COMBINED FINANCIAL STATEMENTS

Norton Healthcare, Inc. and Affiliates
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Norton Healthcare, Inc. and Affiliates

Combined Financial Statements

Years Ended December 31, 2021 and 2020

Contents

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Report of Independent Auditors

The Board of Trustees
Norton Healthcare, Inc. and Affiliates

Opinion

We have audited the combined financial statements of Norton Healthcare, Inc. and Affiliates (the Company), which comprise the combined balance sheets as of December 31, 2021 and 2020, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively, referred to as the "financial statements").

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young LLP

March 31, 2022

Norton Healthcare, Inc. and Affiliates

Combined Balance Sheets

	December 31	
	2021	**2020**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 234,896**	$ 261,256
Marketable securities and other investments	**173,166**	271,988
Patient accounts receivable	**310,093**	255,373
Inventory	**76,873**	66,980
Prefunding for King's Daughters' Health transaction	**99,793**	–
Prepaid expenses and other	**69,340**	50,723
Due from third-party payors, net	**19,939**	–
Miscellaneous receivables	**32,816**	26,344
Current portion of assets limited as to use	**30,353**	24,473
Total current assets	**1,047,269**	957,137
Assets limited as to use, net of current portion	**2,193,458**	2,032,777
Property and equipment, net	**1,311,795**	1,257,095
Other assets:		
Investments in joint ventures	**28,833**	24,829
Pension asset		
Pledges receivable, net	**26,695**	23,877
Beneficial interest in trusts held by others	**31,492**	27,725
Goodwill and indefinite-lived intangible assets	**20,508**	20,508
Interest rate swaps asset	**–**	8,062
Operating lease right-of-use assets, net	**158,254**	140,637
Other assets	**24,388**	23,051
Total other assets	**290,170**	268,689
Total assets	**$ 4,842,692**	$ 4,515,698

	December 31	
	2021	**2020**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 113,206**	$ 93,185
Accrued expenses and other	**217,010**	135,144
Current portion of operating lease liability	**23,772**	20,012
Accrued payroll and related items	**209,960**	184,959
Due to third-party payors, net	**–**	17,245
Accrued interest	**12,656**	12,723
Current portion of long-term debt	**43,089**	41,641
Total current liabilities	**619,693**	504,909
Other non-current liabilities:		
Pension liability	**44,538**	54,698
Insurance liability	**100,306**	94,096
Interest rate swaps liability	**3,156**	–
Long-term operating lease liability, net of current portion	**134,516**	120,053
Other	**118,200**	260,415
Total other non-current liabilities	**400,716**	529,262
Long-term debt, net of current portion	**1,469,510**	1,512,445
Net assets:		
Without donor restrictions	**2,200,191**	1,832,492
With donor restrictions	**152,582**	136,590
Total net assets	**2,352,773**	1,969,082
Total liabilities and net assets	**$ 4,842,692**	$ 4,515,698

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2021	**2020**
	(In Thousands)	
Revenue:		
Net patient service revenue	**$ 3,164,172**	$ 2,602,446
CARES Act Provider Relief Funds	**34,347**	77,938
Other revenue	**61,406**	49,709
Donations and contributions	**15,548**	13,556
Joint venture income	**8,620**	1,506
Total revenue	**3,284,093**	2,745,155
Operating expenses:		
Labor and benefits	**1,678,177**	1,456,882
Professional fees	**132,337**	103,250
Drugs and supplies	**763,329**	655,631
Fees and special services	**150,112**	145,552
Repairs, maintenance, and utilities	**104,907**	97,558
Rent and leases	**46,875**	44,698
Insurance	**26,155**	30,544
Provider tax	**67,101**	24,554
Other	**23,677**	21,259
Total operating expenses	**2,992,670**	2,579,928
Earnings before fixed expenses and other gains	**291,423**	165,227
Fixed expenses:		
Depreciation and amortization	**127,940**	114,902
Interest expense	**46,905**	44,379
Interest rate swaps benefit, net	**(3,249)**	(934)
	171,596	158,347
Patient service margin	**119,827**	6,880

Norton Healthcare, Inc. and Affiliates

Combined Statements of Operations and Changes in Net Assets (continued)

	Year Ended December 31 2021	2020
	(In Thousands)	
Patient service margin	**$ 119,827**	$ 6,880
Investment gain	**212,921**	88,827
Operating gain	**332,748**	95,707
Non-operating gains (losses):		
Change in net unrealized gains on investments	**33,126**	72,820
Change in interest rate swaps value	**(11,218)**	4,323
Petersdorf Fund grants	**(2,504)**	(1,450)
Net periodic pension cost	**(1,934)**	(4,389)
Other non-operating gains, net	**1,618**	2,850
Total non-operating gains, net	**19,088**	74,154
Excess of revenue over expenses	**351,836**	169,861
Net assets without donor restrictions:		
Change in pension plan asset and obligation	**12,116**	11,094
Net assets released from restriction for equipment and other	**3,747**	8,515
Increase in net assets without donor restrictions	**367,699**	189,470
Net assets with donor restrictions:		
Contributions, fees, grants, bequests, net	**18,562**	17,266
Investment gain	**8,294**	4,125
Change in beneficial interest in trusts held by others	**2,639**	1,939
Change in net unrealized gains on investments	**1,559**	2,534
Net assets released from restriction	**(15,062)**	(18,749)
Increase in net assets with donor restrictions	**15,992**	7,115
Increase in net assets	**383,691**	196,585
Net assets at beginning of year	**1,969,082**	1,772,497
Net assets at end of year	**$ 2,352,773**	$ 1,969,082

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31	
	2021	**2020**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 383,691**	$ 196,585
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**127,940**	114,902
Premium amortization	**(8,175)**	(6,070)
Change in net unrealized gains on investments	**(34,685)**	(75,354)
Change in interest rate swaps value	**11,218**	(4,954)
Change in pension plan asset and obligation	**(12,116)**	(11,094)
Restricted contributions and investment gain	**(29,495)**	(23,330)
Cash (used in) provided by operating assets and liabilities:		
Change in patient accounts receivable	**(54,720)**	7,013
Change in assets limited as to use, net	**(131,876)**	(385,863)
Change in amounts due to from/to third-party payors	**(37,184)**	(6,655)
Change in marketable securities and other investments	**98,822**	(140,794)
Change in other current and non-current assets and liabilities	**(48,404)**	289,327
Net cash provided by (used in) operating activities	**265,016**	(46,287)
Investing activities		
Purchase of property and equipment	**(174,956)**	(265,468)
Prefunding for King's Daughters' Health transaction	**(99,793)**	–
Change in joint ventures and other	**(4,004)**	3,085
Net cash used in investing activities	**(278,753)**	(262,383)
Financing activities		
Increase in long-term debt	**–**	478,989
Principal payments on long-term debt	**(42,118)**	(38,947)
Cost of long-term debt issuance	**–**	(3,024)
Restricted contributions and investment gain	**29,495**	23,330
Net cash (used in) provided by financing activities	**(12,623)**	460,348
Increase in cash and cash equivalents	**(26,360)**	151,678
Cash and cash equivalents at beginning of year	**261,256**	109,578
Cash and cash equivalents at end of year	**$ 234,896**	$ 261,256

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The accompanying combined financial statements of Norton Healthcare, Inc. include the transactions and accounts of Norton Healthcare, Inc. (the controlling company) and Affiliates, including the following: Norton Hospitals, Inc.; Norton Enterprises, Inc.; Norton Properties, Inc.; The Children's Hospital Foundation, Inc.; Norton Healthcare Foundation, Inc.; and Community Medical Associates, Inc. Norton Healthcare, Inc. and Affiliates are collectively hereafter referred to as the Corporation. The Corporation operates in the Louisville, Kentucky metropolitan area, and its operations include 1,907 licensed beds, 17 Norton Immediate Care Centers, and providing care at more than 300 locations throughout Kentucky and southern Indiana.

All significant intercompany transactions and accounts have been eliminated in combination.

Use of Estimates

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

Liquidity

As a business-oriented not-for-profit that is not solely dependent on donor contributions, the capital needs of the Corporation and operating budgets are coordinated so that anticipated cash needs are provided by current cash flow from operations, supplemented from time to time by debt financing. Included within current assets on the combined balance sheets are financial assets available for general expenditure within one year of December 31, and include cash and cash equivalents, marketable securities and other investments, patient accounts receivable, and the current portion of assets limited as to use. See additional information with respect to these financial assets in Note 1 and Note 4. As part of the Corporation's management of liquidity, certain cash and cash equivalents in excess of operating requirements for general expenditures is transferred to assets limited as to use. The Corporation's long-term assets limited as to use contain various investments that can be drawn upon, if necessary, to meet the liquidity needs of the Corporation within the next fiscal year. See Note 4 for additional information as it relates to assets limited as

1. Description of Organization and Summary of Significant Accounting Policies (continued)

to use. In addition, in 2020, the Corporation entered into a $100.0 million line of credit agreement to meet the liquidity needs of the Corporation through its maturity in June 2021. There were no borrowings against the line of credit through its maturity.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted, as well as $33.2 million of cash held in escrow for the King's Daughters' Health transaction (see Note 17 for additional information) and therefore restricted as to use at December 31, 2021. The Corporation considers highly liquid investments to be cash equivalents when they are both readily convertible to cash and so near to maturity (typically within three months) that their value is not subject to risk due to changes in interest rates. Highly liquid investments with original short-term maturities of less than three months that are included as part of marketable securities and other investments and assets limited as to use are excluded from cash equivalents as they are commingled with longer-term investments. Cash and cash equivalents carried on the combined balance sheets approximates fair value as both December 31, 2021 and 2020.

Marketable Securities and Other Investments

Marketable securities and other investments consist primarily of marketable debt securities that are used by the Corporation to support short-term operational and capital needs. As of December 31, 2021 and 2020, $129.9 million and $105.0 million, respectively, included underlying obligations whose maturities are greater than one year from the date of the combined balance sheets. Due to the markets in which these securities are traded, the Corporation believes the securities can be liquidated at their fair value without restriction and, therefore, has included the securities as current assets.

Inventory

Inventories (predominately medical and surgical supplies and pharmaceuticals) are primarily carried at the lower of cost (first-in, first-out method) or net realizable value.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Assets Limited as to Use and Investment Return

Assets limited as to use include a portfolio of investments that are set aside by the Board of Trustees (the Board) for future services, indigent care, education, research, and community health initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes. This portfolio of investments also includes assets restricted by donors. The Corporation utilizes a pooled investment program (the Master Trust Fund) to manage this portfolio of investments. Income is allocated to each entity based on its investment balance to the total investment balance by type of investment. All entities that participate in the Master Trust Fund are included in these combined financial statements. Other investments within assets limited as to use include assets held by trustees under a self-insurance trust agreement and assets under bond indenture trust agreements. Amounts required to meet current liabilities of the Corporation have been classified as current in the combined balance sheets at December 31, 2021 and 2020.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the combined balance sheets.

All investment securities are considered trading. Included in investment gain are interest, dividends, realized gains and losses on investments, and changes in the value of investments carried at net asset value (NAV). Investment gain and the change in net unrealized gains on investments are included in the excess of revenue over expenses unless a donor or law restricts the income or loss.

Alternative investments, including hedge funds, real estate funds, and private equity funds, are recorded under the equity method of accounting using NAV. The NAV of the alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. The Corporation believes the NAV is a reasonable estimate of its ownership interest in the respective alternative investments. The Corporation's risk of alternative investments is limited to its carrying value plus amounts committed to private equity funds as disclosed in Note 4. Alternative investments can be divested only at specified times in accordance with terms of the subscription agreements. Hedge fund redemptions typically contain

1. Description of Organization and Summary of Significant Accounting Policies (continued)

restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution when the underlying investments are liquidated subject to final valuation following the availability of the hedge fund's next audited financial statements. These types of redemptions are subject to lock-up provisions that are generally imposed on the initial investment in the fund for a period of time. Private equity funds and real estate funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the real estate or private equity fund's life. The financial statements of all of the Corporation's alternative investments are audited annually. Because these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a market for such financial instruments existed. The change in the carrying value of the alternative investments is included in investment gain in the combined statements of operations and changes in net assets.

