31, 2020			
Board-designated endowment funds	\$ 19.6	\$ –	\$ 19.6
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	–	41.4	41.4
Accumulated net investment losses	1.1	6.2	7.3
	<u>\$ 20.7</u>	<u>\$ 47.6</u>	<u>\$ 68.3</u>
December 31, 2019			
Board-designated endowment funds	\$ 18.1	\$ –	\$ 18.1
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	–	36.5	36.5
Accumulated net investment losses	2.4	5.2	7.6
	<u>\$ 20.5</u>	<u>\$ 41.7</u>	<u>\$ 62.2</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). SCL Health has interpreted UPMIFA to require spending from underwater endowments to cease until the original corpus balance is restored. At December 31, 2020, funds with original gift values of \$0.1 million, fair values of \$0.0 million, and deficiencies of \$0.1 million were reported in net assets with donor restrictions. At December 31, 2019, funds with original gift values of \$1.3 million, fair values of \$1.2 million, and deficiencies of \$0.1 million were reported in net assets with donor restrictions.

Risk Objectives and Risk Parameters

To satisfy its long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds is invested to seek growth of principal over time.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Endowment (continued)

Spending Policy

SCL Health uses an endowment spending-rate formula to determine the maximum amount to spend from the endowments each year, excluding those endowments deemed to be underwater. The rate, approved by the Philanthropic Impact Committee, is applied to the average fair value of the endowment investments for the prior three years at December 31 of each year to determine the spending amount for the coming year. During 2020, the spending rate maximum was 5% of the moving average market value. In establishing this policy, SCL Health considered the long-term expected return on the endowments and set the rate with the objective of maintaining the purchasing power of the endowments over time.

Donor intent, as specifically stated in the endowment agreement, takes precedence over UPMIFA standards or SCL Health's spending policies. If the endowment agreement uses general terminology such as "retain principal" or "spend only income," then spending will follow the SCL Health spending policy.

Changes in endowment net assets were as follows:

	Without Donor Restriction	With Donor Restriction	Total
	<i>(In Millions)</i>		
December 31, 2020			
Endowment net assets, beginning of year	\$ 20.5	\$ 41.7	\$ 62.2
Contributions	-	2.3	2.3
Net investment income	1.1	6.2	7.3
Distributions pursuant to spending-rate policy of donor agreement	(0.9)	(1.5)	(2.4)
Other transfers and changes	-	(1.1)	(1.1)
Endowment net assets, end of year	<u>\$ 20.7</u>	<u>\$ 47.6</u>	<u>\$ 68.3</u>
December 31, 2019			
Endowment net assets, beginning of year	\$ 19.1	\$ 32.8	\$ 51.9
Contributions	-	1.9	1.9
Net investment income	2.5	5.2	7.7
Distributions pursuant to spending-rate policy of donor agreement	(1.0)	(1.0)	(2.0)
Other transfers and changes	(0.1)	2.8	2.7
Endowment net assets, end of year	<u>\$ 20.5</u>	<u>\$ 41.7</u>	<u>\$ 62.2</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Subject to expenditure for specified purpose:		
Mom and baby/pediatrics	\$ 9.8	\$ 9.6
Charity care	1.7	5.3
Community health and wellness	3.0	4.1
Cardiovascular	4.1	4.1
Associate education	4.4	4.0
Oncology and cancer care	3.4	3.7
Capital projects	4.3	2.4
Hospice and palliative care	0.3	0.6
Other	12.5	10.0
	<u>43.5</u>	43.8
Subject to endowment spending policy:		
Greatest need	9.7	8.7
Associate education	8.0	6.1
Mom and baby/pediatrics	8.9	5.4
Hospice and palliative care	5.1	4.7
Cardiovascular	2.0	1.8
Oncology and cancer care	1.6	1.5
Community health and wellness	0.6	1.4
Spiritual care	1.5	1.2
Other	10.2	10.9
	<u>47.6</u>	41.7
	<u>\$ 91.1</u>	<u>\$ 85.5</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

