Combined Financial Statements

Norton Healthcare, Inc. and Affiliates
Years Ended December 31, 2019 and 2018
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, 2019 and 2018

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Report of Independent Auditors

The Board of Trustees
Norton Healthcare, Inc. and Affiliates

We have audited the accompanying combined financial statements of Norton Healthcare, Inc. and Affiliates, which comprise the combined balance sheets as of December 31, 2019 and 2018, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Norton Healthcare, Inc. and Affiliates at December 31, 2019 and 2018, and the combined results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Changes in Accounting Principle

As discussed in Note 1 to the combined financial statements, Norton Healthcare, Inc. and Affiliates changed their method of recognizing leases as a result of the adoption of Accounting Standards Update 2016-02, *Leases (Topic 842)*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

March 31, 2020

Norton Healthcare, Inc. and Affiliates

Combined Balance Sheets

	December 31 2019	December 31 2018
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 109,578**	$ 194,516
Marketable securities and other investments	**131,194**	127,504
Patient accounts receivable	**262,386**	237,089
Inventory	**61,174**	56,974
Prepaid expenses and other	**48,208**	49,173
Miscellaneous receivables	**21,122**	20,334
Current portion of assets limited as to use	**23,077**	21,489
Total current assets	**656,739**	707,079
Assets limited as to use, net of current portion	**1,572,956**	1,380,057
Property and equipment, net	**1,069,550**	968,413
Other assets:		
Investments in joint ventures	**27,914**	17,213
Pledges receivable, net	**23,548**	22,679
Beneficial interest in trusts held by others	**25,978**	22,555
Goodwill and indefinite-lived intangible assets	**20,508**	20,517
Interest rate swaps asset	**3,108**	2,366
Operating lease right-of-use assets	**183,467**	–
Other assets	**23,495**	23,630
Total other assets	**308,018**	108,960
Total assets	**$ 3,607,263**	$ 3,164,509

	December 31	
	2019	**2018**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 87,184**	$ 84,739
Accrued expenses and other	**78,064**	78,296
Current portion of operating lease liability	**19,506**	–
Accrued payroll and related items	**139,089**	129,369
Due to third-party payors, net	**23,900**	47,378
Accrued interest	**8,411**	8,553
Current portion of long-term debt	**38,183**	37,150
Total current liabilities	**394,337**	385,485
Other non-current liabilities:		
Pension liability	**61,124**	77,149
Insurance liability	**90,384**	86,649
Long-term operating lease liability, net of current portion	**163,143**	–
Other	**80,592**	69,598
Total other non-current liabilities	**395,243**	233,396
Long-term debt, net of current portion	**1,045,186**	1,079,693
Net assets:		
Without donor restrictions	**1,643,022**	1,347,941
With donor restrictions	**129,475**	117,994
Total net assets	**1,772,497**	1,465,935
Total liabilities and net assets	**$ 3,607,263**	$ 3,164,509

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2019	**2018**
	(In Thousands)	
Revenue:		
Net patient service revenue	**$ 2,494,112**	$ 2,314,044
Other revenue	**48,221**	42,739
Donations and contributions	**11,737**	13,168
Joint venture income	**6,090**	827
Total revenue	**2,560,160**	2,370,778
Operating expenses:		
Labor and benefits	**1,293,870**	1,199,135
Professional fees	**82,713**	80,051
Drugs and supplies	**604,820**	528,791
Fees and special services	**133,512**	127,195
Repairs, maintenance, and utilities	**91,564**	80,652
Rent and leases	**44,110**	38,208
Insurance	**24,312**	24,105
Provider tax	**20,130**	20,130
Other	**21,882**	20,579
Total operating expenses	**2,316,913**	2,118,846
Earnings before fixed expenses and other gains (losses)	**243,247**	251,932
Fixed expenses:		
Depreciation and amortization	**104,542**	98,482
Interest expense	**41,222**	46,866
Interest rate swaps benefit, net	**(1,655)**	(2,009)
	144,109	143,339
Patient service margin	**99,138**	108,593

Norton Healthcare, Inc. and Affiliates

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

	Year Ended December 31	
	2019	**2018**
	(In Thousands)	
Patient service margin	**$ 99,138**	$ 108,593
Investment gain	**74,126**	55,006
Operating gain	**173,264**	163,599
Non-operating gains (losses):		
Change in net unrealized gains (losses) on investments	**116,662**	(95,191)
Change in interest rate swaps value	**742**	1,655
Petersdorf Fund grants	**(5,762)**	(1,368)
Net periodic pension cost	**(10,081)**	(11,469)
Other non-operating gains (losses), net	**6,010**	(91)
Total non-operating gains (losses)	**107,571**	(106,464)
Excess of revenue over expenses	**280,835**	57,135
Net assets without donor restrictions:		
Change in pension plan asset and obligation	**7,309**	933
Net assets released from restriction for equipment and other	**6,937**	3,691
Increase in net assets without donor restrictions	**295,081**	61,759
Net assets with donor restrictions:		
Contributions, fees, grants, bequests, net	**14,689**	12,793
Investment gain	**3,344**	2,677
Change in beneficial interest in trusts held by others	**3,202**	(1,079)
Change in net unrealized gains (losses) on investments	**4,975**	(4,211)
Net assets released from restriction	**(14,729)**	(11,649)
Increase (decrease) in net assets with donor restrictions	**11,481**	(1,469)
Increase in net assets	**306,562**	60,290
Net assets at beginning of year	**1,465,935**	1,405,645
Net assets at end of year	**$ 1,772,497**	$ 1,465,935

See accompanying notes.