The Corporation has elected to account for common and collective trust funds at fair value as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*. The Corporation believes that this election is appropriate given the nature of its common and collective trust funds and their similarity to mutual funds.

Fair Value of Financial Instruments

The Corporation follows the provisions of ASC 820, *Fair Value Measurement* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and

1. Description of Organization and Summary of Significant Accounting Policies (continued)

the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 **–** Inputs utilize quoted market prices in active markets for identical assets or liabilities.

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. In order to meet the requirements of ASC 820, the Corporation utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Corporation, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Corporation's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed primarily using the straight-line method. Land improvements are depreciated over a range of 2 to 30 years. Buildings and equipment are depreciated over a range of 1 to 40 years. Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 1 and 10 years, with amortization beginning when the project is completed and the software is placed in service.

Useful lives of assets are determined through consultation of the American Hospital Association's *Life of Depreciable Hospital Assets* and in consideration of how the Corporation intends to use the asset or has used similar assets in the past.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from the excess of revenue over expenses. Such gifts are recorded at fair value at the date of donation. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

The Corporation evaluates long-lived assets used in operations for impairment as events and changes in circumstances indicate that the carrying amount of such assets might not be recoverable. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets. Impairment write-downs are recognized in the combined statements of operations and changes in net assets at the time the impairment is identified. There was no loss on impairment of property and equipment recognized for the years ended December 31, 2021 or 2020.

Leases

The Corporation leases property and equipment under finance and operating leases. The Corporation determines whether an arrangement is a lease at inception. Right-of-use assets and lease liabilities are recognized for leases with terms greater than 12 months based on the net present value of the future minimum lease payments over the lease term at commencement date. When

1. Description of Organization and Summary of Significant Accounting Policies (continued)

readily determinable, the Corporation uses the interest rate implicit in the lease to determine the present value of future minimum lease payments. However, most of the Corporation's leases do not have a readily determinable implicit interest rate. For these leases, the Corporation's estimated incremental borrowing rate is used. The right-of-use asset and lease liability include a value for options to extend a lease if it is reasonably certain that the option will be exercised.

Operating lease liabilities and related right-of-use assets, net are included in current portion and non-current portion of operating lease liability and operating lease right-of-use assets, net on the combined balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term and is included in rent and lease expense in the combined statement of operations and changes in net assets.

Finance lease liabilities and related right-of-use assets, net are included in current portion and non-current portion of long-term debt and property and equipment, net on the combined balance sheets. Finance lease right-of-use assets, net are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the property or equipment. Such amortization expense is included in depreciation and amortization in the combined statements of operations and changes in net assets.

Investments in Joint Ventures

The Corporation maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require combination. These investments are primarily accounted for using the equity method of accounting.

The following is a summary of the investments in joint ventures:

	December 31	
	2021	**2020**
	(In Thousands)	
The Regional Health Network of Kentucky and Southern Indiana, LLC *(Note 15)*	**$ 17,170**	$ 13,532
Other	**11,663**	11,297
	$ 28,833	$ 24,829

1. Description of Organization and Summary of Significant Accounting Policies (continued)

The following is a summary of joint venture income (loss):

	Year Ended December 31 2021	2020
	(In Thousands)	
The Regional Health Network of Kentucky and Southern Indiana, LLC *(Note 15)*	**$ 3,638**	$ (1,131)
Other	**4,982**	2,637
	$ 8,620	$ 1,506

Investments in joint ventures are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the years ended December 31, 2021 or 2020.

Goodwill and Indefinite-Lived Intangible Assets

The Corporation has goodwill and indefinite-lived intangible assets recorded related to a pathology laboratory, several physician practices, diagnostic centers, and an ambulatory surgical center license totaling $20.5 million at both December 31, 2021 and 2020.

The Corporation follows the provisions of ASC 958, *Not-for-Profit Entities* (ASC 958), which provides guidance for a not-for-profit entity with respect to goodwill and other intangible assets subsequent to an acquisition. In accordance with ASC 958, the Corporation tests goodwill and indefinite-lived intangible assets for impairment on an annual basis (October 1), and between annual tests if impairment indicators exist, utilizing qualitative and quantitative factors.

Goodwill impairment testing is done at the reporting unit level (which is defined as the Corporation) by comparing the fair value of the reporting unit's net assets against the carrying value of the reporting unit's net assets, including goodwill. The Corporation as a whole is defined as the reporting unit for purposes of impairment testing. If a quantitative analysis is performed, the fair value of net assets is generally estimated based on an analysis of discounted cash flows (Level 3 measurement).

The annual impairment test performed in 2021 and 2020 resulted in no adjustments to recorded goodwill and indefinite-lived intangible assets.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Medical Malpractice and General Liability Self-Insurance

The Corporation is self-insured for medical malpractice and general liability claims. The provision for estimated self-insured medical malpractice and general liability claims includes estimates of the ultimate costs of settlement for both reported claims and claims incurred but not reported. The Corporation recorded total medical malpractice and general liability self-insurance liabilities of $124.0 million and $118.2 million as of December 31, 2021 and 2020, respectively. Medical malpractice and general liability self-insurance liabilities of $26.5 million and $26.9 million are included in accrued expenses and other current liabilities at December 31, 2021 and 2020, respectively, based on the expectation of the payout of claims in the subsequent year. The long-term portion of these liabilities are held in Other non-current liabilities on the combined balance sheets. Additionally, the Corporation has recorded total receivables of $10.5 million and $12.6 million as of December 31, 2021 and 2020, respectively, for anticipated reinsurance recoveries. Of total anticipated reinsurance recoveries, $2.5 million and $3.3 million are classified as current at December 31, 2021 and 2020, respectively, and are recorded in miscellaneous receivables on the combined balance sheets. The non-current portion of anticipated reinsurance recoveries of $8.0 million and $9.3 million at December 31, 2021 and 2020, respectively, are recorded in other assets on the combined balance sheets. The Corporation recorded a decrease in medical malpractice and general liability self-insurance expense of approximately $5.4 million and $1.7 million in 2021 and 2020, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, improved claim resolution history, and other environmental factors. The Corporation has engaged independent actuaries to estimate the ultimate costs of the settlement of such claims. Recorded self-insured medical malpractice and general liabilities, discounted at 1.25% and 0.50% at December 31, 2021 and 2020, respectively, represent management's best estimate of ultimate costs.

The Corporation has excess loss insurance coverage for claims over the self-insured limits on a claims-made basis. Through the excess loss commercial policies, the Corporation is insured for losses up to established individual and aggregate claim limits.

The Corporation's management is of the opinion that the combined financial statements will not be materially affected by the ultimate cost related to asserted and unasserted claims, if any, at the combined balance sheet date.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Under the terms of the self-insurance trust agreements for the self-insurance funds, the Corporation makes annual deposits with its trustee based upon actuarial funding recommendations. Amounts deposited and interest thereon can only be used to pay self-insured losses and related expenses. Such trust fund assets are reported as assets limited as to use. Investment returns from trusteed assets are recorded as investment gain and change in net unrealized gains on investments, as applicable.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Corporation in perpetuity. Net assets with donor restrictions are primarily restricted for strategic capital projects or in support of the Corporation's mission.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlements of reviews and audits.

Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Corporation. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Corporation believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation.

Outpatient services are performance obligations satisfied at a point in time, and net patient service revenue is recognized when goods or services are provided and the Corporation does not believe it is required to provide additional goods or services.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in ASC 606, *Revenue from Contracts with Customers* (ASC 606), section 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the combined balance sheet date. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the combined balance sheet date. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the combined balance sheet date.

The Corporation has elected to use the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than recognizing net patient service revenue on an individual contract basis, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient net patient service revenue and outpatient net patient service revenue. Based on the historical collection trends and other analysis, the Corporation believes that net patient service revenue recognized by utilizing the portfolio approach approximates the net patient service revenue that would have been recognized if an individual contract approach were used.

The Corporation has agreements with third-party payors that provide for payment to the Corporation at amounts different than the Corporation's established charges. For uninsured patients who do not qualify for charity care, the Corporation recognizes net patient service revenue based on established charges, subject to certain discounts and implicit price concessions determined by the Corporation. The Corporation determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and/or implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Corporation estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and/or implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of change. Adjustments arising from a change in the transaction price were not significant in 2021 or 2020.

In rare instances, the Corporation receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at December 31, 2021 and 2020, include a $149.4 million and $179.8 million, advance payment respectively, from the Centers for Medicare and Medicaid Services (CMS) as part of the Medicare Accelerated and Advanced Payment Program (see Note 16 for additional information).

The Corporation has elected the practical expedient allowed under ASC 606 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, the Corporation does, in certain circumstances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation is paid prospectively determined rates for the majority of inpatient acute care, outpatient, and ambulatory care services provided (principally Medicare, Medicaid, and certain commercial payors). This net patient service revenue is subject to retroactive adjustments due to audits, reviews, change in program administration and rules, and outcome of litigation. These settlements are estimated based on the agreement with the payor and correspondence, which includes an assessment to ensure it is probable that a significant reversal in the amount of cumulative net patient service revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The Corporation has established a corporate compliance program to assist

1. Description of Organization and Summary of Significant Accounting Policies (continued)

in maintaining compliance with such laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines and penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that current recorded estimates will change by material amounts in the near term.

Reported costs and/or services provided under certain arrangements are subject to retroactive adjustments due to reviews and audits. These adjustments are considered variable compensation and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of net patient service revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to reviews or audits. The Corporation recorded an increase in net patient service revenue of $23.1 million and $4.6 million in 2021 and 2020, respectively, as a result of changes in estimated settlements with Medicare, Medicaid, and other commercial payors.

Charity Care

As a part of its not-for-profit mission, the Corporation provides care to patients who may be unable to pay. For those patients meeting certain criteria, the Corporation does not pursue collection of amounts determined to qualify as charity care. The Corporation follows Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that cost be used as the measurement for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing charity care. ASU 2010-23 also requires entities to disclose any reimbursement received to offset the cost of providing charity care. The Corporation estimates charity care cost by calculating a ratio of cost to gross charges, and then multiplying the ratio by the gross charges attributable to patients that qualify for charity care, based on the Corporation's policy. The cost associated with charity care provided was approximately $13.8 million and $12.0 million in 2021 and 2020, respectively.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors, and others in accordance with ASC 606. Primary categories include capitation revenue, technical service fee revenue, employee retention credit, research revenue, rental income, parking revenue, and revenue from other miscellaneous sources.

Excess of Revenue Over Expenses

The combined statements of operations and changes in net assets include subtotals for earnings before fixed expenses and other gains (losses), patient service margin, operating gain, and excess of revenue over expenses. Excess of revenue over expenses represents the operating (performance) indicator for the Corporation as defined under U.S. GAAP. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include or may include contributions of long-lived assets, net assets released from restriction for equipment, investment returns on assets with donor restrictions, and changes in pension plan asset and obligation.

Gifts with Donor Restrictions

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the combined statements of operations and changes in net assets as donations and contributions if the purpose relates to operations, or as a change in net assets without donor restrictions if the purpose relates to purchase of property and equipment.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Beneficial Interest in Trusts Held by Others

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the irrevocable trust funds in its combined balance sheets and the changes in the fair values of the ownership interests of the irrevocable trust funds as net assets with donor restrictions.

