

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Saint Elizabeth Medical Center, Inc.
For the Year Ended December 31, 2023

Saint Elizabeth Medical Center, Inc.

Consolidated Financial Statements
and Supplementary Information

December 31, 2023 and 2022

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Saint Elizabeth Medical Center, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Other Matter

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

Plante & Moran, PLLC

April 2, 2024

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2023 and 2022

(in thousands)

	<u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,081	\$ 62,275
Short-term investments <i>(Note 3)</i>	76,578	10,600
Patient accounts receivable <i>(Note 1)</i>	177,744	165,513
Inventories and supplies	50,790	48,532
Prepaid expenses and other current assets	86,145	52,170
Total current assets	<u>445,338</u>	<u>339,090</u>
Cash and cash equivalents - Restricted <i>(Note 1)</i>	30,890	67,911
Assets limited as to use <i>(Note 3)</i>	1,624,665	1,470,820
Right of use operating lease assets	125,293	131,639
Property, plant and equipment, net <i>(Note 5)</i>	799,344	752,984
Goodwill <i>(Note 6)</i>	17,651	17,651
Intangible assets <i>(Note 6)</i>	5,514	4,450
Foundation pledge receivables	6,098	11,037
Pension asset <i>(Note 11)</i>	47,739	6,402
Fair value of interest rate swap <i>(Note 8)</i>	5,514	6,361
Other assets	206,326	170,986
Total assets	<u>\$ 3,314,372</u>	<u>\$ 2,979,331</u>

Saint Elizabeth Medical Center, Inc.

Consolidated Balance Sheets

December 31, 2023 and 2022
(in thousands)

	<u>2023</u>	<u>2022</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 118,046	\$ 95,649
Accrued employee compensation	185,537	159,932
Accrued interest	1,596	1,688
Accrued third-party settlements (Note 7)	76,585	77,112
Deferred revenue	725	1,824
Other current liabilities	21,119	23,243
Current portion of long-term debt (Note 8)	10,057	9,604
Current portion of lease liabilities - Operating (Note 9)	14,127	14,090
Total current liabilities	<u>427,792</u>	<u>383,142</u>
Long-term debt (Note 8)	332,520	343,802
Long-term lease liabilities - Operating (Note 9)	115,760	122,181
Liability for self-insurance	54,594	66,850
Fair value of interest rate swap (Note 8)	526	483
Other long-term liabilities	77,325	60,959
Total liabilities	<u>1,008,517</u>	<u>977,417</u>
Net assets:		
Net assets without donor restriction	2,267,845	1,965,141
Net assets with donor restriction (Note 1)	38,062	36,783
Total net assets excluding noncontrolling interest	<u>2,305,907</u>	<u>2,001,924</u>
Noncontrolling interest	(52)	(10)
Total net assets	<u>2,305,855</u>	<u>2,001,914</u>
Total liabilities and net assets	<u>\$ 3,314,372</u>	<u>\$ 2,979,331</u>

Saint Elizabeth Medical Center, Inc.

Consolidated Statements of Operations and Changes in Net Assets

Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
Patient service revenue <i>(Note 7)</i>	\$ 1,993,585	\$ 1,786,891
Net assets released from restriction for operations	1,220	711
Other revenue	179,693	166,259
Total revenue	2,174,498	1,953,861
Expenses:		
Salaries and wages	978,375	915,623
Employee benefits	214,451	225,523
Purchased services	138,150	116,335
Interest	10,450	10,517
Depreciation and amortization	91,988	88,294
Supplies	450,817	389,457
Other	185,659	169,200
Total expenses <i>(Note 10)</i>	2,069,890	1,914,949
Operating income	104,608	38,912
Unrestricted contributions	653	375
Other gains (losses), net <i>(Note 3)</i>	147,242	(127,697)
Excess of revenue over expenses (expenses over revenue)	252,503	(88,410)
Excess of expenses over revenue attributable to noncontrolling interest	(42)	(83)
Excess of revenue over expenses (expenses over revenue) attributable to St. Elizabeth Medical Center, Inc.	252,545	(88,327)
Net assets without donor restriction:		
Pension change other than net periodic costs <i>(Note 11)</i>	49,932	(6,666)
Other	(69)	(70)
Net assets released from restriction for capital	296	148
Increase (decrease) in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	302,704	(94,915)
Net assets with donor restrictions:		
Net increase in cash, cash equivalents, and restricted cash	2,795	947
Net assets released from restriction	(1,516)	(859)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	1,279	88
Increase (decrease) in net assets attributable to St. Elizabeth Medical Center, Inc.	303,983	(94,827)
Non-controlling interest:		
Excess of expenses over revenue attributable to noncontrolling interest	(42)	(83)
Paid in capital by equity owners	-	75
Decrease in net assets attributable to noncontrolling interest	(42)	(8)
Increase (decrease) in net assets	303,941	(94,835)
Net assets at beginning of period	2,001,914	2,096,749
Net assets at end of period	\$ 2,305,855	\$ 2,001,914

Saint Elizabeth Medical Center, Inc.
Consolidated Statement of Cash Flows
Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
Operating activities and gains		
Increase (decrease) in net assets	\$ 303,941	\$ (94,835)
Adjustments to reconcile increase (decrease) in net assets to net cash, cash equivalents, and restricted cash provided by operating activities and (gains) losses:		
Depreciation and amortization	91,988	88,294
Amortization of bond premium/discount and issuance costs	(1,225)	(1,335)
Interest and dividends received on long-term investments	(38,270)	(30,715)
Net unrealized and realized (gains) losses on long-term investments	(117,154)	180,956
Change in pension other than net periodic costs	(49,932)	6,666
Change in fair value of interest rate swap	890	(23,446)
Income recognized from joint ventures and limited liability partnerships	(5,124)	(7,631)
Proceeds from contributions restricted for long-term purposes	(5,816)	(4,478)
Changes in operating assets and liabilities:		
Patient accounts receivable	(12,231)	17,061
Inventory, supplies, prepaid expenses, and other current assets	(36,231)	723
Other assets	(17,506)	(6,504)
Accounts payable	22,396	7,553
Medicare advanced funds payable	-	(61,929)
Other liabilities	19,489	(22,524)
Net cash provided by operating activities and gains	155,215	47,856
Investing activities		
Change in short-term investments, net	(65,978)	59,957
Change in assets limited to use, net	62,377	48,699
Expenditures for property, plant, and equipment	(137,667)	(108,598)
Cash received from (invested in) joint ventures and limited liability partnerships, net	7,170	(3,210)
Other	(1,745)	-
Net cash used by investing activities	(135,843)	(3,152)
Financing activities		
Proceeds from contributions restricted for long-term purposes	5,816	4,478
Payments on long-term debt	(9,604)	(8,983)
Net cash used by financing activities	(3,788)	(4,505)
Net increase in cash, cash equivalents, and restricted cash	15,584	40,199
Cash, cash equivalents, and restricted cash at beginning of period	149,428	109,229
Cash, cash equivalents, and restricted cash at end of period	\$ 165,012	\$ 149,428
Consolidated balance sheet classification of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	54,081	62,275
Restricted cash	30,890	67,911
Assets limited as to use - Restricted cash and cash equivalents	80,041	19,242
Total cash, cash equivalents, and restricted cash	\$ 165,012	\$ 149,428

See notes to consolidated financial statements

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies

Organization and Mission

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

SEP has approximately 242 full-time equivalent primary care physicians, 176 full-time equivalent specialty physicians, and 232 advanced practice providers operating in 203 offices throughout Northern Kentucky, Ohio, and Indiana. SEP performs most of the physician billings for St. Elizabeth Healthcare's hospital facilities.