12. Net Assets With Donor Restrictions (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time or other events specified by the donors as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Subject to expenditure for specified purpose:		
Community health and wellness	\$ 3.3	\$ 2.2
Charity care	4.2	1.0
Mom and baby/pediatrics	1.5	1.0
Associate education	0.5	0.6
Oncology and cancer care	0.5	0.6
Behavioral health	1.6	0.5
Cardiovascular	1.7	0.1
Other	6.8	3.7
	<u>20.1</u>	<u>9.7</u>
Endowment distributions	0.3	0.3
	<u>\$ 20.4</u>	<u>\$ 10.0</u>

13. Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31:

	<u>2020</u>	<u>2019</u>
	<i>(In Millions)</i>	
Cash and cash equivalents	\$ 475.9	\$ 215.0
Patient and other accounts receivable	368.2	364.7
Investments, less amounts due to broker and alternative investments in opportunistic funds	2,305.6	1,964.5
	<u>\$ 3,149.7</u>	<u>\$ 2,544.2</u>

As part of the liquidity management plan, SCL Health's strategy is to structure its financial assets to be available for general operating expenses, current liabilities, and other obligations as they become due. Amounts in excess of daily cash requirements are invested in short-term obligations. SCL Health has access to public and private debt markets and maintains \$225.0 million in lines of credit to cover any shortfalls in liquidity.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

14. Insurance Coverage

SCL Health provides an insurance program for various insurable risks. SCL Health obtains insurance through Leaven Insurance Company, Ltd., a wholly owned subsidiary and captive insurance company, as well as third-party insurers and other self-insured methods.

Expenses for professional and general liability and workers' compensation coverage totaled \$21.2 million and \$19.7 million for the years ended December 31, 2020 and 2019, respectively, and have been included in other operating expenses in the accompanying consolidated statements of operations. The reserves at December 31, 2020, include \$16.9 million in accounts payable and accrued expenses and \$40.9 million in the reserve for self-insured risks on the consolidated balance sheets. The reserves at December 31, 2019, include \$8.4 million in accounts payable and accrued expenses and \$49.5 million in the reserve for self-insured risks on the consolidated balance sheets.

SCL Health offers an associate benefit package to all eligible associates and their dependents. The majority of these benefits are self-insured and are provided through the SCL Health Employee Benefit Plan (the Benefit Plan). Contributions to the Benefit Plan are made in amounts determined in accordance with the recommendations of an independent actuary based on past claims experience and other factors. During 2020 and 2019, \$118.7 million and \$117.1 million, respectively, were charged to associate benefits expenses in the accompanying consolidated statements of operations. The loss reserves recorded for the estimated self-insured Benefit Plan, including estimates of the ultimate costs for both reported claims and claims incurred but not reported, totaled \$14.4 million and \$13.7 million at December 31, 2020 and 2019, respectively, and represent a current liability within accounts payable and accrued liabilities.

SCL Health is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

15. Relationship With National Jewish Health

On June 25, 2014, SCL Health signed a joint operating agreement (JOA) with National Jewish Health (NJH). Under the terms of the JOA, SJH and NJH manage and operate their respective clinical operations as a combined business enterprise. SCL Health and NJH each retain ownership of the respective assets, liabilities, equity, revenues, and expenses of their businesses. However, the income/loss of the combined clinical operations is shared 75% with SCL Health and 25% with NJH. The combined clinical operations of the JOA resulted in SCL Health sharing \$4.3 million and \$9.3 million with NJH for the years ended December 31, 2020 and 2019, respectively. These amounts are reported in other operating revenue in the accompanying consolidated statements of operations. Additionally, SCL Health recorded a \$2.3 million receivable and a \$1.5 million payable at December 31, 2020 and 2019, respectively. The receivable at December 31, 2020, is included in other accounts receivable, and the payable at December 31, 2019, is included within accounts payable and accrued expenses on the consolidated balance sheets.