Contributions Received and Pledges Receivable

Contributions without donor restriction are recorded as donations and contributions within the combined statements of operations and changes in net assets when received. Pledges are recorded as contributions, fees, grants, bequests, net as net assets with donor restrictions in the year pledged. Unconditional donor pledges to give cash, marketable securities, and other assets are reported at present value, through a discounted cash flow approach (representing fair value), at the date the pledge is made. Pledges receivable are discounted based on the nature of the individual pledge consistent with the Corporation’s policy. Discount rates ranged from 0.03% to 2.02% during the year ended December 31, 2021, and from 0.02% to 2.02% during the year December 31, 2020. Discount rates reflect the economic conditions of the year in which the pledge was made.

Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions on the use of the donated assets are reported as net assets with donor restrictions until the donor restriction expires. An allowance for uncollectible pledges is recorded for amounts the Corporation has deemed uncollectible.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Outstanding pledges receivable from various corporations, foundations, and individuals are as follows:

	December 31 2021	December 31 2020
	(In Thousands)	
Gross pledges due:		
In less than one year	**$ 8,871**	$ 12,484
In one to five years	**4,558**	3,344
In more than five years	**35,217**	34,389
	48,646	50,217
Allowance for uncollectible pledges	**(125)**	(405)
Discounting	**(13,080)**	(13,856)
Net pledges receivable	**35,441**	35,956
Less current portion	**(8,746)**	(12,079)
Net long-term pledges receivable	**$ 26,695**	$ 23,877

The current portion of pledges receivable is included in miscellaneous receivables on the combined balance sheets.

Income Taxes

Most of the income generated by the Corporation is exempt from taxation under Section 501(a) of the Internal Revenue Code. Certain of the Corporation's affiliates are taxable entities and some of the income generated by otherwise exempt entities is subject to taxation as unrelated business income. The Corporation files federal and Kentucky state income tax returns. The statute of limitations for tax years 2018 through 2020 remain open in the taxing jurisdictions in which the Corporation is subject to taxation, and the 2021 tax year's statute of limitations will begin once returns for that year are filed. In addition, for all tax years prior to 2019 generating or utilizing a net operating loss (NOL), tax authorities can adjust the amount of NOL carryforward to subsequent years.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

As of December 31, 2021, the Corporation has NOL carryforwards of approximately $20.0 million ($30.8 million at December 31, 2020). These NOL carryforwards expire in years 2022 to 2039. As a result of the NOL carryforwards, the Corporation recorded a deferred tax asset of $5.2 million and $7.9 million at December 31, 2021 and 2020, respectively. The Corporation evaluates the realizability of the deferred tax assets annually. Based on the cumulative losses incurred by Norton Enterprises, Inc. over the previous three-year period and future projections, the Corporation determined it is not probable that future taxable income will be available to apply against the deferred tax assets. As a result, the Corporation recorded a full valuation allowance of $5.2 million and $7.9 million at December 31, 2021 and 2020, respectively.

2. Community Service (Unaudited)

The Corporation continues to build on a tradition of community service established over 100 years ago by its predecessor organizations, with a mission to provide quality health care to all those served. Through Norton Children's Hospital and Norton Children's Medical Center, tertiary, acute-level inpatient services, and emergency and outpatient specialty care are provided to children who live throughout Kentucky and southern Indiana, regardless of ability to pay. In addition, many patients treated at Norton Hospital, Norton Audubon Hospital, Norton Women's and Children's Hospital, and Norton Brownsboro Hospital receive free or discounted care. The Corporation is a major participant in the residency and medical education programs of the University of Louisville School of Medicine.

The Corporation uses the 2020 edition of the Catholic Health Association's *Guide for Planning and Reporting Community Benefit* (CHA guidelines) to report the community benefit amounts.

In 1987, the Corporation established a fund designated for providing indigent care, education, research, and community health initiatives, now known as the James R. Petersdorf Fund (Petersdorf Fund). In 2020, the Corporation established the Rev. and Mrs. John Norton Fund (John Norton Fund) to support non-profit initiatives designed for the betterment of overall health, wellness and well-being, particularly in areas of greatest need. See Note 4 for additional information on these funds.

2. Community Service (Unaudited) (continued)

The costs associated with providing community service through the Corporation's community-based funds and programs are as follows *(unaudited)*:

	Year Ended December 31	
	2021	**2020**
	(In Thousands)	
Charity care[(A)]	**$ 13,781**	$ 11,988
Educational support	**77,366**	74,973
Unpaid cost of Medicaid services[(B)]	**–**	51,456
Sponsorships	**1,878**	1,587
Community cancer initiatives	**6,093**	6,369
Community service activities	**1,142**	611
Other community benefits	**12,912**	8,656
	$ 113,172	$ 155,640

(A) Consistent with Internal Reserve Service (IRS) Form 990 requirements and CHA guidelines, this amount is to be reported net of state means programs and amounts received specifically to provide financial assistance. The Corporation received state means program reimbursement and other financial assistance related receipts of approximately $0.8 million in 2020.

(B) In 2021, the Kentucky Medicaid Hospital Rate Improvement Program significantly increased the Medicaid per discharge payment rate, which eliminated the unpaid cost of Medicaid services shortfall.

3. Property and Equipment

Property and equipment consists of:

	December 31 2021	December 31 2020
	(In Thousands)	
Land and land improvements	**$ 72,069**	$ 72,890
Buildings	**1,317,223**	1,228,299
Equipment	**1,211,215**	1,147,564
	2,600,507	2,448,753
Accumulated depreciation and amortization	**(1,546,508)**	(1,424,978)
	1,053,999	1,023,775
Construction-in-process	**257,796**	233,320
	$ 1,311,795	$ 1,257,095

Equipment includes computer software costs of $90.8 million and $95.2 million at December 31, 2021 and 2020, respectively, which are primarily related to the Corporation's clinical and revenue cycle information systems. The accumulated depreciation related to computer software recorded in accumulated depreciation and amortization is $81.7 million and $79.2 million at December 31, 2021 and 2020, respectively. The expense related to computer software recorded in depreciation and amortization expense on the combined statements of operations and changes in net assets was $6.8 million and $8.5 million for the years ended December 31, 2021 and 2020, respectively.

4. Assets Limited as to Use and Investment Return

Asset Limited as to Use

The composition of assets limited as to use is set forth in the following table by type of Board designation or restriction. Assets limited as to use are carried at fair value, except for alternative investments (consisting of hedge funds, real estate funds, and private equity funds), which are accounted for under the equity method of accounting.

4. Assets Limited as to Use and Investment Return (continued)

	December 31 2021	December 31 2020
	(In Thousands)	
By Board of Trustees for indigent care, education, research, and community health initiatives (Petersdorf Fund)	**$ 179,363**	$ 158,835
By Board of Trustees for support of non-profit initiatives designed for the betterment of overall health, wellness and well-being, particularly in areas of greatest need (John Norton Fund)	**12,163**	10,655
By Board of Trustees	**1,792,464**	1,520,068
	1,983,990	1,689,558
By self-insurance trust agreements	**123,706**	108,373
Less current portion	**(23,892)**	(23,640)
By self-insurance trust agreements, net	**99,814**	84,733
By bond indenture trust agreements	**27,493**	182,197
Less current portion	**(5,999)**	(3)
By bond indenture trust agreements, net	**21,494**	182,194
By contractual agreement	**10,208**	13,281
Less current portion	**(462)**	(830)
By contractual agreement	**9,746**	12,451
By donors for time or use	**78,414**	63,841
	$ 2,193,458	$ 2,032,777

The Corporation's investment portfolio is structured in a manner that matches investment risk and return. Short-term volatility and uncertainty of investment results are recognized as real risks that are managed through specific asset allocation strategies and diversification. The assets limited as to use by the Board are excluded from current assets as they are not intended to be used within one year. The Board meets routinely throughout the year and, should an unforeseen need arise, could choose to designate those funds for current use within the assets limited as to use by the Board.

4. Assets Limited as to Use and Investment Return (continued)

The Corporation's actual weighted-average allocations for assets limited as to use, by asset category, are as follows:

	December 31	
	2021	**2020**
Money market funds	**1.4%**	2.1%
Marketable debt securities	**10.9**	15.9
Marketable equity securities	**10.2**	10.1
Mutual funds	**40.1**	37.9
Private equity funds	**4.9**	3.9
Hedge funds	**17.7**	18.9
Real estate funds	**6.9**	5.3
Common and collective trust funds	**7.9**	5.9
	100.0%	100.0%

Committed capital to private equity funds that may be called over the next 1 to 3 years approximates \$59.4 million and \$30.8 million at December 31, 2021 and 2020, respectively.

Investment Return

Investment return is shown under net assets without donor restrictions and net assets with donor restrictions as investment gain (included in operating gain for the net assets without donor restrictions) and change in net unrealized gains on investments (included in non-operating gains (losses) for net assets without donor restrictions).

4. Assets Limited as to Use and Investment Return (continued)

The following is a summary of the key components of investment gain:

		Year Ended December 31		
		2021		**2020**
		(In Thousands)		
Investment gain by net asset class:				
Without donor restrictions	**$**	**212,921**	$	88,827
With donor restrictions		**8,294**		4,125
Total investment gain	**$**	**221,215**	$	92,952
Components of investment gain:				
Interest and dividends	**$**	**30,634**	$	23,159
Income distributions from trusts		**1,214**		952
Investment fees		**(8,801)**		(4,533)
Net realized gains on investments		**142,295**		46,186
Change in net unrealized gains on investments recorded at other than fair value		**55,873**		27,188
Total investment gain	**$**	**221,215**	$	92,952

The total changes in net unrealized gains on investments with and without donor restrictions were $34.7 million and $75.4 million for the years ended December 31, 2021 and 2020, respectively, and are solely composed of the change in net unrealized gains on investments recorded at fair value.

5. Fair Value Measurements

The following table summarizes the recorded amount of assets and liabilities by class of asset or liability recorded at fair value on a recurring basis. Certain assets are marked as not applicable (N/A), as they are not recorded at fair value, or elected to be recorded at fair value, on a recurring basis. The valuation level of the asset or liability as defined by ASC 820 is included for assets and liabilities carried at fair value.

5. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value using the valuation hierarchy defined above at:

	December 31 2021	December 31 2020	Level
	(In Thousands)		
Marketable securities and other investments, at fair value			
Marketable debt securities(A)	**$ 173,166**	$ 271,988	2
Assets limited as to use, at fair value			
By Board of Trustees and donors:			
Money market fund	**6,606**	7,508	1
Mutual funds:			
PIMCO Real Return Fund(B)	**34,777**	77,763	1
Capital World Growth and Income Fund(C)	**–**	131,369	1
Dodge & Cox Global Stock Fund(D)	**184,064**	152,431	1
BNY Mellon Global Equity Fund(E)	**166,881**	141,704	1
Dodge & Cox International Stock Fund(F)	**37,214**	–	1
BNY Mellon International Equity Fund(G)	**36,550**	–	1
Allspring Capital Management Core Fixed Income(H)	**69,918**	73,917	1
Vanguard Emerging Market Stock Fund(I)	**55,613**	41,576	1
MetWest Total Return Bond Fund(J)	**69,874**	73,508	1
Angel Oak Multi-Strategy Income Fund(K)	**18,737**	36,528	1
Fidelity S &P 500 Index Fund(L)	**115,209**	–	1
Cohen & Steers Institutional Realty Fund(M)	**59,077**	–	1
Other mutual funds(N)	**72,454**	61,020	1
Total mutual funds	**920,368**	789,816	
Common and collective trust funds:			
City of London International(O)	**66,504**	54,918	NAV
Kabouter International Opportunities Fund(P)	**22,915**	19,992	NAV
Leadenhall Remote Risk Fund(Q)	**18,728**	–	NAV
Wellington Diversified Inflation Hedge(R)	**66,790**	45,923	NAV
Total common and collective trust funds	**174,937**	120,833	