The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) as of December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022. SEH reflects non-controlling interest in net assets on the balance sheet and on the income statement for consolidated entities that are not wholly owned.

Use of Estimates

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

Cash and Cash Equivalents

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

Restricted Cash

The bonds issued by St. Elizabeth Healthcare during the year ended December 31, 2021 required amounts to be set aside for the purpose of financing acquisition, construction, installation and equipping of facilities suitable for use by SEH as healthcare and health related facilities. These amounts were classified as restricted cash on the consolidated balance sheet in 2023 and 2022 and represented \$28,000 and \$41,068,000, respectfully, of the restricted cash balance.

The remaining amount in restricted cash for 2023 and 2022 is from restricted contributions.

Accounts Receivable

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

St. Elizabeth Healthcare performs periodic assessments to determine if an allowance for expected credit losses is necessary. Incurred loss experience is considered and adjusted for known and expected events and other circumstances. In estimating its expected credit losses, St. Elizabeth Healthcare may consider changes in the length of time its receivables have been outstanding, changes in credit ratings for its payors, and notices of payor bankruptcies or payors entering receivership. Because St. Elizabeth Healthcare's accounts receivable is typically paid for by highly-solvent, creditworthy payors, such as Medicare, other governmental programs, and highly regulated commercial insurers on behalf of the patient, the Company's credit losses have been infrequent and insignificant in nature. Amounts recognized for allowances for expected credit losses are immaterial to the financial statements.

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

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

	<u>2023</u>	<u>2022</u>
Medicare	31%	30%
Medicaid	11	13
Anthem Blue Cross	25	19
Humana	1	2
United Healthcare	6	6
Other insurance and workers' compensation	10	14
Self-pay and residual self-pay	16	16
Total	<u>100%</u>	<u>100%</u>

Patient accounts receivables were approximately \$177,744,000, \$165,513,000, and \$182,574,000 at December 31, 2023, 2022, and 2021, respectively.

Short-term Investments

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

Inventories

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

Assets Limited as to Use and Investments

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

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

Fair Value Measurements

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

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

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

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

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

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

Derivative Instruments

St. Elizabeth Healthcare has entered into certain interest rate swap arrangements in connection with its debt. Under ASC 815, *Derivatives and Hedging*, St. Elizabeth Healthcare records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. The change in the fair market value of interest rate swaps is included within other gains (losses) within excess of revenue over expenses.

Property, Plant, and Equipment and Depreciation

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

Goodwill and Intangible Assets

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

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

Foundation Pledges Receivables

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets include investments in joint ventures and limited liability partnerships, which are accounted for using the equity method of accounting. These investments were \$30,645,000 and \$32,691,000 as of December 31, 2023 and 2022, respectively. The following reflects total unaudited financial information for these joint ventures and limited liability partnerships as of and for the years ended December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Total assets	158,732	155,191
Total net assets	118,652	98,483
Total net income	13,042	11,371

Other assets also include the plan assets of a 457(b) plan, as well as a non-qualified welfare benefit plan, both available to certain employees of St. Elizabeth Healthcare. Each of these balances are included in other assets on the consolidated balance sheet. The 457(b) plan assets were approximately \$59,356,000 and \$45,894,000 at December 31, 2023 and 2022, respectively, and included in the fair value hierarchy table in Note 4.

Unamortized Bond Issue Costs

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

Malpractice and General Liability Contingencies

St. Elizabeth Healthcare maintains a policy of self-insuring its professional liability risks for individual losses up to specified amounts per claim. In addition, the self-insurance plan has specified annual aggregate limits. St. Elizabeth Healthcare carries insurance coverage for incidents that would exceed coverages specified by the self-insurance program.

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

Malpractice and general liability claims for incidents that may give rise to litigation have been asserted against St. Elizabeth Healthcare by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2023 that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients; however,

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

because the annual excess insurance policy covers only claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by excess insurance. The liability for medical malpractice at December 31, 2023 and 2022 includes estimated amounts for claims and related legal expenses for these unreported incidents.

At December 31, 2023 and 2022, St. Elizabeth Healthcare's management recorded its best estimate of these contingent losses based upon recommendations of professional actuaries. Recorded malpractice and general liability self-insurance liabilities, discounted at 2.18 percent and 1.88 percent at December 31, 2023 and 2022, respectively, are adequate in management's opinion. As the actuarially determined accrual for professional and general liability is an estimate, the possibility exists that the estimate could be revised by a material amount.

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

St. Elizabeth Healthcare is also self-insured for workers' compensation, unemployment compensation, and employee medical insurance coverage. At December 31, 2023 and 2022, St. Elizabeth Healthcare's management recorded its best estimates of known and incurred, but not reported claims for losses. Recorded self-insured liabilities are adequate in management's opinion.

Net Assets with Donor Restrictions

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

At December 31, 2023 and 2022, net assets with donor restrictions of \$38,062,000 and \$36,783,000, respectively, were subject to expenditure for specified purpose for various healthcare services and programs.

Revenue Recognition – Patient Service Revenue

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

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

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

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

In assessing collectability, management elected the portfolio approach as St. Elizabeth Healthcare has a large volume of similar contracts with similar classes of customers. Management reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Revenue Recognition – Other Operating Revenue

Other operating revenue consists of income (loss) from equity ventures, pharmacy, gift shop, cafeteria sales, grant revenue, and sundry revenues related to the operations of St. Elizabeth Healthcare. For those revenues subject to ASC 606, revenues are recorded at a point-in-time or over time based on the nature of the services provide. For the year ended December 31, 2023 and

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

2022, St. Elizabeth Healthcare recognized \$131,068,000 and \$107,726,000 of other operating revenues at a point-in-time.

Charity Care

St. Elizabeth Healthcare provides care, without charge or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Amounts determined to qualify as charity care are not reported as patient service revenue. The cost to St. Elizabeth Healthcare to provide charity care was approximately \$10,942,000 and \$8,356,000 for the years ended December 31, 2023 and 2022, respectively. The cost to St. Elizabeth Healthcare to provide charity care was determined through application of the ratio of patient costs to charges, per Schedule H of Form 990 filed with the Internal Revenue Service, to current-year charity care charges included as a deduction from gross patient revenue.

The Affordable Care Act (ACA) was passed to provide Americans better access to health care coverage. A major component of increasing access to coverage was new federal funding for states to expand their Medicaid eligibility to 138 percent of the Federal Poverty Level. Previously these patients qualified under the Kentucky State Indigent Program and were included in St. Elizabeth Healthcare's charity care program. The percent of Medicaid patient service revenue to total patient service revenue was 20 percent and 16 percent in 2023 and 2022, respectively.

Federal law requires that state Medicaid programs make Disproportionate Share Hospital (DSH) payments to qualifying hospitals that serve a large number of Medicaid and uninsured individuals. Uninsured individuals qualified under the Kentucky DSH/Indigent program are reported under hospital charity. For the years ended December 31, 2023 and 2022, St. Elizabeth Healthcare recognized an increase to revenue of \$21,083,000 and \$10,355,000, respectively, for payments received under the Kentucky DSH program. St. Elizabeth Healthcare has received DSH funds of \$59,592,000 and \$64,823,000 that are believed to be constraint at December 31, 2023 and 2022, respectively, that are included in accrued third-party settlements on the consolidated balance sheets.

St. Elizabeth Healthcare also paid provider tax to the State of Kentucky in the amount of \$12,547,000 and \$12,548,000, respectively, for the years ended December 31, 2023 and 2022 and recorded these amounts to other operating expense. Kentucky uses these taxes to draw matching DSH funds from the federal government.