Norton Healthcare, Inc. and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31	
	2019	**2018**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 306,562**	$ 60,290
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**104,542**	98,482
Discount accretion	**2,890**	3,090
Change in net unrealized (gains) losses on investments	**(121,637)**	99,402
Change in interest rate swaps value	**(742)**	(1,655)
Change in pension plan asset and obligation	**(7,309)**	(933)
Restricted contributions and investment gain	**(21,235)**	(14,391)
Cash (used in) provided by operating assets and liabilities:		
Change in patient accounts receivable	**(25,297)**	27,918
Change in assets limited as to use, net	**(72,850)**	(22,950)
Change in amounts due to third-party payors	**(23,478)**	15,271
Change in marketable securities and other investments	**(3,690)**	(2,712)
Change in other current and non-current assets and liabilities	**9,517**	(38,654)
Net cash provided by operating activities	**147,273**	223,158
Investing activities		
Purchase of property and equipment	**(205,679)**	(188,627)
Change in joint ventures and other	**(10,701)**	46,492
Net cash used in investing activities	**(216,380)**	(142,135)
Financing activities		
Increase in long-term debt	**–**	13,615
Principal payments on long-term debt	**(37,066)**	(37,259)
Restricted contributions and investment gain	**21,235**	14,391
Net cash used in financing activities	**(15,831)**	(9,253)
(Decrease) increase in cash and cash equivalents	**(84,938)**	71,770
Cash and cash equivalents at beginning of year	**194,516**	122,746
Cash and cash equivalents at end of year	**$ 109,578**	$ 194,516

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 1,837 licensed beds, 14 Norton Immediate Care Centers, and providing care at more than 250 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 U.S. generally accepted accounting principles (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, 2019, 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 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 to use.

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted. 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. The amount of cash and cash equivalents carried on the combined balance sheets represents fair value.

Marketable Securities and Other Investments

Marketable securities and other investments consist primarily of marketable debt securities which are used by the Corporation to support short-term operational and capital needs. As of December 31, 2019 and 2018, $27.6 million and $21.4 million, respectively, included obligations whose maturities were 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 and, therefore, have included the assets 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.

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

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

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, 2019 and 2018.

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 (losses) 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 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 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 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.

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

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 the investments and their similarity to mutual funds.

Fair Value of Financial Instruments

The Corporation follows the provisions of ASC 820, *Fair Value Measurement*, 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 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.

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

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).

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.

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

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 impairment of property and equipment recognized for the years ended December 31, 2019 or 2018.

Leases

The Corporation leases property and equipment under finance and operating leases. The Corporation determines if 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 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 are included in current portion and non-current portion of operating lease liability and operating lease right-of-use assets 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.

Finance lease liabilities and related right-of-use assets are included in current portion and non-current portion of long-term debt and property and equipment, net on the combined balance sheet. Finance lease right-of-use assets 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 accounted for using the equity method or cost method of accounting, as appropriate.

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

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

	December 31 2019	2018
	(In Thousands)	
Premier Healthcare Alliance, LP *(Note 15)*	**$ 2,545**	$ 3,073
The Regional Health Network of Kentucky and Southern Indiana, LLC *(Note 16)*	**14,663**	11,831
Other	**10,706**	2,309
	$ 27,914	$ 17,213

The following is a summary of joint venture income:

	Year Ended December 31 2019	2018
	(In Thousands)	
Premier Healthcare Alliance, LP *(Note 15)*	**$ 1,015**	$ 2,472
The Regional Health Network of Kentucky and Southern Indiana, LLC *(Note 16)*	**2,832**	(1,637)
Other	**2,243**	(8)
	$ 6,090	$ 827

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, 2019 or 2018.

Goodwill and Indefinite-Lived Intangible Assets

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 in certain circumstances, utilizing qualitative and quantitative factors. Goodwill

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

impairment testing is done at the reporting unit level 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. 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, 2019 and 2018.

The annual impairment test performed in 2019 and 2018 resulted in no adjustments to recorded goodwill and indefinite-lived intangible assets.

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 $113.4 million and $108.4 million as of December 31, 2019 and 2018, respectively. Medical malpractice and general liability self-insurance liabilities of $25.0 million and $23.4 million are included in accrued expenses and other current liabilities at December 31, 2019 and 2018, respectively, based on the expectation of the payout of claims in the subsequent year. Additionally, the Corporation has recorded total receivables of $11.3 million and $12.5 million as of December 31, 2019 and 2018, respectively, for anticipated reinsurance recoveries. Of total anticipated reinsurance recoveries, $2.8 million are classified as current at both December 31, 2019 and 2018, and are recorded in miscellaneous receivables on the combined balance sheets. The non-current portion of anticipated reinsurance recoveries of $8.5 million and $9.7 million at December 31, 2019 and 2018, 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 $4.6 million and $0.3 million in 2019 and 2018, 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 1.75% and 2.75% at December 31, 2019 and 2018, respectively, represent management's best estimate of ultimate costs.

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

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 accompanying 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.

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 (losses) 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

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

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 revenue is recognized when goods or services are provided and the Corporation does not believe it is required to provide additional goods or services.

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

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

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.

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 2019 or 2018.

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, 2019 and 2018, were not significant to the Corporation.

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.

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

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 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 $2.7 million and $14.5 million in 2019 and 2018, 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

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

provided was approximately $15.2 million and $14.0 million in 2019 and 2018, respectively. To offset the cost of charity care provided, the Corporation received state means program reimbursement and other financial assistance related receipts of $0.8 million and $3.9 million in 2019 and 2018, respectively.

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, 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 patient service margin, operating gain, and excess of revenue over expenses. Excess of revenue over expenses represents the operating 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 trusts in its combined balance sheet and the changes in the fair values of the ownership interests of the trusts as net assets with donor restrictions.

Contributions Received and Pledges Receivable

Contributions without donor restriction are recorded as contributions and donation revenue within the combined statement 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 1.94% at December 31, 2019, and from 0.03% to 1.37% at December 31, 2018. 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 2019	2018
	(In Thousands)	
Gross pledges due:		
In less than one year	**$ 10,367**	$ 11,487
In one to five years	**4,176**	4,610
In more than five years	**33,616**	31,180
	48,159	47,277
Allowance for uncollectible pledges	**(262)**	(1,441)
Discounting	**(14,244)**	(13,111)
Net pledges receivable	**33,653**	32,725
Less current portion	**(10,105)**	(10,046)
Net pledges receivable long-term	**$ 23,548**	$ 22,679

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 2016 through 2018 remains open in the major U.S. taxing jurisdictions in which the Corporation is subject to taxation, and the 2019 tax year's statute of limitations will begin once returns for that year are filed. In addition, for all tax years prior to 2017 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, 2019, the Corporation has NOL carryforwards of approximately $24.1 million ($28.0 million at December 31, 2018). These NOL carryforwards expire in years 2021 to 2038. As a result of the NOL carryforwards, the Corporation recorded a deferred income tax asset of $6.2 million and $7.8 million at December 31, 2019 and 2018, 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 five-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 $6.2 million and $7.8 million at December 31, 2019 and 2018, respectively.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The primary impact in 2017 on the Corporation was the Act reduced the U.S. federal corporate tax rate from 35% to 21%, which required a remeasurement of the Corporation's deferred taxes. For tax-exempt entities, effective beginning in the 2018 tax year, the Act also requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. At December 31, 2018, the Corporation made a reasonable estimate of the tax effects of the enactment of the Act and remeasured its deferred tax balances, which did not have a material impact on the Corporation as all deferred tax balances are offset by a full valuation allowance. The Corporation did not record any material changes to its December 31, 2018, estimates in 2019. Additionally, the Corporation did not record any material amounts during the year ended December 31, 2019, related to the new requirements under the Act.