5. Fair Value Measurements (continued)

	December 31 2021	December 31 2020	Level
	(In Thousands)		
Separately-managed accounts:			
Sterling Capital[(S)]	**$ 72,977**	$ 74,145	2
EPOCH All Cap US Equity[(T)]	**118,704**	90,860	1
Disciplined Growth Investors[(U)]	**14**	14	1
DF Dent Mid Cap Growth[(V)]	**98,366**	1	1
Other[(W)]	**1,174**	1,411	1
Total separately-managed accounts	**304,290**	264,796	
Total assets limited as to use by Board of Trustees and donors, at fair value	**1,406,201**	1,182,953	
By contractual agreements:			
Money market fund	**10,208**	13,281	1
Total assets limited as to use by contractual agreements, at fair value	**10,208**	13,281	
By self-insurance trust agreements:			
Separately-managed accounts:			
Money market fund	**3,583**	3,694	1
Marketable debt securities[(X)]	**78,430**	79,274	2
Sterling Special Opportunities Equity[(Y)]	**16,027**	9,910	1
Sterling Fundamental Small Cap Value Strategy[(Z)]	**9,712**	6,354	1
Sterling Equity Income Strategy[(AA)]	**15,954**	9,141	1
Total assets limited as to use by self-insurance trust agreements, at fair value	**123,706**	108,373	
By bond indenture trust agreements:			
Money market fund	**0**	3	1
Marketable debt securities[(AB)]	**27,493**	182,194	2
Total assets limited as to use by bond indenture, at fair value	**27,493**	182,197	
Total assets limited as to use, at fair value	**1,567,608**	1,486,804	

5. Fair Value Measurements (continued)

	December 31 2021	2020	Level
	(In Thousands)		
Assets limited as to use at other than fair value:			
Hedge funds[AC]	**$ 403,594**	$ 384,337	N/A
Real estate funds[AD]	**148,749**	109,731	N/A
Private equity funds[AE]	**103,860**	76,378	N/A
Total assets limited as to use, at other than fair value	**656,203**	570,446	
Less current portion of self-insurance trust and bond:			
Indenture trust and assets limited as to use by contractual agreement	**(30,353)**	(24,473)	
Total assets limited as to use	**$ 2,193,458**	$ 2,032,777	
Other assets (liabilities) at fair value:			
Beneficial interest in outside trusts	**$ 31,492**	$ 27,725	2
Interest rate swap *(Note 7)*	**(3,156)**	8,062	2

(A) Investment-grade readily marketable corporate debt securities (95%), municipal fixed-income securities (3%) and money market funds invested in high-quality fixed-income securities (2%).

(B) Mutual fund seeks to maximize real returns by investing the majority of its assets in Treasury Inflation Protected Securities (TIPS) issued by the U.S. government. The mutual fund may also invest in U.S. Treasury securities, corporate bonds, mortgage-backed securities and emerging market bonds to add value when opportunities arise.

(C) Mutual fund invests in domestic and international equities with a focus on companies paying regular dividends and strives to exceed the MSCI World Index.

(D) Mutual fund invests in equity securities issued by medium-to-large sized well-established global companies, including those domiciled in emerging markets, and strives to exceed the MSCI World Index.

(E) Mutual fund invests in domestic and international equities and strives to exceed the MSCI World index.

(F) Mutual fund invests in a diversified portfolio of equity securities issued by medium-to-large sized, well-established non-U.S. companies, including those domiciled in emerging markets. The mutual fund administration seeks temporarily undervalued companies with a favorable outlook for long-term growth and strives to exceed the MSCI World Index ex USA Index.

5. Fair Value Measurements (continued)

(G) Mutual fund seeks to earn a real (after inflation) return of 7-10% per annum by investing in high quality growth stocks outside the U.S. Sector and regional weightings are largely the result of the stock selection process, with individual holdings limited to 5%. The mutual fund strives to exceed the MSCI World Index.

(H) Mutual fund seeks to deliver excess return relative to the taxable fixed-income universe as measured by the Barclays U.S. Aggregate Bond Index.

(I) Mutual fund seeks to maximize long-term capital appreciation. The mutual fund invests mainly in equity securities of companies located in emerging markets including small, mid, and large capitalization companies.

(J) Mutual fund seeks to maximize long-term total return. At least 80% of its net assets are invested in investment grade fixed income securities or unrated securities of similar quality. Up to 20% of the mutual fund's net assets may be invested in securities rated below investment grade.

(K) Mutual fund invests primarily in mortgage-backed and other asset backed fixed income securities such as credit card receivables, student loans, automobile loans and residential and commercial real estate. The mutual fund may invest in corporate debt securities of any quality and maturity.

(L) Mutual fund seeks to provide investment results that correspond to the total return of common stocks publicly traded in the U.S. as represented by the S&P 500 index while keeping transaction costs and other expenses low.

(M) Mutual fund invests in publicly listed U.S. real estate investment trusts (REIT) and seeks to consistently outperform the FTSE NARIET All REIT Index with 35 to 50 positions. The mutual fund administrator's strategy focuses on relative value, the environment and total return opportunity.

(N) Various other publicly traded mutual funds invested in a variety of money market, fixed-income, domestic equity, and international equity mutual funds. The mutual funds are diverse in investment strategies, including both value and growth and a variety of market capitalizations.

(O) Common and collective trust fund invested in companies both in developed and emerging markets equities seeks to provide long-term capital growth via stock selection and active country allocation and strives to outperform the MSCI ACWI ex U.S. Index.

(P) Common and collective trust fund seeks to invest in undervalued companies and consists entirely of investments in non-U.S. equities, primarily in developed markets. Holdings typically have a market cap between $1.5 and $3.0 billion, and the number of positions in the portfolio typically ranges from 35-45.

5. Fair Value Measurements (continued)

(Q) Common and collective trust fund invested in insurance-linked securities that have a low-likelihood of loss and expected severity catastrophic risk. The fund provides insurance in areas where the risk of a loss is less than 8% and severities will average 3.5% or less.

(R) Common and collective trust fund whose objective is to maximize real return by investing in a variety of securities that offer strong relative performance in a rising inflation environment. The common and collective trust fund seeks to exceed the Dow Jones AIG Commodity Total Return Index.

(S) Manager invests primarily in marketable corporate debt securities (64%), U.S. government fixed-income securities (29%), and other fixed-income investments (7%) with the objective of maximizing total return while preserving capital. Manager strives to exceed the Barclays Capital Aggregate index.

(T) Manager invests in domestic equities across various industries with a value orientation and high rates of free cash flow. Manager strives to exceed the Russell 3000 Value Index.

(U) Manager seeks to invest in mid-cap companies with market caps between $1 billion and $10 billion that are expected to yield high returns. The portfolio will generally hold between 40 to 50 securities with an average turnover ratio ranging from 15% to 30%.

(V) Manager seeks to invest in a diversified group of equities that possess attractive long-term growth characteristics and whose market capitalizations are similar to those of companies in the Russell Midcap growth index.

(W) Various other smaller accounts whose components are not deemed material for individual breakout. Largest holding is a money market fund (67%).

(X) Externally managed portfolio holding investment grade U.S. agency and U.S. Treasury fixed-income securities whose maximum maturity does not exceed five years.

(Y) Equity portfolio that primarily invests in companies with the best perceived combination of underlying growth potential and attractive valuation in a high conviction portfolio of 25 to 40 holdings.

(Z) The mutual fund invests in Small Cap Value companies, focusing on balance sheet strength and consistent value since inception and strives to exceed the Russell 2000 Value Index.

(AA) The mutual fund seeks long-term appreciation by identifying companies with consistent dividend growth and above average yield, attractive valuation and strong balance sheets, and strives to exceed the Russell 1000 Value Index.

(AB) Externally managed portfolio holding U.S. agency securities, U.S. Treasury securities, highly rated municipal and commercial paper fixed-income securities structured to generate returns while protecting principal and providing liquidity to fund draws on the project fund.

5. Fair Value Measurements (continued)

(AC) The hedge funds are composed of both fund of funds and direct hedge funds that seek to provide equity-like returns over a full market cycle with reduced volatility and low correlation. The hedge fund managers employ various strategies, including, but not limited to, long/short equity, long/short credit, distressed credit, merger/credit arbitrage, and macro trading strategies.

(AD) The real estate funds include an actively managed private REIT composed of participating mortgages and wholly owned real estate investments. A smaller portion of the holdings include a commingled real estate fund, which includes the purchase of REITs, real estate properties, private equity funds, public debt securities, and high-yield private debt.

(AE) The private equity funds are comprised of limited partnerships that invest in the equity and debt of privately held companies. The objective of these strategies is to provide a return that exceeds that of public equity markets over a long-term time period. These investments will typically have a life of five to ten years depending on the strategy.

Valuation

Marketable Debt Securities, Other Investments, and Assets Limited as to Use

Level 1 securities are stated at quoted market prices. The Corporation's various investment portfolios are held by a variety of managers and these managers use external pricing services in providing the valuation for all levels of securities. The Corporation does not adjust the quoted market prices for such financial instruments.

Level 2 securities include valuations based upon direct and indirect observable market inputs that may utilize the market, income, or cost approaches in determination of their fair value. The pricing services use a variety of pricing models and inputs based upon the type of security being valued. These inputs may include, but are not limited to the following: reported trades; similar security trade data; bid/ask spreads; institutional bids; benchmark yields; broker/dealer quotes; issuer spreads; yield to maturity; and corporate, industry, and economic events.

As nearly all of the Corporation's marketable debt securities are actively traded, the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

5. Fair Value Measurements (continued)

The common and collective trust funds are valued at NAV, as a practical expedient, provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the common and collective trust funds at December 31, 2021 and 2020, based on the fact that the common and collective trust funds are audited and accounted for at fair value by the administrators of the respective common and collective trust funds. There are no restrictions on the ability of the Corporation to redeem any of the common and collective trust funds at December 31, 2021 or 2020.

Beneficial Interests in Trusts Held by Others

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the irrevocable trust funds based on its pro rata share of the underlying assets or income. Based on the observable inputs, typically marketable debt or equity securities held in the irrevocable trust funds, the Corporation has determined its beneficial interests in outside trust funds held by others fall in Level 2 of the fair value hierarchy. This technique is consistent with the market approach.

Interest Rate Swaps

The fair value is calculated based on a discounted cash flow model, taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. Based on the observable inputs, typically published interest rates and credit spreads, the Corporation has determined its interest rate swaps fall in Level 2 of the fair value hierarchy.

The specific Corporation inputs are disclosed in Note 7. This technique is consistent with the income or discounted cash flow approach.

5. Fair Value Measurements (continued)

Other Fair Value Measurements

The Corporation's pledge receivable are recorded at fair value on the original pledge date, based on discounted cash flow analysis and adjusted for consideration of donor's credit, and the resulting carrying value is $35.4 million and $36.0 million at December 31, 2021 and 2020, respectively. These fair values are determined using a Level 2 methodology in the fair value hierarchy based on observable inputs through formal pledge agreements and other similar documents, as well as market interest rates as disclosed in Note 1.

6. Net Patient Service Revenue

Net patient service revenue by major payor source is as follows:

	Year Ended December 31			
	2021		**2020**	
	(Dollars in Thousands)			
Commercial	**$ 1,391,643**	**44%**	$ 1,191,424	46%
Medicare	**958,583**	**30**	793,091	30
Medicaid	**775,150**	**25**	594,315	23
Self-pay and other	**38,796**	**1**	23,616	1
	$ 3,164,172	**100%**	$ 2,602,446	100%

7. Long-Term Debt

Long-term debt consists of the following at:

	December 31 2021	December 31 2020
	(In Thousands)	
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2020, dated March 10, 2020 (2020 Bonds)	**$ 400,000**	$ 400,000
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2016, dated August 11, 2016 (2016 Bonds)	**517,460**	535,865
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2013, dated September 26, 2013 (2013 Bonds)	**204,580**	204,580
Louisville/Jefferson County Metro Government Health System Fixed Rate Revenue Refunding Bonds, dated October 31, 2012 (2012A Bonds)	**–**	2,150
Louisville/Jefferson County Metro Government Health System Variable Rate Revenue Bonds, dated August 10, 2011 (2011 Bonds)	**75,000**	77,140
Kentucky Economic Development Finance Authority, Health System Revenue Bonds, Series 2000, dated October 1, 2000 (2000 Bonds)	**153,505**	167,140
	1,350,545	1,386,875
Unamortized premiums	**85,994**	94,169
Less unamortized deferred financing costs	**(8,715)**	(9,836)
	1,427,824	1,471,208
Finance leases	**84,775**	82,878
Total long-term debt	**1,512,599**	1,554,086
Less amounts due within one year	**(43,089)**	(41,641)
Total long-term debt, net of current portion	**$ 1,469,510**	$ 1,512,445

7. Long-Term Debt (continued)

The 2000 Bonds are secured by a mortgage lien on the principal hospital facilities and parking garages of Norton Hospitals, Inc. built before 2006. The net book value of these properties is $78.0 million and $84.5 million at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, all bonds outstanding are tax-exempt bond issues. All bonds are secured by a security interest in certain pledged collateral, including the operating revenue of the Obligated Group (defined as Norton Healthcare, Inc. and Norton Hospitals, Inc.). Principal and interest related to the bonds are payable solely by the Obligated Group.