Hospital Rate Improvement Program

On November 6, 2019, the Centers for Medicare and Medicaid Services (CMS) approved a Hospital Rate Improvement Program (HRIP) to enhance reimbursement for Medicaid patients covered by managed care organizations in Kentucky for year ended June 30, 2020. This approval

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

was retroactive to July 1, 2019. The estimated funding in the first year, known as an Upper Payment Limit (UPL) gap, was based upon the estimated variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 95% of the Medicare inpatient base rate. The CMS reapproved the program for the year ended June 30, 2021 on May 27, 2020.

In October 2020, the Kentucky Cabinet for Health and Family Services filed an amendment to the plan proposing to change the UPL gap calculation based on the variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 90% of the statewide Average Commercial Rate (ACR). The CMS approved this on January 14, 2021 retroactive to July 1, 2020. On February 21, 2023, the CMS reapproved the inpatient HRIP program and added outpatient hospital care to the program, both effective January 1, 2023 through December 31, 2023.

The HRIP is largely funded by CMS with a portion funded by participating hospitals through an additional provider tax. The provider tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report. For the years ended December 31, 2023 and 2022, St. Elizabeth Healthcare recognized Medicaid UPL provider tax of approximately \$39,737,000 and \$18,766,000, respectively, while recognizing Medicaid reimbursement of approximately \$176,702,000 and \$72,735,000, respectively, in patient service revenue in the consolidated statement of operations.

Tax Status

No provision has been made for income taxes since St. Elizabeth Healthcare is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation by the Internal Revenue Service. Management has analyzed the tax positions taken by St. Elizabeth Healthcare and has concluded that as of December 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. St. Elizabeth Healthcare is not under review by any state or local tax authorities. St. Elizabeth Healthcare's federal tax returns for the year ended prior to December 31, 2019 and prior years are no longer subject to examination as the statute of limitations has expired for those years.

Contributions

Contributions are recorded at fair value in the period received or pledged. Donor-restricted contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor-restricted contributions whose restrictions are met within the same year as recognized are accounted for as net assets without donor restrictions.

Consolidated Statements of Operations and Changes in Net Assets

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

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

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

Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional guidance for a limited time to ease the burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The guidance applies to all entities, subject to meeting certain criteria, for contract modifications or hedging relationships that are referencing LIBOR or another reference rate discontinued due to reference rate reform. The amendments in ASU No. 2020-04 were adopted in 2023 and did not have a material effect on the current financial position, results of operations, or financial statement disclosures.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU includes changes to the accounting and measurement of financial assets including SEH's accounts receivable and held-to-maturity debt securities by requiring SEH to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies (continued)

the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance was adopted by SEH in 2023 and did not have a material effect on the current financial position, results of operations, or financial statement disclosures.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

2. Availability and Liquidity

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

	2023	2022
Cash and cash equivalents	54,081	62,275
Short-term investments	76,578	10,600
Patient accounts receivable	177,744	165,513
Cash and cash equivalents – Restricted	30,890	67,911
Assets limited to use	1,624,665	1,470,820
Foundation pledge receivables	6,098	11,037
Other assets	101,108	94,171
Financial assets at year-end	\$ 2,071,164	\$ 1,882,327

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

Contractual or donor-imposed restrictions:		
Patient accounts receivable	\$ (4,673)	\$ (7,321)
Cash and cash equivalents – Restricted	(30,890)	(67,911)
Foundation pledge receivables	(6,098)	(11,037)
Other assets	(71,117)	(61,491)
Board designations:		
Assets limited to use designated for capital needs (<i>Note 3</i>)	(1,573,596)	(1,410,081)
Assets limited to use for self-insurance needs (<i>Note 3</i>)	(51,069)	(60,739)
Total	\$ (1,737,443)	\$ (1,618,580)
Financial assets available to meet general expenditures within one year	\$ 333,721	\$ 263,747

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

2. Availability and Liquidity (continued)

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

As part of St. Elizabeth Healthcare's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. St. Elizabeth Healthcare has a goal to maintain financial assets, which consist of cash and cash equivalents, short-term investments, and patient accounts receivable, on hand to meet 30 days of normal operating expenses, which are on average approximately \$162,567,000.

As of December 31, 2023, St. Elizabeth Healthcare was in compliance with required debt covenants outlined in Note 8.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

3. Assets Limited as to Use and Investments

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

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 80,041	\$ 19,242
Certificates of deposit	1,245	-
U.S. government obligations	101,170	98,398
Asset-backed securities	46,808	35,579
Corporate bonds	122,653	114,676
Municipal bonds	8,233	9,958
Foreign bonds	9,646	9,060
Government-backed securities	47,081	24,119
Federal agency bonds	6,052	682
Common stock	167,765	160,309
Mutual funds:		
All cap core	45,781	44,698
International large cap	62,615	53,055
International emerging markets	2,678	2,461
Fixed income	-	627
Hedge fund of funds	82,143	74,270
Real estate funds	189,757	220,029
Infrastructure funds	135,641	122,163
Private debt fund	55,788	43,435
Private equity fund	12,341	-
Defensive equity fund	92,569	81,518
Emerging markets fund	52,636	46,456
Venture capital fund	5,972	3,124
Commingled funds	372,628	317,561
Total assets limited as to use and investments	<u>\$ 1,701,243</u>	<u>\$ 1,481,420</u>
Assets limited as to use and investments:		
Internally designated for operating needs	\$ 76,578	\$ 10,600
Internally and board-designated for capital needs (Note 2)	1,573,596	1,410,081
Designated for self-insurance needs (Note 2)	51,069	60,739
Total assets limited as to use and investments	<u>\$ 1,701,243</u>	<u>\$ 1,481,420</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

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

	2023	2022
Realized gains on sales of investments, net	\$ 1,954	\$ 17,562
Interest and dividend income, net	38,270	30,715
Change in unrealized gains (losses) on investments, net	115,200	(198,518)
Total investment income (loss)	155,424	(150,241)
Change in fair market value of interest rate swap	(890)	23,446
Other periodic pension cost excluding service cost	(8,595)	(1,520)
Other	1,303	618
Total	\$ 147,242	\$ (127,697)

4. Assets and Liabilities Measured at Fair Value

Cash and Cash Equivalents and Assets Limited as to Use

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

The level in the fair value hierarchy within which the fair value measurement in its entirety is determined based on the lowest level of input that is significant to the fair value measurement in its entirety. The following is a summary of the inputs and valuation techniques as of December 31, 2023 and 2022 used for valuing Level 2 financial instruments:

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

Interest Rate Swap Agreements

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

The following table summarizes St. Elizabeth Healthcare’s assets and liabilities measured at fair value on a recurring basis as of December 31, 2023, aggregated by the level in the fair value hierarchy within which those measurements are measured (in thousands):