On October 16, 2019, SCL Health entered into a guaranty of NJH's obligations (the NJH Guaranty) relating to a new outpatient health center to be constructed on NJH's campus in Denver, Colorado. NJH's payments will be used to pay debt service through 2050 on bonds issued by the Colorado Health Facilities Authority in the par amount of \$72.0 million (\$72.0 million outstanding at December 31, 2020), which will finance the construction of the building. The NJH Guaranty is not secured by an obligation under the MTI.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

16. Commitments and Contingencies

SCL Health has a commitment of \$179.5 million to various construction projects in progress. As of December 31, 2020, SCL Health has spent \$100.5 million on these projects and has reflected this in land, buildings, and equipment, net.

The affiliation agreement with PVMC includes an investment commitment of \$210.0 million over ten years ending in 2025. Expenditures that meet the commitment include, but are not limited to, capital expenditures and costs related to developing new service lines and recruiting physicians. Over \$76.4 million of the commitment had been satisfied at December 31, 2020.

17. Subsequent Events

In January 2021, SCL Health received an additional \$46.0 million of Provider Relief Funds, all of which have been recognized as revenue in 2021. SCL Health continues to explore options for financial relief from COVID-19 from federal and state programs.

SCL Health evaluated events and transactions occurring subsequent to December 31, 2020 through April 27, 2021, the date of issuance of the accompanying consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying financial and operating information, capitalization ratio, debt service coverage requirements, financial performance, and utilization are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information, except for that portion marked “unaudited,” 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 financial statements or to the 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, except for that portion marked “unaudited” on which we express no opinion, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

April 27, 2021

Sisters of Charity of Leavenworth Health System, Inc.

Financial and Operating Information

The table below is a summary of the consolidated statements of operations for SCL Health Restricted Affiliates (Restricted) and for SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2020	2019	2020	2019
	<i>(In Millions)</i>			
Net patient service revenue	\$ 2,328.7	\$ 2,353.2	\$ 2,669.4	\$ 2,754.2
Other operating revenue	96.2	19.9	210.7	90.6
Total operating revenue	2,424.9	2,373.1	2,880.1	2,844.8
Salaries and wages, associate benefits, and other operating expenses	2,117.2	2,023.7	2,551.1	2,467.4
Depreciation and amortization	165.3	161.7	184.5	176.8
Interest	37.7	50.2	39.8	52.6
Total operating expenses	2,320.2	2,235.6	2,775.4	2,696.8
Income from operations	104.7	137.5	104.7	148.0
Investment income, net	233.7	233.7	248.4	249.4
Loss on early extinguishment of debt	-	(4.0)	-	(4.0)
Income tax expense	(0.6)	(0.9)	(2.3)	(3.4)
Total nonoperating income	233.1	228.8	246.1	242.0
Excess of revenue over expenses	337.8	366.3	350.8	390.0
Less amounts attributable to noncontrolling interests	2.0	2.7	2.0	2.7
Total excess of revenue over expenses attributable to SCL Health	\$ 335.8	\$ 363.6	\$ 348.8	\$ 387.3

Sisters of Charity of Leavenworth Health System, Inc.

Capitalization Ratio

The following table sets forth the capitalization of SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2020	2019	2020	2019
	<i>(In Millions)</i>			
Long-term debt:				
MTI debt (net of original issue premium and unamortized debt issuance costs)	\$ 1,187.9	\$ 1,228.3	\$ 1,187.8	\$ 1,228.3
Other long-term indebtedness	12.1	5.8	74.5	72.8
Total long-term debt	1,200.0	1,234.1	1,262.3	1,301.1
Less current maturities	(188.3)	(141.0)	(193.0)	(145.7)
Plus variable rate demand bonds not scheduled as principal payments	162.7	111.0	162.7	111.0
Net long-term debt	1,174.4	1,204.1	1,232.0	1,266.4
Net assets attributable to SCL Health	3,393.4	3,016.5	3,655.4	3,259.5
Total capitalization	\$ 4,567.8	\$ 4,220.6	\$ 4,887.4	\$ 4,525.9
Percent of net long-term debt to total capitalization	25.7%	28.5%	25.2%	28.0%

Sisters of Charity of Leavenworth Health System, Inc.