Deferred financing costs are being amortized over the life of the respective bond issues using the effective interest method for fixed-rate bonds and the bonds outstanding method for variable-rate bonds.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require the Corporation to maintain specific financial ratios. The Corporation is in compliance with these covenants at December 31, 2021 and 2020.

2020 Bonds

In March 2020, the Corporation entered into loan agreements with Louisville/Jefferson County Metro Government to issue $150.0 million of Series A uninsured fixed-rate revenue bonds (2020A Bonds), $125.0 million of Series B uninsured fixed-rate revenue bonds (2020B Bonds), $75.0 million of Series C uninsured fixed-rate revenue bonds (2020C Bonds), and $50.0 million of Series D uninsured fixed-rate revenue bonds (2020D Bonds). The proceeds of the 2020 Bonds, including the premium of $79.0 million, are to be used to pay or reimburse the Corporation for the cost of constructing, planning, renovating, expanding, equipping and acquiring patient care related projects and/or equipment.

At December 31, 2021, the 2020A Bonds consist of serial bonds maturing 2037 through 2040 and term bonds with annual sinking fund deposits in 2041 through 2043. Interest rates vary from 3.0% to 5.0%. Interest is payable semiannually on April 1 and October 1. Beginning October 1, 2029, the 2020A Bonds maturing on or after October 1, 2029, are subject to optional redemption by the Corporation prior to maturity for 100% of par.

7. Long-Term Debt (continued)

The 2020B Bonds, 2020C Bonds, and 2020D Bonds mature in 2047 with annual sinking fund deposits in 2043 through 2047 with interest of 5.0% payable semiannually on April 1 and October 1. The 2020B Bonds, 2020C Bonds, and 2020D Bonds are subject to mandatory purchase provisions, in which the Corporation will be required to purchase the bonds at 100% of par on October 1, 2023, October 1, 2026 and October 1, 2029, respectively. The Corporation may fund these repurchases by remarketing the bonds. The 2020B Bonds, 2020C Bonds, and 2020D Bonds are subject to optional redemption by the Corporation prior to maturity at various redemption prices plus accrued interest beginning July 1, 2023 through September 30, 2023, July 1, 2026 through September 30, 2026, and July 1, 2029 through September 28, 2029, respectively.

2016 Bonds

In 2016, the Corporation entered into loan agreements with the Louisville/Jefferson County Metro Government to issue $521.1 million of Series A uninsured fixed-rate revenue bonds (2016A Bonds), $31.3 million of Series B uninsured variable-rate bonds (2016B Bonds), and $68.7 million of Series C uninsured variable-rate revenue bonds (2016C Bonds). Proceeds from the 2016A Bonds were used to refund all of the remaining 2006 Bonds outstanding at the time and to pay or reimburse the Corporation for the cost of acquiring, constructing, renovating, and equipping areas related to patient care and to pay certain expenses in connection with the issuance of the 2016 Bonds. Proceeds from the 2016B Bonds and 2016C Bonds were used to refund all remaining 2013B Bonds and Series 2011D Bonds outstanding at the time.

At December 31, 2021 and 2020, the 2016A Bonds consist of term bonds with interest rates ranging from 3.0% to 5.0% maturing through October 1, 2037. Interest is payable semiannually on April 1 and October 1. Beginning October 1, 2026, the 2016A Bonds maturing on or after October 1, 2026, are subject to optional redemption by the Corporation prior to maturity for 100% of par.

The 2016B Bonds and 2016C Bonds are direct placement issues and held entirely by Branch Banking and Trust Company. Final maturity and payment for the 2016B bonds occurred during 2021, while final maturity for the 2016C bonds is schedule for 2023. The 2016C Bonds are subject to optional redemption at any time prior to maturity by the Corporation for 100% of par. At December 31, 2021 the applicable cost of debt for the 2016C Bonds was approximately 0.8%. At December 31, 2020, the applicable cost of the debt for the 2016B and 2016C Bonds was approximately 0.8% and 2.1%, respectively.

7. Long-Term Debt (continued)

2013 Bonds

In 2013, the Corporation entered into loan agreements with the Louisville/Jefferson County Metro Government to issue $154.6 million of Series A uninsured fixed-rate revenue bonds (2013A Bonds), $75.0 million of Series 2013B uninsured taxable variable-rate bonds (2013B Bonds), and $50.0 million of Series C uninsured variable-rate revenue bonds (2013C Bonds). Proceeds from the 2013A Bonds and 2013C Bonds were used to pay or reimburse the Corporation for the cost of acquiring, constructing, renovating, and equipping areas related to patient care and to pay certain expense in connection with the issuance of the 2013 Bonds. Proceeds from the 2013B Bonds were used to refund all remaining Series 2000C Bonds outstanding at the time.

At December 31, 2021 and 2020, the 2013A Bonds consisted of fixed-rate term bonds with interest rates ranging from 4.50% to 5.75% maturing through October 1, 2042. The 2013A Bonds have annual sinking fund deposits of various amounts due annually on October 1 beginning in 2024. Interest is payable semiannually on April 1 and October 1. Beginning October 1, 2023, the 2013A Bonds maturing on or after October 1, 2023, are subject to optional redemption by the Corporation prior to maturity for 100% of par.

The 2013C Bonds are secured by an irrevocable direct-pay letter of credit issued by PNC Bank that has a stated maturity of July 26, 2025. While bearing interest at a weekly interest rate, the 2013C Bonds are subject to optional redemption prior to maturity at the direction of the Corporation at a redemption price of 100% of the principal amount, plus accrued interest. The 2013C Bonds have one annual sinking fund deposit of $17.6 million due on October 1, 2042, with final maturity in 2043. At December 31, 2021 and 2020, the applicable cost of the debt for the 2013C Bonds was approximately 0.5%.

2012 Bonds

In 2012, the Corporation entered into a loan agreement with the Louisville/Jefferson County Metro Government to issue $21.1 million of Series A uninsured fixed-rate revenue bonds (2012A Bonds). Proceeds from the 2012A Bonds were used to refund the remainder of the 1997 Bonds. The 2012A Bonds are a direct placement issue, with final maturity and payment having occurred in 2021. The approximate cost of debt at December 31, 2020, was 2.00%.

7. Long-Term Debt (continued)

2011 Bonds

In 2011, the Corporation entered into loan agreements with the Louisville/Jefferson County Metro Government to issue $35.0 million of Series A uninsured variable-rate revenue bonds (2011A Bonds), $40.0 million of Series B uninsured variable-rate revenue bonds (2011B Bonds), $23.8 million of Series C uninsured variable-rate bonds (2011C Bonds), and $53.7 million of Series D uninsured taxable variable-rate bonds (2011D Bonds). Proceeds from the 2011A Bonds and 2011B Bonds were used to pay or reimburse the Corporation for the cost of acquiring, constructing, renovating, and equipping areas related to patient care and to pay certain expenses in connection with the issuance of the 2011 Bonds. Proceeds from the 2011C Bonds were used to refund a portion of the 1997 Bonds, and proceeds from the 2011D Bonds were used to refund all of the 2000A Bonds.

The 2011A and 2011B Bonds are secured by irrevocable direct-pay letters of credit issued by PNC Bank that expire on July 26, 2025. The final maturities for the 2011A and 2011B Bonds occur in 2039. While bearing interest at weekly or daily interest rates, the 2011A and 2011B Bonds are subject to optional redemption prior to maturity at the direction of the Corporation at a redemption price of 100% of the principal amount, plus accrued interest. The 2011A and 2011B Bonds have annual sinking fund deposits of various amounts annually, beginning October 1, 2022, through their maturity.

At December 31, 2021 and 2020, the applicable cost of the debt for the 2011A Bonds was approximately 0.6% and 0.5% respectively. At December 31, 2021 and 2020, the applicable cost of the debt for the 2011B Bonds was approximately 0.5% and 0.6% respectively.

The 2011C Bonds are direct placement issuances and are held entirely by PNC Bank, and their final maturity and payment occurred in 2021. At December 31, 2020, the applicable cost of debt for the 2011C Bonds was approximately 1.5%.

7. Long-Term Debt (continued)

2000 Bonds

In 2000, the Corporation entered into loan agreements with the Kentucky Economic Development Finance Authority to issue $148.3 million of Series A uninsured fixed-rate revenue bonds (2000A Bonds), $119.2 million of Series B insured variable-rate revenue bonds (2000B Bonds), and $180.5 million of Series C insured variable-rate revenue bonds (2000C Bonds), for a total of $448.0 million. Proceeds from the 2000 Bonds and certain other available monies were used to legally defease the 1998 Bonds and a portion of certain outstanding 1997 Bonds and 1992 Bonds issued on behalf of the Corporation through deposits to irrevocable trusts pursuant to escrow agreements, and to pay certain expenses incurred in connection with the issuance of the 2000 Bonds, as well as fund a debt service reserve account.

At December 31, 2021 and 2020, the remaining 2000 Bonds consist of the 2000B Bonds with interest rates ranging from 6.18% to 6.23%, and 6.16% to 6.23%%, respectively, maturing through October 1, 2028. Payment of principal and interest on the 2000B Bonds is guaranteed by the National Public Finance Guarantee Corporation (formerly MBIA Insurance Corporation).

Interest on the 2000B Bonds will be compounded from the dates of delivery to their respective maturities, and will be payable only at maturity, or upon redemption prior to maturity or acceleration. Compounded interest payable on the 2000B Bonds was $120.5 million and $130.3 million at December 31, 2021 and 2020, respectively. 2000B Bonds mature in various amounts annually on October 1 through 2028. 2000B Bonds are not subject to optional redemption prior to maturity.

Required debt service on all outstanding bonds is as follows:

	Principal	Interest	Total
		(In Thousands)	
2022	$ 26,674	$ 63,664	$ 90,338
2023	26,792	63,455	90,247
2024	15,559	69,551	85,110
2025	16,160	69,874	86,034
2026	27,399	62,489	89,888
Thereafter	1,117,476	424,513	1,541,989
	$ 1,230,060	$ 753,546	$ 1,983,606

7. Long-Term Debt (continued)

For 2022 through final maturity of the 2000B Bonds, $120.5 million is included in interest payments, which is paid at the various maturities of the 2000B Bonds. Included as part of the interest payments above is $10.4 million of the 2000B Bonds' interest payable in 2022.

For the variable-rate bond series, which includes the 2011A Bonds, 2011B Bonds, 2013C Bonds, and 2016C Bonds, the future periods' interest estimate was based on terms of the Master Trust Indenture and is calculated using an average of Securities Industry and Financial Markets Association (SIFMA) for tax-exempt issues over approximately the last 20 years plus 1.00% to estimate liquidity, credit support, and remarketing fees. Thus, for purposes of this presentation, the Corporation has utilized 2.20%.