	Fair Value Measurements Using			
	Balance at December 31 2023	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use and investments				
Money market funds	\$80,041	\$80,041	\$ –	\$ –
Certificates of deposit	1,245	1,245	–	–
U.S. government obligations	101,170	–	101,170	–
Asset-backed securities	46,808	–	46,808	–
Corporate bonds	122,653	–	122,653	–
Municipal bonds	8,233	–	8,233	–
Foreign bonds	9,646	–	9,646	–
Government-backed securities	47,081	–	47,081	–
Federal agency bonds	6,052	–	6,052	–
Common stock	167,765	167,765	–	–
Mutual funds:				
All cap core	45,781	45,781	–	–
International large cap	62,615	62,615	–	–
International emerging markets	2,678	2,678	–	–
Other assets – Mutual funds	59,356	59,356	–	–
Assets measured at fair value levels	<u>\$761,124</u>	<u>\$419,481</u>	<u>\$341,643</u>	<u>\$ –</u>
Hedge fund of funds	82,143	–	–	–
Real estate funds	189,757	–	–	–
Infrastructure funds	135,641	–	–	–
Private debt fund	55,788	–	–	–
Private equity fund	12,341	–	–	–
Defensive equity fund	92,569	–	–	–
Emerging markets fund	52,636	–	–	–
Venture capital funds	5,972	–	–	–
Commingled funds	372,628	–	–	–
Total assets limited as to use, investments, and other assets	<u>\$1,760,599</u>	<u>\$419,481</u>	<u>\$341,643</u>	<u>\$ –</u>
Assets – Fair value of interest rate swaps	<u>\$5,514</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$5,514</u>
Liabilities – Fair value of interest rate swaps	<u>\$(526)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$(526)</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

The following table summarizes St. Elizabeth Healthcare's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022, aggregated by the level in the fair value hierarchy within which those measurements are measured (in thousands):

	Fair Value Measurements Using			
	Balance at December 31 2022	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use and investments				
Money market funds	\$19,242	\$19,242	\$ –	\$ –
U.S. government obligations	98,398	–	98,398	–
Asset-backed securities	35,579	–	35,579	–
Corporate bonds	114,676	–	114,676	–
Municipal bonds	9,958	–	9,958	–
Foreign bonds	9,060	–	9,060	–
Government-backed securities	24,119	–	24,119	–
Federal agency bonds	682	–	682	–
Common stock	160,309	160,309	–	–
All cap core	44,698	44,698	–	–
International large cap	53,055	53,055	–	–
International emerging markets	2,461	2,461	–	–
Fixed income	627	627	–	–
Other assets – Mutual funds	45,894	45,894	–	–
Assets measured at fair value levels	<u>\$618,758</u>	<u>\$326,286</u>	<u>\$292,472</u>	<u>\$ –</u>
Hedge fund of funds	74,270	–	–	–
Real estate funds	220,029	–	–	–
Infrastructure funds	122,163	–	–	–
Private debt fund	43,435	–	–	–
Defensive equity fund	81,518	–	–	–
Emerging markets fund	46,456	–	–	–
Venture capital funds	3,124	–	–	–
Commingled funds	317,561	–	–	–
Total assets limited as to use, investments, and other assets	<u>\$1,527,314</u>	<u>\$326,286</u>	<u>\$292,472</u>	<u>\$ –</u>
Assets – Fair value of interest rate swaps	<u>\$6,361</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$6,361</u>
Liabilities – Fair value of interest rate swaps	<u>\$(483)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$(483)</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

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

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

	Interest Rate Swaps	
	2023	2022
Balance at January 1	\$ 6,361	\$ (14,683)
Change in fair market value of interest rate swaps	<u>(847)</u>	<u>21,044</u>
Balance at December 31	<u>\$ 5,514</u>	<u>\$ 6,361</u>

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

	Interest Rate Swaps	
	2023	2022
Balance at January 1	\$ (483)	\$ (2,884)
Change in fair market value of interest rate swaps	<u>(43)</u>	<u>2,401</u>
Balance at December 31	<u>\$ (526)</u>	<u>\$ (483)</u>

Investments in Entities that Calculate Net Asset Value per Share

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

Hedge Fund of Funds

Magnitude International

Magnitude fund is a global, multi-strategy “fund-of-funds” managed by Magnitude Capital, LLC. Magnitude’s investment strategies can involve the purchase and sale of various financial instruments, including but not limited to stocks, bonds, options, futures contracts, derivative instruments, insurance and reinsurance-related products, and cash and cash equivalents. St. Elizabeth Healthcare has subscribed to Magnitude’s Class A shares. There were no unfunded commitments at December 31, 2023 or 2022.

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

Real Estate Funds

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

Morgan Stanley Prime Property Fund

PRIME is a core open-end commingled equity real estate investment fund diversified by property type and geographic location across the United States. The focus is on high-quality office buildings, Class A multifamily communities, warehouse distribution and storage facilities, and top tier super regional malls and shopping centers in targeted primary markets. There were no unfunded commitments at December 31, 2023 or 2022.

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

Principal Enhanced Property Fund, L.P.

Principal Property is an open-end, commingled fund which invests in U.S. real estate properties and portfolios. Principal Property invests only in office, retail, industrial and multifamily properties in U.S. markets with metropolitan statistical area populations greater than one million. There were no unfunded commitments at December 31, 2023 or 2022.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

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

Infrastructure Funds

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

J.P. Morgan Infrastructure Investments Fund

IIF is managed by J.P. Morgan Asset Management. The purpose of IIF is to invest in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-Operation and Development with a primary focus on the US, Canada, Western Europe, and Australia. These assets may include toll roads, bridges, tunnels, oil and gas pipelines, electricity transmission and distribution facilities, contracted power generation assets, communication assets, water distribution and wastewater collection and processing assets, railway lines and rapid transit links, seaports and airports. St. Elizabeth Healthcare had no unfunded commitments at December 31, 2023 or 2022.

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

IFM Global Infrastructure

IFM makes investments into infrastructure assets and companies located principally in Europe and the Americas. IFM invests in a diversified portfolio of global infrastructure assets. Infrastructure consists of physical facilities for the delivery, generation and transportation of energy, information, people, products and real property from which services to the community or government are delivered. The target investment sub-sectors are: electricity generation, transmission and distribution including renewable energy, gas transmission, distribution, processing and storage, toll roads, rail infrastructure, seaports, airports, marine terminals, steam and hot air supply, water and waste water, pipelines and related infrastructure, telecommunications infrastructure, social infrastructure with principally government backed cash flow (e.g. hospitals, schools, aged care, courthouses, community housing, etc.) and infrastructure assets. St. Elizabeth Healthcare had no unfunded commitments at December 31, 2023 and 2022.

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

Private Debt Funds

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

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

HIG PL is a private equity fund that originates tailored, senior secured financing solutions for U.S. companies. The fund originates investments in senior secured loans to lower to middle market companies that are primarily secured by the borrower's assets and current and future cash flows. At December 31, 2023 and 2022, St. Elizabeth Healthcare had unfunded commitments of \$2,883,000 and \$4,090,000, respectively.

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

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

HIG DL is a private equity fund that invests principally in privately originated first lien, senior secured loans. The fund acquires loans to lower to middle market companies at moderate loan-to-value ratios to maintain strong free cash flow and interest coverage. In March 2021 St. Elizabeth Healthcare made a \$30,000,000 commitment to HIG DL. At December 31, 2023 and 2022, St. Elizabeth Healthcare had unfunded commitments of \$9,806,000 and \$20,625,000, respectively.

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

Private Equity Funds

The private equity investments are comprised of Fort Washington Fund VIII (Fund VIII) and Fort Washington Fund IX (Fund IX). In 2023, these investments were purchased from the defined benefit pension assets portfolio by the long-term operating assets portfolio. The defined benefit pension plan achieved a funded status that triggered an asset allocation change on the Liability Driven Investing (LDI) glide path which necessitated the Private Equity assets to be reallocated to more liquid assets.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

Fort Washington Fund VIII

Fund VIII is a private equity fund of funds formed by Fort Washington Capital Partners Group. Fund VIII endeavors to realize capital appreciation primarily by investing in a diversified portfolio of leading private equity funds including buyout, venture capital, growth equity, and special situations funds (primarily distressed, credit, and real assets), among others; up to 20 percent of capital in secondary investments, structured transactions, and direct investments; and up to 30 percent of the private equity fund investments in international funds. Fund VIII has a maximum limitation of 10 percent of its capital in any one investment. At December 31, 2023 and 2022, St. Elizabeth had unfunded commitments of \$2,700,000.