Recent Accounting Pronouncements

Recently Adopted

Effective January 1, 2019, the Corporation adopted the cumulative accounting standard updates initially issued by the FASB in February 2016 that amend the accounting for leases and are codified as ASC 842, *Leases* (ASC 842). ASC 842 requires the rights and obligations arising from lease contracts to be recognized as right-of-use assets and lease liabilities on the balance sheet. The Corporation adopted ASC 842 using a modified retrospective approach, and, as such, prior year comparative combined financial statements have not been restated to reflect the adoption of ASC 842. The Corporation elected the transition package of practical expedients available in ASC 842 whereby upon adoption, an entity need not reassess expired or existing contracts for whether the contracts are or contain leases, lease classification, or initial direct costs.

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

The adoption of ASC 842 had a material impact on the Corporation's combined balance sheet through the recording of operating lease liabilities and related right-of-use assets for leases in effect at January 1, 2019, but the adoption did not have a material impact on the Corporation's combined statement of operations and changes in net assets or combined statement of cash flows for the year ended December 31, 2019. The Corporation recorded approximately $167.0 million of operating lease liabilities and right-of-use assets on January 1, 2019, upon adoption of ASC 842, with no impact to the combined statement of operations and changes in net assets or combined statement of cash flows.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Corporation adopted ASU 2018-08 effective January 1, 2019. The impact of adoption of ASU 2018-08 was not material to total revenue, excess of revenue over expenses, or total net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18). ASU 2016-18 intends to clarify the classification and presentation of changes in restricted cash and cash equivalents on the statement of cash flows. The Corporation adopted ASU 2016-18 effective January 1, 2019, using a retrospective transition method to each period presented. The adoption of ASU 2016-18 did not impact the combined statements of cash flows.

Yet to be Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* (ASU 2018-13). ASU 2018-13 improves the disclosure requirements on fair value measurements and is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Corporation is currently evaluating the impact ASU 2018-13 will have on its combined financial statements.

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

Reclassification

Certain balances in the 2018 combined balance sheet, combined statement of operations and changes in net assets, and footnote disclosures have been reclassified to conform to current year presentation. The effect of such reclassifications did not change total net assets, operating gain, or excess of revenue over expenses.

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 2017 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) (see Note 4). Other programs that benefit the Corporation's community are listed below.

2. Community Service (Unaudited) (continued)

The costs associated with providing community service are as follows:

	Year Ended December 31 2019	2018
	(In Thousands)	
Charity care[(A)]	**$ 14,408**	$ 10,069
Educational support	**53,233**	41,666
Unpaid cost of Medicaid services	**65,928**	95,365
Sponsorships	**1,693**	1,865
Community cancer initiatives	**6,038**	5,249
Community service activities	**1,080**	1,043
Other community benefits	**12,630**	11,819
	$ 155,010	$ 167,076

[(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 $0.8 million and $3.9 million in 2019 and 2018, respectively.

3. Property and Equipment

Property and equipment consists of:

	December 31 2019	2018
	(In Thousands)	
Land and land improvements	**$ 73,449**	$ 47,715
Buildings	**1,085,753**	1,073,218
Equipment	**1,260,957**	1,147,946
	2,420,159	2,268,879
Accumulated depreciation and amortization	**(1,550,711)**	(1,446,653)
	869,448	822,226
Construction-in-process	**200,102**	146,187
	$ 1,069,550	$ 968,413

3. Property and Equipment (continued)

Equipment includes computer software costs of $99.9 million and $96.8 million at December 31, 2019 and 2018, 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 $77.9 million and $69.4 million at December 31, 2019 and 2018, 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 $8.5 million and $8.4 million for the years ended December 31, 2019 and 2018, 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.

	December 31	
	2019	**2018**
	(In Thousands)	
By Board of Trustees for indigent care, education, research, and community health initiatives (Petersdorf Fund)	**$ 118,720**	$ 130,657
By Board of Trustees	**1,264,129**	1,021,098
By self-insurance trust agreements	**108,907**	95,327
Less current portion	**(22,243)**	(20,631)
By self-insurance trust agreements, net	**86,664**	74,696
By bond indenture trust agreements	**21,885**	72,846
Less current portion	**(11)**	(19)
By bond indenture trust agreements, net	**21,874**	72,827
By contractual agreement	**24,040**	29,888
Less current portion	**(823)**	(839)
By contractual agreement	**23,217**	29,049
By donors	**58,352**	51,730
	$ 1,572,956	$ 1,380,057

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

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.

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

	December 31	
	2019	**2018**
Money market funds	**3.4%**	3.5%
Marketable debt securities	**14.8**	18.0
Marketable equity securities	**6.3**	4.7
Mutual funds	**37.7**	38.5
Private equity funds	**4.2**	6.0
Hedge funds	**22.2**	19.3
Real estate funds	**6.9**	7.4
Common and collective trust funds	**4.5**	2.6
	100.0%	100.0%

At December 31, 2019, the Corporation has committed capital yet to be called of approximately $25.0 million to private equity funds over the next one to three years ($23.6 million at December 31, 2018).