The Corporation paid interest of $65.0 million and $56.2 million during 2021 and 2020, respectively. The Corporation capitalized interest costs of $1.2 million and $3.7 million during the years ended December 31, 2021 and 2020, respectively.

Interest Rate Swaps

The Corporation uses derivative instruments to manage its cost of capital through interest rate swaps, which generate cash flow meant to reduce interest expense. The Corporation pays a rate based upon the SIFMA Municipal Swap Index, an index of seven-day, high-grade, tax-exempt variable-rate demand obligations. In return, the Corporation receives a rate based upon the London Interbank Offered Rate (LIBOR).

On October 15, 2021, the Corporation entered into a new fixed forward starting swap. On September 1, 2020, the Corporation entered into a new basis swap. During August 2020, the Corporation terminated one of its interest rate swaps for a one-time cash payment (outflow) of $631,000 paid in August 2020. The loss on termination was recorded as change in interest rate swaps value in non-operating gains (losses) in the combined statement of operations for the year ended December 31, 2020.

7. Long-Term Debt (continued)

The Corporation holds the following interest rate swaps at:

Counter Party	Notional Amount	Effective Date	Maturity Date	Receive	Pay	December 31 2021	December 31 2020
						(In Thousands)	
Citigroup	$ 94,210	9/1/2020	9/1/2040	2 times 0.9239% of one-month LIBOR	2 times SIFMA	**$ (1,209)**	$ (528)
Citigroup	69,065	10/1/2004	10/1/2028	62.6% of one-month LIBOR plus 0.57%	SIFMA	**896**	1,193
Citigroup	140,000	11/3/2006	11/3/2031	61.7% of one-month LIBOR plus 0.577%	SIFMA	**2,369**	3,052
Citigroup	200,000	11/3/2008	11/3/2026	61.7% of ten-year LIBOR minus 0.016%	SIFMA	**1,331**	5,150
JP Morgan	200,000	4/1/2019 11/3/2026	4/1/2039	0.124% 61.7% of ten-year LIBOR	– SIFMA	**(4,825)**	(805)
JP Morgan	150,000	10/1/2023	10/1/2043	SIFMA	1.7685%	**(1,718)**	–
Total interest rate swaps (liability) asset						**$ (3,156)**	$ 8,062

Citigroup and JP Morgan serve as counterparties for the Corporation's interest rate swaps. Consistent with industry practice, the interest rate swaps require posting of collateral should either party's cumulative contract value liability exceed certain thresholds based upon the credit rating of the counterparty. The Corporation's interest rate swaps are viewed under a master netting arrangement by each counterparty to determine the aggregate amount of collateral to be posted or received by the Corporation. At December 31, 2021 and 2020, based upon the agreements with Citigroup and JP Morgan, the Corporation's cumulative contract value was a liability of $5.8 million and an asset of $11.8 million, respectively. Based upon the Corporation's lowest credit rating (A), collateral must be posted for liabilities in excess of $25.0 million. At December 31, 2021 and 2020, the Corporation had no collateral posted and was not required to post any collateral. Should the Corporation's credit rating fall below BBB, Citigroup and JP Morgan would have the option of terminating some or all of the interest rate swaps at the contract value. Should the Corporation hold all interest rate swaps to maturity, as it intends, no cash settlement will be necessary and any posted interest rate swap collateral will be returned.

7. Long-Term Debt (continued)

None of the Corporation's interest rate swaps have been designated as a hedge for accounting purposes; therefore, the change in fair value for these interest rate swaps is included in the combined statements of operations and changes in net assets as change in interest rate swaps value within non-operating gains (losses). The fair value at December 31, 2021 and 2020, is included within interest rate swaps (liability) asset on the combined balance sheets. The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable.

The cash flow impact of the interest rate swaps is included in interest rate swaps benefit, net in the combined statements of operations and changes in net assets. The cash flow for these interest rate swaps is settled semiannually on April 1 and October 1. During the interim periods, a receivable or payable is recorded. As of December 31, 2021 and 2020, the cash flows were in a receivable position. The receivable is included within miscellaneous receivables on the combined balance sheets.

	Miscellaneous Receivable	**Interest Rate Swap Asset (Liability)**	**Combined Balance Sheet, Net**
		(In Thousands)	
December 31, 2019	$ 348	$ 3,108	$ 3,456
Interest rate swaps benefit, net	934	–	934
Swap cash settlement received	(681)	–	(681)
Change in interest rate swaps value	–	4,954	4,954
December 31, 2020	601	8,062	8,663
Interest rate swaps benefit, net	**3,249**	–	**3,249**
Swap cash settlement received	**(3,118)**	–	**(3,118)**
Change in interest rate swaps value	–	**(11,218)**	**(11,218)**
December 31, 2021	**$ 732**	**$ (3,156)**	**$ (2,424)**

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	December 31	
	2021	**2020**
	(In Thousands)	
Health care services	**$ 90,474**	$ 81,809
Investments to be held in perpetuity, the income from which is expendable to support health care services	**30,616**	27,057
Beneficial interest in trusts held by others, the income from which is expendable to support health care services	**31,492**	27,724
Total net assets with donor restrictions	**$ 152,582**	$ 136,590

9. Endowment Funds

The Corporation's endowment consists of 16 individual donor-restricted endowment funds (13 at The Children's Hospital Foundation, Inc. and three at Norton Healthcare Foundation, Inc.) established for a variety of purposes. The Children's Hospital Foundation, Inc. and Norton Healthcare Foundation, Inc. are collectively referred to as the Foundations. Net assets associated with endowment funds are included in net assets with donor restrictions.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in the Commonwealth of Kentucky on March 25, 2010. The Foundations have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundations classify as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) market appreciation and/or investment income that is restricted by the donor in the gift agreement.

9. Endowment Funds (continued)

Investment Objectives and Policy

The Foundations follow the investment policy objectives of the Corporation. The long-term objective of the policy is to generate a return that is sufficient to meet its current and expected future financial requirements, as defined by the Corporation's long-range financial plan. To accomplish this objective, the Corporation seeks to earn the greatest total return possible consistent with its general risk tolerance, the securities noted as eligible for purchase, and the asset allocation strategies included in the investment policy. The asset allocation includes investments in cash, marketable debt and equity securities, and alternative investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundations have adopted a 5% spending policy, which is based upon a three-year rolling average of the fair market value of the endowment fund. The current year spending policy is calculated using year-end December 31 market values.

In addition to the 5% spending policy, the Foundations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundations and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundations
7. The investment policies of the Corporation

9. Endowment Funds (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original fair market value of the gift. The Foundations will not appropriate funds from the endowment for spending until the current value of the fund exceeds the fair value of the original gift, unless an appropriation is deemed prudent based upon the factors listed above.

The Corporation had endowment funds with deficiencies at:

	December 31	
	2021	**2020**
	(In Thousands)	
Fair value of underwater endowment funds	**$ –**	$ 1,993
Original endowment gifts	**–**	2,001
Amount of deficiencies	**$ –**	$ (8)

The Corporation had endowment-related activities as follows:

	Year Ended December 31	
	2021	**2020**
	(In Thousands)	
Endowment net assets, beginning of year	**$ 27,057**	$ 24,411
Investment gain	**3,879**	2,780
Contributions, less uncollectible pledges	**488**	899
Appropriation of endowment assets for expenditure	**(1,041)**	(1,106)
Other	**233**	73
Endowment net assets, end of year	**$ 30,616**	$ 27,057

10. Employee Benefit Plans

Defined Benefit Plan

Certain employees of the Corporation are covered by a non-contribution defined benefit pension plan (the Plan). The Plan was frozen effective January 1, 2010, and, as a result, no service cost was incurred in 2021 or 2020, and none is expected in future periods. Benefits are generally based upon years of service and an employee's annual compensation during his or her years of service up until January 1, 2010. Normal retirement benefits represent the greater of the net present value of certain legacy replaced pension plans (traditional benefit formula) or the participant's cash balance account, which continues to be credited with interest earnings until normal retirement date (the cash balance formula).

The Corporation annually funds an amount not less than the minimum required under the Employee Retirement Income Security Act of 1974.

The Plan has been named as a defendant in a class action suit brought on behalf of certain former employees who elected to take early retirement (the Plaintiff Class), alleging that lump-sum payments made by the Plan upon their retirement were incorrectly calculated. In early 2016, the United States District Court (the Court) issued its final, appealable order, indicating that the Plan owes additional lump-sum benefits to the Plaintiff Class. The Court ordered the Plan to recalculate benefits using a court determined formula, which is different than the formula as interpreted by the Plan, and provide additional data to allow for recalculation of the benefits. As of both December 31, 2021 and 2020, management has estimated potential exposure to the Plan of $60.2 million, which has been recorded by the Plan as part of the Plan's projected benefit obligation. Both the Plaintiff Class and the Plan appealed the Court's order and an appeals court hearing was held in June 2017. In May 2018, the United States Court of Appeals (Appeals Court) issued a ruling that the litigation be vacated in part and remanded to the lower Court for further evaluation. The Court held oral argument on October 15, 2020, and the parties are awaiting either a request for further oral argument or a ruling. Based on the Appeals Court ruling and the nature of the ongoing litigation, management believes the estimated potential exposure recorded by the Plan is still the best estimate at the date of issuance of the December 31, 2021, combined financial statements.

10. Employee Benefit Plans (continued)

A summary of the components of net periodic benefit cost, which is included in non-operating gains (losses) in the combined statements of operations and changes in net assets, for the Plan is as follows:

	Year Ended December 31 2021	2020
	(In Thousands)	
Interest cost	**$ 4,611**	$ 7,178
Expected return on plan assets	**(6,641)**	(7,956)
Amortization of net loss	**2,212**	3,262
Settlement cost	**1,752**	1,905
Net periodic benefit cost	**$ 1,934**	$ 4,389

Included as a component of net periodic benefit cost for 2021 and 2020 is a settlement cost of $1.8 million and $1.9 million, respectively. A settlement cost is required under applicable pension accounting guidance when the amount of the lump-sum benefit payments made during the fiscal year exceeds the service cost plus interest cost components of net periodic pension cost. During 2021 and 2020, the Plan paid $12.3 million and $10.7 million, respectively, in lump-sum benefit payments. This exceeded the threshold of $4.6 million and $7.2 million in 2021 and 2020, respectively. The settlement cost is determined by taking the ratio of the lump-sum benefit payments made to the projected benefit obligation before settlement, multiplied by the unrecognized loss in the Plan.

Included in net assets without donor restrictions are $36.0 million and $48.1 million of unrecognized actuarial losses at December 31, 2021 and 2020, respectively, which have not been recognized in net periodic benefit cost.

10. Employee Benefit Plans (continued)

The following amounts related to Plan activity have been recognized as an increase in net assets without donor restrictions in change in pension plan asset and obligation on the combined statements of operations and changes in net assets:

	Year Ended December 31 2021	2020
	(In Thousands)	
Net gain	**$ 8,130**	$ 5,648
Amortization of net loss	**2,212**	3,262
Settlement cost	**1,752**	1,905
	$ 12,094	$ 10,815

A summary of the components of the changes in projected benefit obligation and fair value of plan assets for the Plan at and for the year ended December 31, is as follows:

	2021	2020
	(In Thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 269,632**	$ 268,290
Interest cost	**4,611**	7,178
Actuarial (gain) loss	**(4,669)**	8,385
Benefit payments:		
Lump sum	**(12,340)**	(10,683)
Annuity	**(3,811)**	(3,538)
Projected benefit obligation at the end of year	**253,423**	269,632
Change in plan assets:		
Fair value of plan assets at beginning of year	**214,934**	207,166
Actual return on plan assets	**10,102**	21,989
Benefit payments:		
Lump sum	**(12,340)**	(10,683)
Annuity	**(3,811)**	(3,538)
Fair value of plan assets at end of year	**208,885**	214,934
Funded status and net pension liability	**$ (44,538)**	$ (54,698)

10. Employee Benefit Plans (continued)

Since the Plan is frozen, there is no difference between the projected benefit obligation and the accumulated benefit obligation at December 31, 2021 or 2020.