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

Fort Washington Fund IX

Fund IX is a private equity fund of funds that was formed by Fort Washington Capital Partners Group in 2016. Similar to Fund VIII, Fund IX seeks to realize capital appreciation primarily by investing in a diversified portfolio of leading private equity funds including buyout, venture capital, growth equity, real assets and special situations; up to 20 percent of capital in secondary investments, structured transactions, and direct investments; and up to 30 percent of the private equity fund investments in international funds. Fund IX has a maximum limitation of 10 percent of its capital in any one investment. At December 31, 2023 and 2022, St. Elizabeth Healthcare had unfunded commitments of \$1,275,000.

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

Defensive Equity Fund

Neuberger Berman U.S. Equity Index PutWrite Fund LLC

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

Neuberger Berman U.S. Equity Index PutWrite Fund LLC (Neuberger) seeks long-term growth of capital through a strategy of writing collateralized put options on the S&P 500 Index. Neuberger attempts to generate returns through the receipt of option premiums from selling puts, as well as through investments in fixed income instruments, which collectively are intended to reduce volatility relative to holding the underlying equity index on which the options are written due to the receipt of income from options and fixed income instruments. There were no unfunded commitments at December 31, 2023 or 2022.

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

Emerging Markets Fund

Logan Circle Partners Emerging Markets Debt, L.P.

The Logan Circle Partners Emerging Markets Debt, L.P. (Logan Circle) invests primarily in debt securities of issuers located in emerging market countries. Emerging market countries are countries that major international financial institutions, such as the World Bank, generally consider to be less economically mature than developed nations. Emerging market countries can include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. Logan Circle normally will hold fixed-income securities of government and government-related issuers and corporate issuers in emerging market countries. The investment adviser may invest in capital securities, which are hybrid securities that combine the characteristics of bonds and preferred stocks, in order to take advantage of the mispricing of subordinated risk within the marketplace. There were no unfunded commitments at December 31, 2023 or 2022.

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

Venture Capital Funds

The venture capital funds are comprised of Cintrifuse Syndicate Fund II, LLC (Cintrifuse) and CFSPV5, LLC dba Connetic Ventures (Connetic), eGateway Capital Partners II, L.P. (eGateway) and SeedFund SPV LLC (SeedFund).

Cintrifuse Syndicate Fund II, LLC

Cintrifuse venture capital focuses on early-stage venture capital funds that are currently, or have a plan for being, engaged in the Cincinnati region and that are likely to generate high rates of return.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

Cintrifuse seeks to expose mid-size and larger organizations in Greater Cincinnati to disruptive innovation to solve technological challenges and to increase the amount of venture capital activity in the Cincinnati region, thereby enhancing the region's innovation ecosystem and overall economic competitiveness. While Cintrifuse's focus is on the Cincinnati region, it is not required to invest a specified amount in companies in the Cincinnati region and can invest in companies outside of the region. St. Elizabeth Healthcare had unfunded commitments of \$119,727 and \$207,000 at December 31, 2023 and 2022, respectively.

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

CFSPV5, LLC dba Connetic Ventures

Connetic is a venture capital fund that uses proprietary technology to identify early stage, post minimum viable product startup companies in core states that include but are not limited to Kentucky, Indiana, Illinois, Ohio, Pennsylvania and North Carolina. At December 31, 2023 and 2022, St. Elizabeth Healthcare had unfunded commitments of \$0 and \$400,000, respectively.

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

eGateway Capital Partners II, L.P.

eGateway is a venture capital fund that makes capital investments in private companies engaged in various businesses in the e-commerce ecosystem. The Fund invests in growth stage businesses, helping to scale proven business models. St. Elizabeth Healthcare had unfunded commitments of \$1,038,000 at December 31, 2023.

eGateway does not have a redemption period or redemption frequency. Voluntary withdrawal from the Fund is not permitted. The investment period is ten years, expiring in February 2032, subject to two additional one-year periods at the sole discretion of the general partner and for one additional one-year period at the sole discretion of the advisory committee.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

SeedFund SPV LLC

SeedFund was established to raise capital to launch a SEC registered ‘40 Act Mutual Fund Regulated Investment Company (RIC) with a targeted start date of January 1, 2024. The Mutual Fund will be advised by Connetic Venture Capital. The primary purposes of the fund are to serve as a bridge fund to support the launch of the SEC registered ‘40 Act Mutual Fund RIC. Once launched, the purpose of the Company is to identify potential investment opportunities, to invest in portfolio companies by acquiring, holding, and selling securities, and to manage portfolio companies and investments. At December 31, 2023, St. Elizabeth Healthcare had no unfunded commitments.

The SeedFund investment lockup period is three years. Voluntary withdrawal from the fund is not permitted.

Commingled Funds

Northern Trust Global Investments Common Funds Trust

The Northern Trust Global Investments Common Funds Trust is a commingled trust comprised of common trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Common trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in two of the common trust funds within the Northern Trust Global Investments Common Funds Trust, which are the (1) Northern Trust Common All Country World Index (ACWI) Ex-US Fund and the (2) Northern Trust Common Russell 3000 Index Fund (funds collectively referred to as “Northern Trust Funds”). The Northern Trust Funds invest predominantly in U.S. and foreign equity securities. There were no unfunded commitments at December 31, 2023 or 2022.

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

Northern Trust Global Investments Collective Funds Trust

The Northern Trust Global Investments Collective Funds Trust is a commingled trust comprised of collective trust funds which seek to provide investment results that approximate the overall performance of assets contained in standard market index funds. Collective trust funds are private funds that are valued based on the value of underlying assets, which may include U.S. and foreign equity funds and short-term investment funds. St. Elizabeth Healthcare invests in the Northern Trust Collective S&P 500 Index Fund, which invests predominantly in U.S. equity securities. There were no unfunded commitments at December 31, 2023 or 2022.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

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

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

5. Property, Plant and Equipment

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

	2023	2022
Land	24,249	20,874
Buildings, building services, and land improvements	961,615	936,252
Equipment	481,142	463,539
Construction in process	109,808	61,828
Total cost	1,576,814	1,482,493
Less accumulated depreciation and amortization	(777,470)	(729,509)
Net property and equipment	<u>\$ 799,344</u>	<u>\$ 752,984</u>

Depreciation expense totaled \$91,306,000 and \$87,781,000 for the years ended December 31, 2023 and 2022, respectively, and is included in depreciation and amortization expense on the consolidated statement of operations.

St. Elizabeth Healthcare’s strategic plan incorporates a multi-phased master facility plan. In 2022, the Ft Thomas surgery suite was completed with a total investment of \$15,229,000. In addition, the Florence surgery suite, scheduled for completion in early 2024, has incurred investment of \$90,330,000 as of the end of 2023, of which \$24,424,000 has been capitalized and placed in service, with a remaining commitment of \$3,187,000. Finally, the Dearborn Cancer Center, scheduled for completion in early 2024, incurred an investment of \$34,270,000 as of the end of 2023, with a remaining commitment of \$10,030,000.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

6. Goodwill and Intangible Assets

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

	2023		2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets	\$ 22,811	\$ 17,297	\$ 20,974	\$ 16,524
Unamortized goodwill intangible assets	\$ 17,651	\$ -	\$ 17,651	\$ -

Identifiable intangible assets subject to amortization consist primarily of exclusivity and non-competition agreements. Amortization of the intangible assets is calculated using the straight-line method over estimated lives of the exclusivity and non-competition agreements ranging from one to twenty years. Amortization expense was \$773,000 and \$510,000 for the years ended December 31, 2023 and 2022, respectively, and is included in depreciation and amortization expense.