Debt Service Coverage Requirements

The table below sets forth the debt service coverage of SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2020	2019	2020	2019
	<i>(In Millions)</i>			
Income available for debt service:				
Excess of revenue over expenses attributable to SCL Health	\$ 335.8	\$ 363.6	\$ 348.8	\$ 387.3
Loss on early extinguishment of debt	-	4.0	-	4.0
Unrealized gains, net	(179.9)	(188.0)	(191.5)	(200.2)
Depreciation and amortization	165.3	161.7	184.5	176.8
Interest	37.7	50.2	39.8	52.6
Total income available for debt service	<u>358.9</u>	<u>391.5</u>	<u>381.6</u>	<u>420.5</u>
Annual debt service requirements ⁽¹⁾	<u>\$ 69.5</u>	<u>\$ 79.8</u>	<u>\$ 75.9</u>	<u>\$ 103.8</u>
Actual debt service coverage ratio – all long-term debt ⁽²⁾	<u>5.2x</u>	<u>4.9x</u>	<u>5.0x</u>	<u>4.1x</u>

⁽¹⁾ Annual debt service requirements for the restricted group exclude operating leases as indicated in the 2019 MTI.

⁽²⁾ Debt service coverage = total income available for debt service/annual debt service.

Sisters of Charity of Leavenworth Health System, Inc.

Financial Performance

The following table highlights the financial results for SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2020	2019	2020	2019
EBITDA margin ⁽¹⁾	12.7%	14.7%	11.4%	13.3%
Operating margin ⁽²⁾	4.3%	5.8%	3.6%	5.2%
Return on net assets ⁽³⁾	9.9%	12.1%	9.5%	11.9%
Debt service coverage ⁽⁴⁾	5.2x	4.9x	5.0x	4.1x
Days' cash on hand (excluding self-insured risk funds and trustee-held funds) ⁽⁵⁾	473	381	411	334
Cushion ratio ⁽⁶⁾	40.2x	27.3x	39.2x	22.7x

⁽¹⁾ EBITDA = earnings before interest, taxes, depreciation, and amortization; EBITDA margin = (operating income + interest + depreciation)/operating revenue.

⁽²⁾ Operating income margin = operating income/operating revenue.

⁽³⁾ Return on net assets = excess (deficit) of revenue over expenses attributable to SCL Health/net assets without donor restrictions.

⁽⁴⁾ Debt service coverage = (excess of revenue over expenses – business acquisitions gains (losses), net – change in unrealized gains (losses), net + depreciation and amortization + interest and amortization)/annual debt service.

⁽⁵⁾ Days' cash on hand = (cash and cash equivalents + investments – endowments)/((total operating expenses – depreciation and amortization)/cumulative days).

⁽⁶⁾ Cushion ratio = (cash and cash equivalents + investments + trustee-held funds)/annual debt service.

Sisters of Charity of Leavenworth Health System, Inc.

Utilization
(Unaudited)

The following table provides utilization statistics for SCL Health Restricted Affiliates (Restricted) and SCL Health (Consolidated).

	Year Ended December 31			
	Restricted		Consolidated	
	2020	2019	2020	2019
Utilization statistics:				
Licensed beds ⁽¹⁾	1,835	1,835	1,933	1,933
Available beds	1,703	1,703	1,796	1,801
Operating bed occupancy	58%	60%	57%	58%
Admissions	68,450	75,266	71,439	78,377
Patient days	360,798	371,784	373,143	382,887
Average length of stay	5.3	4.9	5.2	4.9

⁽¹⁾Includes acute care, psychiatric, hospital-based skilled nursing beds, and extended care beds as of December 31.

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