Assumptions

Weighted-average assumptions used to determine the projected benefit obligation are as follows:

	December 31	
	2021	**2020**
Discount rate	**2.30%**	1.80%
Interest crediting rate (cash balance only)	**0.72**	2.11

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	December 31	
	2021	**2020**
Discount rate	**1.80%**	2.81%
Expected long-term rate of return on assets	**4.15**	5.00

The rate of return assumption was developed by applying an expected long-term rate of return, based primarily on long-term historical returns by asset type and applying the weighted-average percentage of total plan assets.

Plan Assets

The Plan seeks to assume an appropriate amount of risk to ensure enough assets are available over the life of the Plan to satisfy current and future liabilities. The Plan seeks to achieve and maintain a fully funded status while mitigating the funded status volatility. The strategy for achieving and maintaining this status may vary based on the current funded status, the duration of the Plan’s liabilities, the demographics of plan participants, and other factors.

10. Employee Benefit Plans (continued)

The Plan's target asset allocation is designed to meet the Plan's projected benefit obligation as split between traditional benefit and cash balance formulas. The target allocation for the traditional benefit portion of the Plan assets was as follows:

	December 31	
	2021	**2020**
Fixed income	**55%**	65%
Equity/real assets	**45**	35
	100%	100%

The target asset allocation for the cash balance portion of the Plan assets was as follows:

	December 31	
	2021	**2020**
Fixed income	**65%**	70%
Equity/real assets	**30**	20
Cash or other highly liquid investments	**5**	10
	100%	100%

10. Employee Benefit Plans (continued)

Fair Value Measurements

The Plan's assets impacting the funded status of the Plan are accounted for under ASC 715, *Compensation – Retirement Benefits*, which requires all Plan assets to be recorded at fair value.

The following table presents the plan assets carried at fair value by type of investments and the fair value levels defined in Note 1:

	December 31		
	2021	**2020**	**Level**
	(In Thousands)		
Separately-managed accounts			
IR+M fixed income – traditional[(A)]:			
Marketable debt securities:			
U.S. government	**$ 2,710**	$ 2,288	2
Corporate	**60,810**	68,963	2
Other	**2,548**	4,601	2
Total IR+M fixed income – traditional	**66,068**	75,852	
IR+M fixed income – cash balance[(B)]:			
Marketable debt securities:			
U.S. government	**1,237**	2,131	2
Corporate	**30,424**	51,312	2
Other	**909**	2,545	2
Total IR+M fixed income – cash balance	**32,570**	55,988	
Total separately-managed accounts	**$ 98,638**	$ 131,840	

10. Employee Benefit Plans (continued)

	December 31 2021	December 31 2020	Level
	(In Thousands)		
Mutual funds:			
PIMCO Foreign Bond Fund[C]	**$ –**	$ 2,292	1
PIMCO Emerging Market Local Bond Fund[D]	**4,679**	1,890	1
Vanguard Inflation Protected Securities Fund[E]	**–**	3,500	1
Wells Fargo International Bond Fund[F]	**–**	2,099	1
Dimensional Emerging Markets Fund[G]	**–**	3,652	1
American Funds Europacific Growth Fund[H]	**10,375**	12,982	1
Fidelity Real Estate Index Fund[I]	**7,811**	4,262	1
Oakmark International Fund[J]	**10,491**	10,664	1
Artisan High Yield Income[K]	**2,524**	4,931	1
BlackRock Strategic Income Fund [L]	**10,774**	–	1
PGIM Global Total Return Fund[M]	**3,219**	–	1
DWS RREEF Real Assets[N]	**6,525**	–	1
Total mutual funds	**56,398**	46,272	
Common and collective trust funds:			
Legal and General S&P 500 Index Fund[O]	**31,488**	22,204	NAV
GQG Emerging Markets Fund[P]	**4,409**	4,531	NAV
Wellington Small Capital Opportunities Fund[Q]	**9,769**	8,179	NAV
Total common and collective trust funds	**45,666**	34,914	
Pooled separate accounts:			
Edge Asset Management[R]	**379**	1,582	2
Money market fund	**7,804**	326	1
Total pooled separate accounts	**8,183**	1,908	
Total plan assets, at fair value	**$ 208,885**	$ 214,934	

10. Employee Benefit Plans (continued)

(A) Separately-managed account invested in fixed-income securities, including U.S. government securities, corporate bonds, and other fixed-income strategy investments. The separately managed account seeks to perform at a blended index of 45% Barclays U.S. Intermediate Credit and 55% Barclays U.S. Long Credit Index to match the estimated duration of the traditional benefit obligations.

(B) Separately-managed account invested in fixed-income securities, including U.S. government securities, corporate bonds, and other fixed-income strategy investments. The separately managed account seeks to perform at the Barclays U.S. Corporate High Yield Index to match the estimated duration of the cash balance benefit obligations.

(C) Mutual fund investing primarily in intermediate duration non-U.S. fixed-income securities from investment-grade issuers in developed countries to meet the Barclays Global Aggregate Ex-U.S. Index.

(D) Mutual fund investing in local currency-denominated emerging markets debt instruments of intermediate duration to meet the JP Morgan Emerging Market Bond Index.

(E) Mutual fund investing at least 80% of its assets in inflation-indexed bonds issued by the U.S. government and corporations to meet the Bloomberg Barclays U.S. TIPS Index.

(F) Mutual fund seeking total return by principally investing in foreign debt securities to meet the Barclays Global Aggregate Ex-U.S. Index.

(G) Mutual fund seeking to achieve long-term capital appreciation by investing in companies in emerging markets to meet the MSCI Emerging Markets Index.

(H) Mutual fund seeking to provide long-term growth of capital by investing in attractively valued companies in developed and emerging markets to meet the MSCI ACWI Ex-USA Index.

(I) Mutual fund seeking to provide investment results that correspond to the total return of equity REITs and other real estate-related investments to meet the FTSE NAREIT Equity REITs Index.

(J) Mutual fund seeking capital appreciation by investing in mid- and large-capitalization companies located outside the U.S. to meet the MSCI ACWI Ex-U.S. Large Value Index.

10. Employee Benefit Plans (continued)

(K) The mutual fund invests in non-investment grade corporate bonds and secured and unsecured loans of U.S. and non-U.S. issuers with high-quality business models and strives to exceed the Barclays U.S. Corporate High Yield Index.

(L) The mutual fund is a flexible bond strategy that seeks to offer investors attractive income, returns and meaningful portfolio diversification.

(M) The mutual fund seeks total return of current income and capital appreciation through a diversified portfolio of U.S. and non-U.S. fixed income securities.

(N) The mutual fund seeks total return in excess of inflation through capital growth and current income.

(O) Common and collective fund trust investing in primarily publicly traded U.S. securities to meet the S&P 500 Index.

(P) Common and collective trust fund seeks long-term capital appreciation by investing in growth businesses in emerging markets to meet the MSCI Emerging Markets Index.

(Q) Common and collective trust fund seeks to provide long-term total return by investments in companies with small market capitalizations to meet the Russell 2000 Index.

(R) Actively managed mutual fund of corporate and municipal fixed-income securities whose return is meant to mirror the Barclays U.S. 1 – 3 Year Credit Bond Index.

Fair value methodologies for Plan assets identified as Level 1, Level 2, and NAV are consistent with the inputs described in Note 5.

10. Employee Benefit Plans (continued)

Cash Flows

The Corporation does not expect to contribute to the Plan in 2022. The following table sets forth the benefit payout projections for the next ten years (in thousands):

Plan year ending December 31:		
2022	$	26,550
2023		18,080
2024		17,930
2025		17,810
2026		15,310
2027 –2031		61,390

Defined Contribution Plan

403(b)

In addition to the Plan, the Corporation also has defined contribution 403(b) retirement plan. For participants in the 403(b) defined contribution plan, the Corporation provides a matching contribution on a per pay period basis, up to 4% of employees' compensation. The Corporation will fund an additional non-elective contribution of 2% for employees who have at least 20 years of service as of January 1, 2018, and who do not terminate at any time during the plan year and are employed as of the last day of the plan year.

Discretionary contributions to the 403(b) defined contribution plan are based upon years of service and the amount an employee contributes above 4% of their eligible compensation if they are actively employed on the last day of the plan year. For employees with 0 to less than 10 years of service at the end of the plan year, the Corporation will match 50% of the next 2% of the employee's contribution, while for those employees with 10 or more years of service at the end of the plan year, the Corporation will match 100% of the next 2% of the employee's contribution.

Total expense related to the 403(b) defined contribution plan was $57.4 million and $52.8 million for the years ended December 31, 2021 and 2020, respectively, and is included in labor and benefits on the combined statements of operations and changes in net assets.

11. Functional Expenses

The Corporation, through certain affiliates (principally Norton Hospitals, Inc.), provides general health care services to residents within its geographic location.

The tables below present expenses by both their nature and function.

	Health Care Services	Support Services	Total
		(In Thousands)	
Year ended December 31, 2021			
Operating expenses:			
Labor and benefits	**$ 1,458,120**	**$ 220,057**	**$ 1,678,177**
Professional fees	**131,487**	**850**	**132,337**
Drugs and supplies	**692,697**	**70,632**	**763,329**
Fees and special services	**75,074**	**75,038**	**150,112**
Repairs, maintenance, and utilities	**47,334**	**57,573**	**104,907**
Rent and leases	**43,483**	**3,392**	**46,875**
Insurance	**25,006**	**1,149**	**26,155**
Provider tax	**67,101**	**–**	**67,101**
Other	**14,570**	**9,107**	**23,677**
Total operating expenses	**2,554,872**	**437,798**	**2,992,670**
Fixed expenses:			
Depreciation and amortization	**108,730**	**19,210**	**127,940**
Interest expense	**49,393**	**(2,488)**	**46,905**
Interest rate swap benefit, net	**–**	**(3,249)**	**(3,249)**
Total fixed expenses	**158,123**	**13,473**	**171,596**
Total expenses	**$ 2,712,995**	**$ 451,271**	**$ 3,164,266**

11. Functional Expenses (continued)

	Health Care Services	Support Services	Total
	(In Thousands)		
Year ended December 31, 2020			
Operating expenses:			
Labor and benefits	$ 1,245,604	$ 211,278	$ 1,456,882
Professional fees	102,601	649	103,250
Drugs and supplies	597,705	57,926	655,631
Fees and special services	76,907	68,645	145,552
Repairs, maintenance, and utilities	40,858	56,700	97,558
Rent and leases	41,568	3,130	44,698
Insurance	29,112	1,432	30,544
Provider tax	24,554	–	24,554
Other	13,455	7,804	21,259
Total operating expenses	2,172,364	407,564	2,579,928
Fixed expenses:			
Depreciation and amortization	95,054	19,848	114,902
Interest expense	49,071	(4,692)	44,379
Interest rate swap benefit, net	–	(934)	(934)
Total fixed expenses	144,125	14,222	158,347
Total expenses	$ 2,316,489	$ 421,786	$ 2,738,275

12. Commitments and Contingencies

The Corporation is in the process of improving and expanding its facilities. Future commitments related to the renovation of existing facilities or construction of new facilities totaled $65.5 million and $105.7 million at December 31, 2021 and 2020, respectively. This will be funded through bond proceeds and cash flows generated from operations.

The Corporation is subject to claims and suits arising in the ordinary course of business. Management assesses the probable outcome of unresolved litigation and records estimated settlements, if applicable. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Corporation's combined financial position.

13. Leases

The Corporation has operating and finance leases for medical offices, administrative offices, and certain equipment leases.