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

	Amount
2024	\$ 869
2025	869
2026	869
2027	869
2028	592
Thereafter	1,446
Total	\$ 5,514

St. Elizabeth Healthcare annually performs an evaluation of goodwill for impairment considering qualitative or quantitative factors. There are no indicators that an impairment loss should be recognized in 2023 or 2022.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

7. Patient Service Revenue

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

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

Cost report settlements under reimbursement agreements with Medicare, Medicaid, and certain other payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the expected value method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the St. Elizabeth Healthcare's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved.

Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments arising from a change in the transaction price were approximately \$2,847,000 and \$2,030,000 for the years ended December 31, 2023 and 2022, respectively.

Cost report settlements due from St. Elizabeth Healthcare and DSH reserves were approximately \$76,585,000 and \$77,112,000 at December 31, 2023 and 2022, respectively.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

7. Patient Service Revenue (continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. St. Elizabeth Healthcare also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2023 and 2022, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant.

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

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

7. Patient Service Revenue (continued)

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

	2023	2022
Medicare	\$ 672,395	\$ 631,191
Medicaid	407,166	282,217
Anthem Blue Cross	476,264	421,744
Humana	45,322	48,018
United Healthcare	184,690	155,667
Other insurance and workers' compensation	179,314	226,967
Self-pay	28,434	21,087
Patient service revenue	\$ 1,993,585	\$ 1,786,891

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

8. Long-Term Debt

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

	2023	2022
Kentucky Economic Development Finance Authority Adjustable Rate Hospital Facilities Revenue Refunding Bonds, Series 2009B, maturing in various amounts through 2033 with an adjustable rate set every seven days (3.70 percent and 3.65 percent at December 31, 2023 and 2022, respectively)	\$19,600	\$21,225
Kentucky Bond Development Corporation Hospital Facilities Revenue Bonds, Series 2015A, maturing in various amounts through 2045 with a fixed rate of 2.17 percent through 2027	39,750	41,150
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2015B, maturing in various amounts through 2045 with an adjustable rate set every 30 days (4.90 percent and 3.81 percent at December 31, 2023 and 2022, respectively)	41,875	43,300
Kentucky Bond Development Corporation Hospital Facilities Revenue Refunding Bonds, Series 2016, maturing in various amounts through 2039 with various fixed rates ranging from 3.00 percent through 5.00 percent	65,615	68,730
Kentucky Bond Development Corporation Adjustable Rate Hospital Facilities Revenue Bonds, Series 2019A, maturing in various amounts through 2049 with an adjusting rate set every 30 days (4.77 percent and 3.71 percent at December 31, 2023 and 2022, respectively)	67,569	69,308
National Finance Authority Hospital Facilities Revenue Bonds, Series 2021A, maturing in various amounts through 2051 with various fixed rates ranging from 4.00 percent through 5.00 percent	49,180	49,480
National Finance Authority Hospital Facilities Revenue Bonds, Series 2021B Taxable Series, maturing in various amounts through 2051 with various fixed rates ranging from 3.172 percent to 3.272 percent	50,520	50,520
Total debt	334,109	343,713
Less current portion	(10,057)	(9,604)
Less unamortized debt issuance costs	(2,802)	(2,972)
Plus unamortized premium	11,270	12,665
Long-term debt	\$332,520	\$343,802

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

8. Long-Term Debt (continued)

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

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

8. Long-Term Debt (continued)

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

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

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

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

8. Long-Term Debt (continued)

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

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

	<u>Amount</u>
2024	\$ 10,057
2025	10,486
2026	10,918
2027	11,285
2028	11,735
Thereafter	<u>279,628</u>
Total payments	<u>\$ 334,109</u>

Total interest paid was approximately \$11,726,000 and \$11,934,000 for the years ended December 31, 2023 and 2022, respectively.

St. Elizabeth Healthcare has entered into interest rate swap agreements for its variable rate debt. The reference rate used in all original interest rate swap agreements was one-month U.S. dollar London Interbank Offered Rate (USD LIBOR). This reference rate was retired on June 30, 2023. St. Elizabeth Healthcare adhered to the International Swaps and Derivatives Association, Inc. (ISDA) 2020 IBOR Fallbacks Protocol which replaced USD LIBOR with Fallback Rate Secured Overnight Financing Rates (Fallback Rate (SOFR)).

In 2009, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2009B bonds, with a 30-year term and a notional amount of \$19,600,000 and \$21,225,000 at December 31, 2023 and 2022, respectively. From January through July 2023, St. Elizabeth Healthcare paid a fixed rate of 3.07 percent and received a floating rate on the basis of 67 percent of the one-month U.S. dollar London Interbank Offered Rate (USD LIBOR). In August 2023, the floating rate calculation replaced USD LIBOR with Fallback Rate (SOFR) plus 0.11 percent. The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2009B bonds align with the notional amount remaining each year in the interest rate swap agreement.

In 2015, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2015B bonds, with a 30-year term and a notional amount of \$41,875,000 and \$43,300,000 at December 31, 2023 and 2022, respectively. From January through June, 2023, St. Elizabeth Healthcare paid a fixed rate of 1.735 percent and received a floating rate on the basis of 70 percent of the one-

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

8. Long-Term Debt (continued)

month USD LIBOR plus 0.53 percent multiplied by 1.13 percent. In July 2023, the floating rate calculation replaced USD LIBOR with Fallback Rate (SOFR) plus 0.11 percent. The interest differential to be paid or received under the interest rate swap agreement is accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the Series 2015B bonds align with the notional amount remaining each year in the interest rate swap agreement.

In 2018, St. Elizabeth Healthcare entered into an interest rate swap agreement on the Series 2019A bonds, with a 30-year term and a notional amount of \$67,569,000 and \$69,308,000 as of December 31, 2023 and 2022, respectively. From January through July, 2023, St. Elizabeth Healthcare paid a fixed rate of 2.455 percent and received a floating rate on the basis of 79 percent of the one-month USD LIBOR. In August 2023, the floating rate calculation replaced USD LIBOR with Fallback Rate (SOFR) plus 0.11 percent. The interest differential to be paid or received under the interest rate swap agreement will be accrued and recognized as an adjustment to interest expense. The scheduled principal repayments of the interest rate swap align with the notional amount remaining each year in the Series 2019A bond issuance.

The fair market value of the interest rate swap agreements at December 31, 2023 and 2022 with an asset balance were \$5,514,000 and \$6,361,000, respectively, and the fair market value of the interest rate swap agreement at December 31, 2023 and 2022 with a liability balance was (\$526,000) and (\$483,000), respectively, and included on the consolidated balance sheets.

Net cash received under the interest rate swap agreements was (\$1,850,000) for the year ended December 31, 2023 and paid was \$1,759,000 for the year ended 2022 and are included in interest expense.

9. Operating Leases

St. Elizabeth Healthcare is obligated under operating leases primarily for facilities and equipment, expiring at various dates through November 2046. Some leases contain renewal options. The weighted average remaining lease term under operating leases at December 31, 2023 and 2022 is 11.95 years and 12.86 years, respectively.

Minimum lease payments include rents for renewal options when it is known to be likely St. Elizabeth Healthcare will exercise those options. The right of use asset and related lease liability have been calculated using discount rates ranging from 0.16 percent to 4.76 percent. The weighted average discount rate under operating leases is 3.10 percent and 1.94 percent at December 31, 2023 and 2022, respectively.