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 (losses) 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 return:

	Year Ended December 31	
	2019	**2018**
	(In Thousands)	
Investment gain by net asset class:		
Without donor restrictions	**$ 74,126**	$ 55,006
With donor restrictions	**3,344**	2,677
Total investment gain	**$ 77,470**	$ 57,683
Components of investment gain:		
Interest and dividends	**$ 31,514**	$ 29,081
Income distributions from trusts	**1,108**	1,107
Investment fees	**(4,733)**	(4,557)
Net realized gains on investments recorded at fair value	**14,097**	38,670
Change in net unrealized gains (losses) on investments recorded at other than fair value	**35,484**	(6,618)
Total investment gain	**$ 77,470**	$ 57,683

The total changes in net unrealized gains (losses) on investments with and without donor restrictions was $121.6 million and $(99.4) million for the years ended December 31, 2019 and 2018, respectively, and is solely composed of the change in net unrealized gains (losses) 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)

	December 31 2019	December 31 2018	Level
	(In Thousands)		
Marketable securities and other investments, at fair value			
Marketable debt securities[A]	**$ 131,194**	$ 127,504	2
Assets limited as to use, at fair value			
By Board of Trustees and donors:			
Money market fund	**5,548**	8,648	1
Mutual funds:			
Templeton Global Equity Fund[B]	**–**	73,281	1
PIMCO Real Return Fund[C]	**45,951**	41,104	1
Capital World Growth and Income Fund[D]	**120,605**	82,224	1
Dodge & Cox Global Stock Fund[E]	**121,937**	75,007	1
Dreyfus Global Equity Fund[F]	**120,974**	91,783	1
Wells Capital Management Core Fixed Income[G]	**54,098**	51,505	1
Vanguard Emerging Market Stock Fund[H]	**31,011**	19,582	1
MetWest Total Return Bond Fund[I]	**56,370**	51,516	1
Other mutual funds[J]	**50,858**	39,947	1
Total mutual funds	**601,804**	525,949	
Common and collective trust funds:			
City of London International Equity Fund[K]	**31,882**	–	NAV
Wellington Diversified Inflation Hedge[L]	**40,165**	35,711	NAV
Total common and collective trust funds	**72,047**	35,711	
Separately-managed accounts:			
Sterling Capital[M]	**67,501**	63,114	2
EPOCH All Cap US Equity[N]	**80,878**	50,643	1
Disciplined Growth Investors[O]	**80,193**	49,355	1
Other[P]	**1,322**	1,118	1
Total separately-managed accounts	**229,894**	164,230	
Total assets limited as to use by Board of Trustees and donors, at fair value	**$ 909,293**	$ 734,538	

5. Fair Value Measurements (continued)

	December 31 2019	December 31 2018	Level
	(In Thousands)		
By contractual agreements:			
Money market fund	**$ 24,040**	$ 29,888	1
Total assets limited as to use by contractual agreements, at fair value	**24,040**	29,888	
By self-insurance trust agreements:			
Mutual fund:			
Sterling Behavioral Small Cap Value[(Q)]	**–**	3,804	1
Separately-managed accounts:			
Money market fund	**8,036**	2,990	1
Marketable debt securities[(R)]	**77,953**	71,474	2
Sterling Special Opportunities Equity[(S)]	**8,732**	17,059	1
Sterling Fundamental Small Cap Value Strategy[(T)]	**5,641**	–	1
Sterling Equity Income Strategy[(U)]	**8,545**	–	1
Total separately-managed accounts	**108,907**	91,523	
Total assets limited as to use by self-insurance trust agreements, at fair value	**108,907**	95,327	
By bond indenture trust agreements:			
Money market fund	**11**	19	1
Marketable debt securities[(V)]	**21,874**	72,827	2
Total assets limited as to use by bond indenture, at fair value	**21,885**	72,846	
Total assets limited as to use, at fair value	**1,064,125**	932,599	
Assets limited as to use at other than fair value:			
Hedge funds[(W)]	**355,082**	321,449	N/A
Real estate funds[(X)]	**109,445**	103,968	N/A
Private equity funds[(Y)]	**67,381**	43,530	N/A
Total assets limited as to use at other than fair value	**531,908**	468,947	
Less current portion of self-insurance trust and bond indenture trust and assets limited as to use by contractual agreement	**(23,077)**	(21,489)	
Total assets limited as to use	**$ 1,572,956**	$ 1,380,057	
Other assets at fair value:			
Beneficial interest in trusts held by others *(Note 1)*	**$ 25,978**	$ 22,555	2
Interest rate swaps asset *(Note 7)*	**3,108**	2,366	2

5. Fair Value Measurements (continued)

(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 invests in domestic and international equities to achieve long-term capital growth. Fund strives to exceed the MSCI World Index.

(C) 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 fund may also invest in U.S. Treasury securities, corporate bonds, mortgage-backed securities and emerging market bonds to add value when opportunities arise.

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

(E) 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.

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

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

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

(I) 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 its net assets may be invested in securities rated below investment grade.

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

(K) Common and collective trust 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 US Index.

(L) 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. This common and collective trust fund seeks to exceed the Dow Jones AIG Commodity Total Return Index.

5. Fair Value Measurements (continued)

(M) 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.

(N) 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.

(O) 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 and 50 securities with an average turnover ratio ranging from 15% to 30%.

(P) Conglomeration of smaller accounts whose components are not deemed material for individual breakout. Largest holding is a money market fund (67%).

(Q) Mutual fund that seeks to capitalize on behaviorally driven market anomalies by employing a disciplined investment process that ranks small capitalization companies in the fund's universe based on a number of factors, including valuation, price momentum and earnings revisions.

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

(S) 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.

(T) 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.

(U) 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.

(V) Externally managed portfolio holding primarily U.S. agency and Treasury securities (approximately 73% of the portfolio) and highly rated municipal and commercial paper fixed-income securities (approximately 27% of the portfolio) structured to generate returns while protecting principal and providing liquidity to fund draws on the project fund.

(W) 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 total consists of twelve separate funds. The managers employ various strategies, including, but not limited to, long/short equity, long/short credit, distressed credit, merger/credit arbitrage, and macrotrading strategies.

5. Fair Value Measurements (continued)

(X) The real estate funds include an actively managed private real estate investment trust (REIT) composed of participating mortgages and wholly owned real estate investments. The real estate fund total consists of two separate funds. 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.

(Y) The private equity funds are comprised of limited partnerships that invest in the equity and debt of privately held companies. The private equity fund total consists of eight separate funds. 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, 2019 and 2018, 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, 2019 or 2018.

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 Asset

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.

Other Fair Value Measurements

The carrying value of pledges receivable is required to be disclosed at fair value under applicable accounting guidance. The fair value of the Corporation's pledges receivable, based on discounted cash flow analysis and adjusted for consideration of the donor's credit, is $33.7 million and $32.7 million at December 31, 2019 and 2018, 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.

Certain financial instruments are not required to be marked to fair value on a recurring basis, and, therefore, the level of disclosure is noted as not applicable.