The components of net lease expense are as follows:

	Year ended December 31	
	2021	**2020**
	(In Thousands)	
Operating leases:		
Operating lease expense	**$ 31,602**	$ 30,343
Finance leases:		
Amortization of right-of-use assets	**6,696**	5,021
Interest on finance lease liabilities	**3,866**	3,943
Total finance lease expense	**10,562**	8,964
Short-term and variable lease expense	**7,036**	7,483
Less sublease income	**(1,177)**	(1,327)
Net lease expense	**$ 48,023**	$ 45,463

The following table presents the components of the Corporation's right-of-use assets and liabilities related to leases and their classification in the combined balance sheets at:

		December 31	
	Combined Balance Sheet Classification	**2021**	**2020**
		(In Thousands)	
Assets:			
Operating leases	Operating lease right-of-use assets, net	**$ 158,254**	$ 140,637
Finance leases	Property and equipment, net	**69,310**	68,491
Total lease right-of-use assets, net		**$ 227,564**	$ 209,128
Liabilities:			
Current:			
Operating leases	Current portion of operating lease liability	**$ 23,772**	$ 20,012
Finance leases	Current portion of long-term debt	**6,064**	5,311
Noncurrent:			
Operating leases	Long-term operating lease liability, net of current portion	**134,516**	120,053
Finance leases	Long-term debt, net of current portion	**78,711**	77,567
Total lease liabilities		**$ 243,063**	$ 222,943

13. Leases (continued)

Other information related to leases is as follows:

	Year ended December 31 2021	2020
	(In Thousands)	
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	**$ 3,907**	$ 3,943
Operating cash flows from operating leases	**30,545**	27,272
Financing cash flows from finance leases	**5,569**	3,797
Right-of-use assets obtained in exchange for new lease obligations		
Operating leases	**$ 42,838**	$ 14,084
Finance leases	**–**	10,057
Weighted average remaining lease term (in years)		
Operating leases	**6.8**	**6.6**
Finance leases	**14.4**	**15.1**
Weighted average discount rate		
Operating leases	**2.24%**	**2.80%**
Finance leases	**5.33**	**5.91**

13. Leases (continued)

Commitments relating to non-cancellable operating and finance leases as of December 31, 2021, are as follows:

	Operating	Finance
	(In Thousands)	
2022	$ 27,372	$ 9,711
2023	29,278	9,891
2024	26,090	10,077
2025	24,195	9,204
2026	19,873	6,854
Thereafter	45,512	81,432
Total minimum future lease payments	172,320	127,169
Less imputed interest	(14,032)	(42,394)
Total lease liabilities	158,288	84,775
Less current portion	23,772	6,064
Long-term lease liabilities	$ 134,516	$ 78,711

14. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

	December 31	
	2021	**2020**
Medicare	**21%**	25%
Medicaid	**16**	17
Blue Cross	**32**	32
Other third-party payors	**24**	20
Self-pay	**7**	6
	100%	100%

15. The Regional Health Network of Kentucky and Southern Indiana, LLC

In May 2012, the Corporation entered into a partnership agreement with Lifepoint Hospitals, Inc. to form The Regional Health Network of Kentucky and Southern Indiana, LLC (Regional) for the purpose of acquiring and operating hospitals in southern Indiana and Kentucky, currently Scott County Memorial Hospital and Clark Memorial Hospital.

The Corporation has an ownership interest in Regional of 25% at both December 31, 2021 and 2020, and does not manage or control the operations. The investment is accounted for under the equity method of accounting wherein the Corporation's investment (recorded on a one-month lag) is recorded in investments in joint ventures in the Corporation's combined balance sheets and its share of the (loss) income, which is disclosed in Note 1, is reflected in joint venture income in the Corporation's combined statements of operations and changes in net assets.

The following is a summary of Regional's assets, liabilities, and equity (from its unaudited financial statements):

	December 31	
	2021	**2020**
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 676**	$ 396
Patient accounts receivable	**30,728**	24,405
Intercompany	**–**	20,102
Property and equipment, net	**46,391**	47,806
Other assets	**26,280**	23,552
Total assets	**$ 104,075**	$ 116,261
Liabilities and equity		
Accounts payable	**$ 9,298**	$ 9,657
Accrued payroll	**5,500**	5,328
Intercompany	**15,741**	–
Other liabilities	**5,220**	30,844
Total liabilities	**35,759**	45,829
Total equity	**68,316**	70,432
Total liabilities and equity	**$ 104,075**	$ 116,261

15. The Regional Health Network of Kentucky and Southern Indiana, LLC (continued)

The following is a summary of Regional's results of operations (from its unaudited financial statements):

	Year Ended December 31 2021	2020
	(In Thousands)	
Revenue	**$ 208,117**	$ 181,394
Operating expenses:		
Labor and benefits	**109,381**	97,207
Professional fees	**5,878**	5,156
Supplies	**31,228**	28,084
Fees and special services	**17,067**	14,426
Repairs, maintenance, and utilities	**13,127**	11,974
Rents and leases	**1,646**	1,450
Insurance	**1,531**	1,365
Non-income taxes	**15,443**	13,288
Other	**2,904**	(17,466)
Total operating expenses	**198,205**	155,484
Earnings before fixed expenses	**9,912**	25,910
Fixed expenses:		
Depreciation	**6,417**	6,948
Interest expense	**311**	785
Management fees	**6,244**	5,462
Other non-operating gains	**(342)**	(368)
	12,630	12,827
(Loss) income from operations	**$ (2,718)**	$ 13,083

16. COVID-19 Pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a public health emergency related to a novel coronavirus known as coronavirus disease 2019 (COVID-19) and, in March 2020, COVID-19 was declared a national emergency in the United States and was declared a global pandemic by the World Health Organization. The effects of the ongoing COVID-19 pandemic, which included stock market exchange volatility, various temporary or permanent business closures, event cancellations, supply disruptions, and disruptions to the provision of care as well as the public's seeking of medical care, have and may continue to adversely impact the Corporation as well as the local, regional, national, and global economies. As COVID-19 patient hospitalizations continued to surge throughout 2021, the Corporation continued to take appropriate action to respond to the ongoing COVID-19 pandemic.

CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020, and established a Public Health and Social Services Emergency Fund (Provider Relief Fund) among other forms of relief, including expansion of the Medicare Accelerated and Advance Payment Program and allowing the deferral of federal employer payroll taxes. The Paycheck Protection Program and Health Care Enhancement Act was enacted on April 24, 2020 and provided additional funding for the Provider Relief Fund.

Provider Relief Fund

Payments from the Provider Relief Fund are intended to compensate health care providers for expenses or lost revenues that are attributable to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funds to reimburse expenses or losses that other sources are obligated to reimburse. The Corporation received $112.3 million from HHS as a part of the Provider Relief Funds as of December 31, 2020, of which $34.4 million and $77.9 million was recognized as revenue in CARES Act Provider Relief Funds in the combined statement of operations and changes in net assets for the years ended December 31, 2021 and 2020, respectively. The $34.4 million Provider Relief Funds received in 2020 but not recognized until 2021 was recorded as a refundable advance in accrued expenses and other on the combined balance sheet at December 31, 2020. These funds were not recognized until the Corporation believed qualifying lost revenues and expenses had been incurred.

16. COVID-19 Pandemic (continued)

Certain terms and conditions under the CARES Act are subject to further refinement and changes. Under the terms and conditions of the Provider Relief Fund, HHS has established four reporting periods. If unable to attest to or comply with these or future terms and conditions, the ability of the Corporation to retain some or all of the distributions received may be impacted. As of December 31, 2021 there have been no changes to amounts previously recorded.

Employee Retention Credit

Introduced in the CARES Act, the Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021.

For each employee, wages (including certain health plan costs) up to $10,000 can be counted to determine the amount of the 50% credit. The Corporation qualified for payment through the full or partial suspension of operations due to the Governor's mandate to cease elective surgeries from March 23, 2020 through May 27, 2020. As a result, approximately $10.5 million was received from the IRS in 2021 related to the ERC and recognized as Other revenue in the combined statement of operations during the year then ended

Medicare Accelerated and Advance Payments Program

In September 2020, the Corporation received a $179.8 million advance payment from CMS as part of the Medicare Accelerated and Advance Payment Program, whereby inpatient acute care hospitals and other eligible providers were able to request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through the withholding of future Medicare fee-for-service payments. CMS began recouping the advance payment one year after receipt of the payment and will withhold 25% of all remittances during the first 11 months of recoupment, and then CMS will increase the withholding to 50% of all remittances during the following 6 months of recoupment. Any remaining balance due 29 months after receipt is to be repaid subject to interest on the outstanding balance. At December 31, 2020, $31.0 million of the accelerated payment was estimated to be recouped during 2021 and recorded as a contract liability within accrued expenses and other. The remaining $148.8 million was recorded in other non-current liabilities on the combined balance sheet at December 31, 2020. As of December 31, 2021, $30.4 million of the Corporation's advance payment had been recouped. Of the remaining advance balance, a total of $135.2 million is estimated to be recouped within one year of December 31,

16. COVID-19 Pandemic (continued)

2021, and is recorded as a contract liability in accrued expenses and other. The remaining $14.2 million is recorded as a contract liability in other non-current liabilities on the combined balance sheet at December 31, 2021.

Employer Payroll Tax Deferral

The CARES Act allowed for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020. The Corporation began deferring payment of its

share of the social security payroll tax in April 2020 and, as of December 31, 2020, had deferred $42.8 million. At December 31, 2020, $21.4 million was in accrued payroll and related items and $21.4 million was recorded in other non-current liabilities. At December 31, 2021 the entire amount deferred has been repaid, including those amounts not due until December 31, 2022, and no related amounts are recorded in the combined balance sheet.

17. Subsequent Events

The Corporation has evaluated and disclosed any subsequent events through March 31, 2022, which is the date the accompanying combined financial statements were issued. Except as discussed below, no recognized or non-recognized subsequent events were identified for recognition or disclosure in the combined financial statements.

King's Daughters Health, Inc. Business Combination

On January 1, 2022, the Corporation acquired, in the form of a member substitution, King's Daughters' Health, Inc., (KDH) for a purchase price of approximately $133.0 million, subject to final adjustment based upon the actual closing date net asset amount. The net asset adjustment consists of the difference between the estimated and actual net assets at the date of closing. The acquisition (member substitution) enabled the Corporation to expand its customer base and to strengthen and ensure the future sustainability of KDH. Due to the timing of the closing of the transaction, the Corporation was required to prefund approximately $99.8 million of the purchase price which is reflected as a current asset on the combined balance sheet at December 31, 2021.

The member substitution of KDH constitutes a business combination as defined by ASC 805, *Business Combinations* (ASC 805). In accordance with ASC 805, assets acquired and liabilities assumed are recorded at their estimated fair values on the combined balance sheet on January 1, 2022.

17. Subsequent Events (continued)

The allocation of purchase price to the assets acquired and liabilities assumed at the date of the acquisition is presented in the table below. This allocation is based upon valuations using management's estimates and assumptions and is preliminary as of the date of these combined financial statements, pending final adjustments. Management utilizes third-party valuation firms to assist in the determination of purchase accounting fair values, and specifically those considered Level 3 measurements. Any necessary adjustments will be finalized within one year from the date of acquisition. The Corporation expects to continue to obtain information for the purpose of determining the fair value of the assets acquired and liabilities assumed at the acquisition date throughout the remainder of the measurement period. Management ultimately oversees the third-party valuation firms to ensure that the transaction-specific assumptions are appropriate for the Corporation.

Price	$ 132,987
Identifiable assets acquired and liabilities assumed:	
Cash	25,190
Patient accounts receivable	19,733
Assets limited as to use	219,392
Property and equipment	86,633
Other assets	9,048
Accounts payable, accrued expenses and other liabilities	(13,767)
Current portion of long-term debt	(2,286)
Long-term debt, net of current portion	(84,714)
Total identifiable net assets	259,229
Excess of total identifiable net assets over total consideration	$ 126,242

The excess of total identifiable net assets fair value over total consideration will be recorded as a non-operating gain in 2022, subject to finalization of purchase accounting adjustments.