The leases require St. Elizabeth Healthcare to pay taxes, insurance, utilities, and maintenance costs. These costs are typically billed separately under the lease and are variable in nature;

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

9. Operating Leases (continued)

therefore, St. Elizabeth Healthcare determined these costs should be excluded from the measurement of the amounts recorded as right of use assets and lease liabilities.

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

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

Total expenses recognized under operating leases was \$18,494,000 and \$17,761,000 for the years ended December 31, 2023 and 2022, respectively. Expenses related to leases with a term of 12 months or less was \$1,720,000 and \$2,404,000 for December 31, 2023 and 2022, respectively. Cash paid in 2023 and 2022 for operating leases was \$18,011,000 and \$17,271,000, respectively, which is included in operating cash flows on the consolidated statement of cash flows.

Noncash right of use assets obtained for operating lease obligations for the years ended December 31, 2023 and 2022 were \$15,357,000 and \$4,996,000, respectively. Future minimum rent on noncancelable leases as of December 31, 2023 for each of the next five years, and in aggregate, thereafter, are as follows for years ending December 31 (in thousands):

	<u>Amount</u>
2024	\$ 16,278
2025	16,319
2026	15,605
2027	14,024
2028	11,819
Thereafter	<u>85,257</u>
Total future minimum lease payments	159,302
Less imputed remaining interest	<u>(29,415)</u>
Present value of net minimum lease payments	129,887
Less current obligation portion of lease liabilities	<u>(14,127)</u>
Long term lease liabilities	<u>\$ 115,760</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

10. Functional Expenses

St. Elizabeth Healthcare provides inpatient, outpatient, and other healthcare services in support of its mission in the local market. Expenses related to providing these services for the year ended December 31, 2023 are as follows (in thousands):

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
Salaries and wages	\$ 492,593	\$ 284,416	\$ 200,230	\$ 1,136	\$ 978,375
Employee benefits	92,601	53,372	68,240	238	214,451
Purchased services	74,890	1,601	60,621	1,038	138,150
Interest	6,364	4	4,066	16	10,450
Depreciation and amortization	53,104	3,224	35,527	133	91,988
Supplies	393,113	25,047	32,420	237	450,817
Other	38,484	17,898	128,755	522	185,659
Total	\$ 1,151,149	\$ 385,562	\$ 529,859	\$ 3,320	\$ 2,069,890

Expenses related to providing these services for the year ended December 31, 2022 are as follows (in thousands):

	Healthcare Services		Support Services		Total
	Hospital	Physician	Management and General	Fundraising	
Salaries and wages	\$ 478,817	\$ 253,382	\$ 182,285	\$ 1,139	\$ 915,623
Employee benefits	85,480	50,987	88,847	209	225,523
Purchased services	68,911	3,354	43,615	455	116,335
Interest	6,140	6	4,357	14	10,517
Depreciation and amortization	49,076	2,785	36,317	116	88,294
Supplies	346,856	21,878	20,404	319	389,457
Other	44,477	16,604	107,649	470	169,200
Total	\$ 1,079,757	\$ 348,996	\$ 483,474	\$ 2,722	\$ 1,914,949

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

10. Functional Expenses (continued)

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

11. Pension and Other Retirement Plans

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

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

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

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

In February 2024, St. Elizabeth Healthcare communicated its intent to terminate its defined benefit pension plan, which will be completed by December 31, 2024. No additional funding will be required by the System to terminate the plan.

During the years ended December 31, 2023 and 2022, St. Elizabeth Healthcare recorded contribution expense of \$42,404,000 and \$42,889,000, respectively, to its defined contribution plan.

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

	2023	2022
Net periodic pension cost		
Interest cost	\$ 23,446	\$ 16,158
Expected return on plan assets	(24,231)	(21,300)
Amortization of net loss	9,380	6,662
Net periodic pension cost	\$ 8,595	\$ 1,520

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

	2023	2022
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 439,038	\$ 580,932
Interest cost	23,446	16,158
Actuarial gain	(22,674)	(135,961)
Benefits paid	(22,981)	(22,091)
Projected benefit obligation at end of year	416,829	439,038
Change in plan assets		
Fair value of plan assets at beginning of year	445,440	595,520
Actual return on plan assets	42,109	(127,989)
Benefits paid	(22,981)	(22,091)
Fair value of plan assets at end of year	464,568	445,440
Funded status at end of year	\$ 47,739	\$ 6,402
Accrued pension asset	\$ 47,739	\$ 6,402

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

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

	2023	2022
Discount rate – Benefit obligation	5.51%	5.50%
Discount rate – Net periodic benefit cost	5.50%	2.84%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	5.59%	3.65%

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

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

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

	2023	2022
Change in net assets without donor restrictions recognized:		
Net actuarial loss	\$ 40,552	\$ (13,328)
Amortization of net actuarial loss	9,380	6,662
Total recognized in the consolidated statements of operations and changes in net assets	\$ 49,932	\$ (6,666)

Included as a reduction in net assets without donor restrictions is the amount of \$71,251,000, that has not yet been recognized in net periodic pension expense as of December 31, 2023.

The net actuarial loss included in net assets without donor restrictions that is expected to be recognized in net periodic pension cost during the year ending December 31, 2024 is \$3,080,000.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

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

	2023	2022
Fixed income securities	87.46%	88.4%
Comingled funds	6.99	0.1
Private equity funds	0.0	0.1
Infrastructure funds	0.0	0.1
Cash and cash equivalents	5.55	11.3
Total	100%	100%

St. Elizabeth Healthcare’s Investment and Pension Committees regularly review the investment allocation and approve changes to the investment policy as needed. In February 2017, the St. Elizabeth Healthcare Investment Committee voted to adopt a Liability Driven Investing (LDI) strategy for the St. Elizabeth Healthcare Employees’ Pension Plan. The goal of this strategy is to reduce the funded status volatility caused by asset/liability duration mismatch, ultimately lessening the need for significant contributions through a more predictable long-term funded status. A glide path was developed to define the Pension asset allocation at trigger points based on funded status. The transition of Pension assets to this strategy began in May 2017, based upon the glide path allocation policy for the Plan’s funded status as of December 31, 2016. Based upon the Plan achieving a funded status of 111.5 percent as of December 31, 2023, the average target allocation policy for the Plans’ investments per the glide path is 90 percent fixed income, 7.5 percent U.S equity, and 2.5 percent cash maintained to cover benefit payments. Future asset allocations are expected to match the Plan’s target allocations based upon the Plan’s funded status, which is evaluated on a quarterly basis.