6. Net Patient Service Revenue

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

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	(Dollars In Thousands)			
Commercial	**$ 1,192,775**	**48%**	$ 1,190,284	52%
Medicare	**741,753**	**30**	675,373	29
Medicaid	**495,285**	**20**	396,830	17
Self-pay and other	**64,299**	**2**	51,557	2
	$ 2,494,112	**100%**	$ 2,314,044	100%

7. Long-Term Debt

Long-term debt consists of the following:

	December 31 2019	December 31 2018
	(In Thousands)	
Louisville/Jefferson County Metro Government Health System Revenue Bonds, Series 2016, dated August 11, 2016 (2016 Bonds)	**$ 554,870**	$ 573,400
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)	**4,300**	6,400
Louisville/Jefferson County Metro Government Health System Variable Rate Revenue Bonds, dated August 10, 2011 (2011 Bonds)	**79,995**	82,725
Kentucky Economic Development Finance Authority, Health System Revenue Bonds, Series 2000, dated October 1, 2000 (2000 Bonds)	**178,280**	189,420
	1,022,025	1,056,525
Unamortized premiums	**21,251**	18,360
Less unamortized deferred financing costs	**(8,237)**	(8,938)
	1,035,039	1,065,947
Capital leases	**–**	50,896
Finance leases	**48,330**	–
Total long-term debt	**1,083,369**	1,116,843
Less amounts due within one year	**(38,183)**	(37,150)
Total long-term debt, net of current portion	**$ 1,045,186**	$ 1,079,693

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 \$91.1 million and \$97.9 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018, 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.

7. Long-Term Debt (continued)

The 2016B Bonds and 2016C Bonds are a direct placement issue and held entirely by Branch Banking and Trust Company, with final maturity in 2021 and 2023, respectively. The 2016B and 2016C Bonds are subject to optional redemption at any time prior to maturity by the Corporation for 100% of par. At December 31, 2019 and 2018, the applicable cost of the debt for the 2016B and 2016C Bonds was approximately 2.1% and 2.6%, respectively.

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 bonds. Proceeds from the 2013B Bonds were used to refund all remaining Series 2000C Bonds outstanding at the time.

At both December 31, 2019 and 2018, 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 2028. 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 September 25, 2023. 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 both December 31, 2019 and 2018, the applicable cost of the debt for the 2013C Bonds was approximately 2.3%.

7. Long-Term Debt (continued)

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 a final maturity occurring in 2021. The approximate cost of debt at both December 31, 2019 and 2018, was 2.00%. The 2012A Bonds are subject to optional redemption by the Corporation at any time prior to maturity subject to "make whole" provisions.

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 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 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, 2021. 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, 2019 and 2018, the applicable cost of the debt for the 2011A Bonds and 2011B Bonds was approximately 2.3% and 2.4%, respectively.

The 2011C Bonds are direct placement issuances and are held entirely by PNC Bank, and their final maturity occurs in 2021. At December 31, 2019 and 2018, the applicable cost of debt for the 2011C Bonds was approximately 2.5% and 3.0%, respectively. The 2011C Bonds are subject to optional redemption at any time prior to maturity subject to make whole provisions.

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 revenue bonds (2000A Bonds), $119.2 million of Series B insured revenue bonds (2000B Bonds), and $180.5 million of Series C insured revenue bonds (2000C Bonds), for a total of $448.0 million (collectively, the 2000 Bonds). 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 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, 2019 and 2018, the remaining 2000 Bonds consist of the 2000B Bonds with interest rates ranging from 6.13% to 6.23%, and 6.10% 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. 2000B Bonds mature in various amounts 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)		
2020	$ 27,338	$ 43,929	$ 71,267
2021	26,507	45,235	71,742
2022	26,674	45,178	71,852
2023	26,792	45,007	71,799
2024	15,559	56,211	71,770
Thereafter	761,035	395,500	1,156,535
	$ 883,905	$ 631,060	$ 1,514,965

7. Long-Term Debt (continued)

Included as part of the interest payments above is $7.8 million of the 2000B Bonds interest payable in 2020, which is paid at the maturity of the 2000B Bonds. For 2020 through final maturity of the 2000B Bonds, $138.1 million is included in interest payments, which is paid at the various maturities of the 2000B Bonds.

For the variable-rate bond series, which includes all of the Series 2011 Bonds, 2013C Bonds, 2016B 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 2.38%.

The Corporation paid interest of $48.0 million and $48.2 million during 2019 and 2018, respectively. The Corporation capitalized interest costs of $2.9 million and $1.7 million during 2019 and 2018, respectively.

7. Long-Term Debt (continued)

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 London Interbank Offered Rates (LIBOR). The Corporation holds the following interest rate swaps:

Counter party	Notional Amount	Effective Date	Maturity Date	Receive	Pay	2019	2018
						(In Thousands)	
Citigroup	$ 100,000	02/21/2001	10/01/2028	1.4925% of one-month LIBOR	2 times SIFMA	**$ 1,355**	$ 1,349
Citigroup	100,000	10/01/2004	10/01/2028	62.6% of one-month LIBOR plus 0.57%	SIFMA	**(211)**	241
Citigroup	140,000	11/03/2006	11/03/2031	61.7% of one-month LIBOR plus 0.577%	SIFMA	**3,480**	1,702
Citigroup	200,000	11/03/2008	11/03/2026	61.7% of ten-year LIBOR minus 0.016%	SIFMA	**877**	(926)
JP Morgan	200,000	04/01/2019	04/01/2039	0.124%	–	**(2,393)**	–
		11/03/2026		61.7% of ten-year LIBOR	SIFMA	**–**	–
						$ 3,108	$ 2,366

7. Long-Term Debt (continued)

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 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, 2019 and 2018, based upon the agreements with Citigroup and JP Morgan the Corporation's cumulative contract value was an asset of $4.6 million and $2.8 million, respectively. Based upon the Corporation's lowest credit rating (A), collateral must be posted for liabilities in excess of $25 million. At December 31, 2019 and 2018, 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 swap agreements to maturity, as it intends, no cash settlement will be necessary, and any posted swap collateral will be returned.

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 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 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 fair value at December 31, 2019 and 2018, is included within interest rate swaps asset on the combined balance sheets. 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, 2019 and 2018, the cash flows were in a receivable position. The receivable is included within miscellaneous receivables on the combined balance sheets.

7. Long-Term Debt (continued)

	Miscellaneous Receivable	Interest Rate Swap Asset	Combined Balance Sheet, Net
	(In Thousands)		
December 31, 2017	$ 441	$ 711	$ 1,152
Interest rate swaps benefit, net	2,009	–	2,009
Swap cash settlement received	(1,986)	–	(1,986)
Change in interest rate swaps value	–	1,655	1,655
December 31, 2018	464	2,366	2,830
Interest rate swaps benefit, net	**1,655**	–	**1,655**
Swap cash settlement received	**(1,771)**	–	**(1,771)**
Change in interest rate swaps value	–	**742**	**742**
December 31, 2019	**$ 348**	**$ 3,108**	**$ 3,456**

8. Net Assets with Donor Restrictions

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

	December 31 2019	2018
	(In Thousands)	
Health care services	**$ 79,086**	$ 76,558
Investments to be held in perpetuity, the income from which is expendable to support health care services	**24,411**	18,881
Beneficial interest in trusts held by others, the income from which is expendable to support health care services	**25,978**	22,555
Total net assets with donor restrictions	**$ 129,475**	$ 117,994

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 the 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.

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, which 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.

9. Endowment Funds (continued)

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

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 as follows:

	December 31	
	2019	**2018**
	(In Thousands)	
Fair value of underwater endowment funds	**$ 1,974**	$ 4,093
Original endowment gifts	**2,001**	4,571
Amount of deficiencies	**$ (27)**	$ (478)

9. Endowment Funds (continued)

The Corporation had endowment-related activities as follows:

	Year Ended December 31 2019	2018
	(In Thousands)	
Endowment net assets, beginning of year	**$ 18,881**	$ 20,691
Investment gain (loss)	**3,494**	(1,414)
Contributions, less uncollectible pledges	**2,972**	128
Appropriation of endowment assets for expenditure	**(960)**	(884)
Other	**24**	360
Endowment net assets, end of year	**$ 24,411**	$ 18,881

10. Employee Benefit Plans

Defined Benefit Plan

Certain employees of the Corporation are covered by a non-contribution defined benefit pension plan (the Plan). Benefits are generally based upon years of service and an employee's annual compensation during his or her years of service. The Corporation annually funds an amount not less than the minimum required under the Employee Retirement Income Security Act of 1974. The Plan was frozen effective January 1, 2010, and, as a result, no service cost was incurred in 2019 or 2018, and none is expected in future periods.

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 December 31, 2019 and 2018, 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 to the court 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

10. Employee Benefit Plans (continued)

be vacated in part and remanded to the lower Court for further evaluation. The Plan and the Plaintiff have completed briefing with the lower Court. Based on the timing of 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, 2019, combined financial statements.

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	
	2019	**2018**
	(In Thousands)	
Interest cost	**$ 9,030**	$ 8,042
Expected return on plan assets	**(6,034)**	(3,629)
Amortization of net loss	**4,470**	4,282
Settlement cost	**2,615**	2,774
Net periodic benefit cost	**$ 10,081**	$ 11,469

Included as a component of net periodic benefit cost for 2019 and 2018 is a settlement cost of $2.6 million and $2.8 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 2019 and 2018, the Plan paid $11.9 million and $10.6 million, respectively, in lump-sum benefit payments. This exceeded the threshold of $9.0 million and $8.0 million in 2019 and 2018, 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 $58.9 million and $66.2 million of unrecognized actuarial losses at December 31, 2019 and 2018, respectively, which have not been recognized in net periodic benefit cost. Changes in pension plan assets and obligations recognized in net assets without donor restrictions for the years ended December 31, 2019 and 2018, were $7.3 million and $0.9 million, respectively.

10. Employee Benefit Plans (continued)

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:

	2019	2018
	(In Thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 252,801**	$ 266,112
Interest cost	**9,030**	8,042
Actuarial loss (gain)	**21,689**	(7,862)
Benefit payments:		
Lump sum	**(11,920)**	(10,594)
Annuity	**(3,310)**	(2,897)
Projected benefit obligation at the end of year	**268,290**	252,801
Change in plan assets:		
Fair value of plan assets at beginning of year	**175,652**	199,410
Actual return (loss) on plan assets	**27,939**	(10,432)
Employer contributions	**18,805**	165
Benefit payments:		
Lump sum	**(11,920)**	(10,594)
Annuity	**(3,310)**	(2,897)
Fair value of plan assets at end of year	**207,166**	175,652
Funded status and net pension liability	**$ (61,124)**	$ (77,149)

Since the Plan is frozen, there is no difference between the projected benefit obligation and the accumulated benefit obligation at December 31, 2019 or 2018.

Assumptions

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

	December 31	
	2019	**2018**
Discount rate	**2.81%**	3.88%
Interest crediting rate (cash balance only)	**3.33**	2.40

10. Employee Benefit Plans (continued)

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

	December 31	
	2019	**2018**
Discount rate	**3.88%**	3.26%
Expected long-term rate of return on assets	**5.00**	3.00

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.

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

	December 31	
	2019	**2018**
Fixed income	**65%**	65%
Equity/real assets	**35**	35
	100%	100%

10. Employee Benefit Plans (continued)

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

	December 31	
	2019	**2018**
Fixed income	**70%**	70%
Equity	**18**	18
Real assets	**2**	2
Cash or other highly liquid investments	**10**	10
	100%	100%

Fair Value Measurements

The Plan's assets impacting the funded status of the Plan are accounted for under ASC 715, *Compensation – Retirement Benefits*. 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		
	2019	**2018**	**Level**
	(In Thousands)		
Separately-managed accounts			
IR+M fixed income – traditional(A):			
Marketable debt securities:			
U.S. government	**$ 2,254**	$ 1,224	2
Corporate	**67,553**	59,524	2
Other	**3,679**	2,916	2
Total IR+M fixed income – traditional	**73,486**	63,664	
IR+M fixed income – cash balance(B):			
Marketable debt securities:			
U.S. government	**2,189**	1,001	2
Corporate	**53,020**	48,779	2
Other	**1,808**	1,420	2
Total IR+M fixed income – cash balance	**57,017**	51,200	
Total separately-managed accounts	**$ 130,503**	$ 114,864	

10. Employee Benefit Plans (continued)

	December 31 2019	December 31 2018	Level
	(In Thousands)		
Mutual funds:			
Hotchkis & Wiley High Yield Fund(C)	**$ –**	$ 3,942	1
PIMCO Foreign Bond Fund(D)	**2,159**	2,050	1
PIMCO Emerging Market Local Bond Fund(E)	**1,850**	1,601	1
Vanguard Inflation Protected Securities Fund(F)	**3,525**	3,207	1
Wells Fargo International Bond Fund(G)	**2,199**	2,038	1
Dimensional Emerging Markets Fund(H)	**3,445**	2,612	1
American Funds Europacific Growth Fund(I)	**10,808**	7,610	1
Fidelity Real Estate Index Fund(J)	**4,807**	4,301	1
Oakmark International Fund(K)	**10,323**	7,249	1
Artisan High Yield Income(L)	**4,474**	–	2
Total mutual funds	**43,590**	34,610	
Common and collective trust funds:			
Legal and General S&P 500 Index Fund(M)	**20,973**	15,944	NAV
GQG Emerging Markets Fund(N)	**3,289**	2,549	NAV
Wellington Small Capital Opportunities Fund(O)	**6,909**	4,847	NAV
Total common and collective trust funds	**31,171**	23,340	
Pooled separate accounts:			
Edge Asset Management(P)	**1,615**	2,586	2
Money market fund	**287**	252	1
Total pooled separate accounts	**1,902**	2,838	
Total plan assets, at fair value	**$ 207,166**	$ 175,652	

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 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 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 whose total return strategy seeks to emphasize higher quality and lower volatility to meet the Barclays U.S. Corporate High Yield Index.

(D) 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.

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

(F) 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.

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

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

(I) 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.

10. Employee Benefit Plans (continued)

(J) 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.

(K) 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.

(L) The 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.

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

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

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

(P) Actively managed 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 2020. The following table sets forth the benefit payout projections for the next ten years (in thousands):

Plan year ending December 31:	
2020	$ 25,690
2021	19,960
2022	19,300
2023	16,500
2024	17,200
2025 – 2029	70,120

Defined Contribution Plan

403(b)/401(k) Plan

In addition to the Plan, the Corporation also has defined contribution 403(b)/401(k) retirement plans (collectively referred to as Defined Contribution Plans). The 401(k) retirement plan was terminated effective January 1, 2019. Participants were given the option to rollover 401(k) participant account balances to other qualified defined contribution plans, including the Corporation's 403(b) defined contribution plan, if eligible, or receive distributions upon plan liquidation. Effective January 1, 2018, the Corporation provides a matching contribution 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.

Beginning in the 2018 plan year, discretionary contributions to the Defined Contribution Plans 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.

10. Employee Benefit Plans (continued)

Total expense related to the Defined Contribution Plans was $47.2 million and $45.1 million for the years ended December 31, 2019 and 2018, 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, 2019			
Operating expenses:			
Labor and benefits	**$ 1,101,659**	**$ 192,211**	**$ 1,293,870**
Professional fees	**82,091**	**622**	**82,713**
Drugs and supplies	**570,794**	**34,026**	**604,820**
Fees and special services	**61,786**	**71,726**	**133,512**
Repairs, maintenance, and utilities	**40,186**	**51,378**	**91,564**
Rent and leases	**40,954**	**3,156**	**44,110**
Insurance	**23,622**	**690**	**24,312**
Provider tax	**20,130**	**–**	**20,130**
Other	**12,780**	**9,102**	**21,882**
Total operating expenses	**1,954,002**	**362,911**	**2,316,913**
Fixed expenses:			
Depreciation and amortization	**85,403**	**19,139**	**104,542**
Interest expense	**43,720**	**(2,498)**	**41,222**
Interest rate swap benefit, net	**–**	**(1,655)**	**(1,655)**
Total fixed expenses	**129,123**	**14,986**	**144,109**
Total expenses	**$ 2,083,125**	**$ 377,897**	**$ 2,461,022**

11. Functional Expenses (continued)

	Health Care Services	Support Services	Total
		(In Thousands)	
Year ended December 31, 2018			
Operating expenses:			
Labor and benefits	$ 1,014,802	$ 184,333	$ 1,199,135
Professional fees	79,499	552	80,051
Drugs and supplies	527,833	958	528,791
Fees and special services	60,757	66,438	127,195
Repairs, maintenance, and utilities	37,074	43,578	80,652
Rent and leases	35,103	3,105	38,208
Insurance	22,143	1,962	24,105
Provider tax	20,130	–	20,130
Other	10,161	10,418	20,579
Total operating expenses	1,807,502	311,344	2,118,846
Fixed expenses:			
Depreciation and amortization	78,919	19,563	98,482
Interest expense	46,269	597	46,866
Interest rate swap benefit, net	–	(2,009)	(2,009)
Total fixed expenses	125,188	18,151	143,339
Total expenses	$ 1,932,690	$ 329,495	$ 2,262,185

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 $110.6 million and $70.7 million at December 31, 2019 and 2018, 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 following table presents the components of rent and lease expense for the year ended December 31, 2019 (in thousands):

Operating leases:	
Operating lease expense	$ 29,915
Finance leases:	
Amortization of right-of-use assets	3,827
Interest on finance lease liabilities	3,749
Total finance lease expense	7,576
Short-term and variable lease expense	7,245
Less sublease income	(1,631)
Net lease expense	$ 43,105

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 sheet:

	Combined Balance Sheet Classification	December 31, 2019
		(In Thousands)
Assets:		
Operating leases	Operating lease right-of-use assets	$ 183,467
Finance leases	Property and equipment, net	37,424
Total lease right-of-use assets		$ 220,891
Liabilities:		
Current:		
Operating leases	Current portion of operating lease liability	$ 19,506
Finance leases	Current portion of long-term debt	3,033
Noncurrent:		
Operating leases	Long-term operating lease liability, net of current portion	163,143
Finance leases	Long-term debt, net of current portion	45,297
Total lease liabilities		$ 230,979

13. Leases (continued)

Other information related to leases for the year ended December 31, 2019 (dollars in thousands) is as follows:

Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$	3,705
Operating cash flows from operating leases		27,310
Financing cash flows from finance leases		1,924
Right-of-use assets obtained in exchange for new lease obligations		
Operating leases	$	29,540
Finance leases		–
Weighted average remaining lease term (in years)		
Operating leases		8.7
Finance leases		16.0
Weighted average discount rate		
Operating leases[1]		2.98%
Finance leases		7.78

[1] Upon adoption of ASC 842 on January 1, 2019, discount rates used for existing leases were established at January 1, 2019

13. Leases (continued)

Commitments relating to non-cancellable operating and finance leases as of December 31, 2019, are as follows:

	Operating	Finance
	(In Thousands)	
2020	$ 24,677	$ 6,422
2021	27,684	6,759
2022	26,491	6,900
2023	24,472	7,026
2024	22,041	7,156
Thereafter	84,684	57,552
Total minimum future lease payments	210,049	91,815
Less imputed interest	(27,400)	(43,485)
Total lease liabilities	182,649	48,330
Less current portion	(19,506)	(3,033)
Long-term lease liabilities	$ 163,143	$ 45,297

At December 31, 2018, certain leases were classified as capital leases. The leased assets are included as a part of property and equipment (Note 3), and the capital lease obligations are recorded in the current and non-current portion of long-term debt in the combined balance sheet. Assets recorded under capital lease as of December 31, 2018, were $62.6 million. Accumulated amortization on these capital lease assets was $22.3 million at December 31, 2018.

Future payments on capital leases at December 31, 2018, were as follows:

	Principal	Interest	Total
		(In Thousands)	
2019	$ 2,610	$ 3,705	$ 6,315
2020	2,901	3,521	6,422
2021	3,454	3,305	6,759
2022	3,850	3,050	6,900
2023	4,259	2,767	7,026
Thereafter	33,822	30,852	64,674
	$ 50,896	$ 47,200	$ 98,096

13. Leases (continued)

Other leases were classified as operating and are not capitalized. The payments on such leases are recorded as rent and leases in the combined statement of operations and changes in net assets. Rental expense, which includes amounts applicable to cancelable leases, for the year ended December 31, 2018, was $38.2 million.

Future minimum lease payments for office space and equipment, by year, under non-cancelable, operating leases with initial or remaining terms in excess of one year at December 31, 2018, were as follows (in thousands):

Year ending December 31:	
2019	$ 30,345
2020	29,330
2021	28,108
2022	26,993
2023	24,584
Thereafter	106,308
Total	$ 245,668

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	
	2019	**2018**
Medicare	**23%**	21%
Medicaid	**16**	18
Blue Cross	**29**	25
Other third-party payors	**25**	26
Self-pay	**7**	10
	100%	100%

15. Premier Healthcare Alliance, LP

The Corporation is a partner in Premier Healthcare Alliance, LP (Premier LP), which is a group purchasing organization (GPO). The Corporation's participation in the GPO provides purchasing contract rates and rebates the Corporation would not be able to obtain on its own. The Corporation holds membership units in Premier LP which have vesting rights over a seven-year period and upon vesting become eligible for exchange into the Class A publicly traded common stock of Premier, Inc. The Corporation currently accounts for its membership units in Premier LP using the cost method of accounting. The increase in the estimated value of the Corporation's membership units as they vest is considered a vendor incentive under applicable accounting literature, which increases the Corporation's investment in Premier LP and reduces supplies expense over the seven-year vesting period ending in 2020. The Corporation recognized a vendor incentive as a reduction in supplies expense for the common stock vesting of $10.2 million and $14.7 million for the years ended December 31, 2019 and 2018, respectively.

The Corporation exchanged 329,728 membership units for 329,728 shares of Class A common stock of Premier, Inc. and 1,648,640 membership units for 1,648,640 shares of Class A common stock of Premier, Inc. on October 31, 2019 and 2018, respectively. These transactions resulted in reclassifications from investment in joint ventures to assets limited as to use in the combined balance sheet of $10.7 million and $59.0 million at the respective dates of the transfers. The Class A common stock shares of Premier, Inc. were sold in December 2019 and November and December 2018, respectively, and the Corporation realized gains of $1.3 million and $6.2 million for the years ended December 31, 2019 and 2018, respectively, which are included in investment gain in the combined statement of operations and changes in net assets.

16. 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, 2019 and 2018, 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 income (loss), 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.

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

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

	December 31 2019	December 31 2018
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 465**	$ 1,356
Patient accounts receivable	**32,311**	22,892
Property and equipment, net	**50,259**	68,914
Other assets	**27,563**	15,502
Total assets	**$ 110,598**	$ 108,664
Liabilities and equity		
Accounts payable	**$ 8,132**	$ 9,126
Accrued payroll	**8,085**	7,557
Intercompany	**38,046**	34,845
Other liabilities	**(1,014)**	5,958
Total liabilities	**53,249**	57,486
Total equity	**57,349**	51,178
Total liabilities and equity	**$ 110,598**	$ 108,664

16. 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 2019	2018
	(In Thousands)	
Revenue	**$ 197,094**	$ 189,031
Operating expenses:		
Labor and benefits	**97,562**	98,217
Professional fees	**4,242**	4,269
Supplies	**31,236**	29,624
Fees and special services	**13,552**	12,282
Repairs, maintenance, and utilities	**13,709**	13,975
Rents and leases	**1,491**	1,416
Insurance	**1,320**	1,559
Non-income taxes	**9,696**	15,840
Other	**3,315**	3,616
Total operating expenses	**176,123**	180,798
Earnings before fixed expenses	**20,971**	8,233
Fixed expenses:		
Depreciation	**7,051**	10,201
Interest expense	**2,758**	1,772
Management fees	**5,897**	5,687
Other non-operating gains	**(906)**	(7,457)
	14,800	10,203
Income (loss) from operations	**$ 6,171**	$ (1,970)

17. Subsequent Events

Companies that are considered public (e.g., have publicly traded debt) are required to disclose significant changes occurring in the fourth quarter that may impact previously reported quarterly financial statements. Management has determined there are no other transactions that require disclosure for the quarter ended December 31, 2019.

2020 Bond Offering

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 these bonds will 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 March 31, 2020 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.

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, the 2020C Bonds, and the 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.

17. Subsequent Events (continued)

COVID-19 Outbreak

The effects of the global viral outbreak of coronavirus disease 2019 (COVID-19) in 2020, which include significant stock market exchange volatility, various temporary business closures, and event cancellations, may result in supply disruptions, decisions to defer elective procedures and other medical treatments at the Corporation's facilities, and/or other impacts to the Corporation as the broader economic impact of COVID-19 develops. While the ultimate impact of these matters to the Corporation and its financial condition is presently unknown, the effects of COVID-19 could negatively impact the Corporation's financial condition. The accompanying combined financial statements as of and for the year ended December 31, 2019, do not reflect the effects of these subsequent events.

The Corporation has evaluated and disclosed any subsequent events through March 31, 2020, which is the date the accompanying combined financial statements were issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the combined financial statements.

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