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare’s defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2023, aggregated by the level in the fair value hierarchy as defined in Note 1 (in thousands):

	Fair Value Measurements Using			
	Balance at December 31, 2023	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 25,769	\$ 25,769	\$ —	\$ —
U.S. Government Obligations	18,414	—	18,414	—
Asset-backed securities	2,396	—	2,396	—
Corporate bonds	336,334	—	336,334	—
Municipal bonds	5,905	—	5,905	—
Foreign bonds	43,267	—	43,267	—
Assets measured at fair value levels	<u>432,085</u>	<u>25,769</u>	<u>406,316</u>	<u>—</u>
Commingled funds	32,483	—	—	—
Assets measured at net asset value	<u>32,483</u>	—	—	—
Total assets	<u>\$ 464,568</u>	<u>\$ 25,769</u>	<u>\$ 406,316</u>	<u>\$ —</u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

The following table summarizes St. Elizabeth Healthcare's defined benefit pension plans assets measured at fair value on a recurring basis as of December 31, 2022, aggregated by the level in the fair value hierarchy as defined in Note 1 (in thousands):

	Fair Value Measurements Using			
	Balance at December 31, 2022	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 50,513	\$ 50,513	\$ —	\$ —
U.S. Government Obligations	13,258	—	13,258	—
Asset-backed securities	15,775	—	15,775	—
Corporate bonds	310,185	—	310,185	—
Municipal bonds	6,013	—	6,013	—
Foreign bonds	48,485	—	48,485	—
Assets measured at fair value levels	<u>444,229</u>	<u>50,513</u>	<u>393,716</u>	<u>—</u>
Private equity funds	192	—	—	—
Infrastructure funds	505	—	—	—
Commingled funds	514	—	—	—
Assets measured at net asset value	<u>1,211</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets	<u><u>\$ 445,440</u></u>	<u><u>\$ 50,513</u></u>	<u><u>\$ 393,716</u></u>	<u><u>\$ —</u></u>

Saint Elizabeth Medical Center, Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 2023 and 2022

11. Pension and Other Retirement Plans (continued)

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

The accumulated benefit obligation for St. Elizabeth Healthcare's defined benefit pension plan was \$416,829,000 and \$439,038,000 at December 31, 2023 and 2022, respectively.

St. Elizabeth Healthcare did not contribute to its defined benefit pension plan during 2023. Due to the 111.5 percent funded status of the Plan, St. Elizabeth Healthcare is not required to make any contributions in 2024.

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

	<u>Amount</u>
2024	\$ 167,324
2025	23,294
2026	23,506
2027	23,542
2028	23,199
2029 – 2033	111,070

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

12. Commitments and Contingencies

In order to remain a self-insured employer, St. Elizabeth Healthcare maintains a continuous bond through Travelers Casualty and Surety Company of America in the amount of \$8,539,000. The continuous bond had no outstanding balance as of December 31, 2023 and 2022

13. Subsequent Events

St. Elizabeth Healthcare has evaluated and disclosed any subsequent events through April 2, 2024, which is the date the consolidated financial statements were issued.

Supplementary Information

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Balance Sheets

December 31, 2023 and 2022
(in thousands)

	2023				2022
	Combined Hospitals	Combined Physician Groups	Eliminations	Totals	
Assets					
Current assets:					
Cash and cash equivalents	\$ 56,800	\$ (2,719)	\$ —	\$ 54,081	\$ 62,275
Short-term investments	76,578	—	—	76,578	10,600
Patient accounts receivable	155,273	22,471	—	177,744	165,513
Inventories and supplies	50,736	54	—	50,790	48,532
Prepaid expenses and other assets	77,621	8,524	—	86,145	52,170
Total current assets	417,008	28,330	—	445,338	339,090
Cash and cash equivalents - Restricted	30,890	—	—	30,890	67,911
Assets limited as to use	1,624,665	—	—	1,624,665	1,470,820
Right of use operating lease assets	75,106	115,134	(64,947)	125,293	131,639
Property, plant and equipment, net	785,919	13,425	—	799,344	752,984
Goodwill	4,489	13,162	—	17,651	17,651
Intangible assets	4,022	1,492	—	5,514	4,450
Foundation pledge receivables	6,098	—	—	6,098	11,037
Pension Asset	47,739	—	—	47,739	6,402
Fair value of interest rate swap receivable	5,514	—	—	5,514	6,361
Other assets	168,208	40,181	(2,063)	206,326	170,986
Total assets	\$ 3,169,658	\$ 211,724	\$ (67,010)	\$ 3,314,372	\$ 2,979,331
Liabilities and net assets					
Current liabilities:					
Accounts payable	\$ 111,098	\$ 6,948	\$ —	\$ 118,046	\$ 95,649
Accrued employee compensation	112,858	72,679	—	185,537	159,932
Accrued interest	1,596	—	—	1,596	1,688
Accrued third-party settlements	76,585	—	—	76,585	77,112
Deferred revenue	725	—	—	725	1,824
Other current liabilities	14,737	6,382	—	21,119	23,243
Current portion of long-term debt	10,057	—	—	10,057	9,604
Current portion of lease liabilities - Operating	7,374	12,347	(5,594)	14,127	14,090
Total current liabilities	335,030	98,356	(5,594)	427,792	383,142
Long-term debt	332,520	—	—	332,520	343,802
Long-term lease liabilities - Operating	71,465	105,711	(61,416)	115,760	122,181
Liability for self-insurance	50,359	4,235	—	54,594	66,850
Fair value of interest rate swap	526	—	—	526	483
Other long-term liabilities	77,241	84	—	77,325	60,959
Total liabilities	867,141	208,386	(67,010)	1,008,517	977,417
Net assets:					
Net assets without donor restriction	2,264,507	3,338	—	2,267,845	1,965,141
Net assets with donor restriction	38,062	—	—	38,062	36,783
Total net assets	2,302,569	3,338	—	2,305,907	2,001,924
Noncontrolling interest	(52)	—	—	(52)	(10)
Total net assets	2,302,517	3,338	—	2,305,855	2,001,914
Total liabilities and net assets	\$ 3,169,658	\$ 211,724	\$ (67,010)	\$ 3,314,372	\$ 2,979,331

Saint Elizabeth Medical Center, Inc.

Details of Consolidating Statements of Operations and Changes in Net Assets

December 31, 2023 and 2022
(in thousands)

	2023				December 2022
	Combined Hospitals	Combined Physician Groups	Eliminations	Total	
Patient service revenue	\$ 1,716,761	\$ 276,824	\$ –	\$ 1,993,585	\$ 1,786,891
Net assets released from restriction for operations	1,220	–	–	1,220	711
Other revenue	214,845	211,458	(246,610)	179,693	166,259
Total revenue	1,932,826	488,282	(246,610)	2,174,498	1,953,861
Expenses:					
Salaries and wages	646,657	331,718	–	978,375	915,623
Employee benefits	147,092	67,359	–	214,451	225,523
Purchased services	324,927	49,290	(236,067)	138,150	116,335
Interest	10,446	4	–	10,450	10,517
Depreciation and amortization	87,722	4,266	–	91,988	88,294
Supplies	423,789	27,176	(148)	450,817	389,457
Other	162,827	33,227	(10,395)	185,659	169,200
Total expenses	1,803,460	513,040	(246,610)	2,069,890	1,914,949
Operating income (loss)	129,366	(24,758)	–	104,608	38,912
Unrestricted contributions	653	–	–	653	375
Other gains, (losses) net	147,916	(674)	–	147,242	(127,697)
Excess of revenue over expenses (expenses over revenue)	277,935	(25,432)	–	252,503	(88,410)
Excess of expenses over revenue attributable to noncontrolling interest	(42)	–	–	(42)	(83)
Excess of revenue over expenses (expenses over revenue) attributable to St. Elizabeth Medical Center, Inc.	277,977	(25,432)	–	252,545	(88,327)
Net assets without donor restriction:					
Transfer between entities	(18,926)	18,926	–	–	–
Pension change other than net periodic costs	49,932	–	–	49,932	(6,666)
Other	(69)	–	–	(69)	(70)
Net assets released from restriction for capital	296	–	–	296	148
Increase (decrease) in net assets without donor restrictions attributable to St. Elizabeth Medical Center, Inc.	309,210	(6,506)	–	302,704	(94,915)
Net assets with donor restrictions:					
Net increase in cash, cash equivalents, and restricted cash	2,795	–	–	2,795	947
Net assets released from restriction	(1,516)	–	–	(1,516)	(859)
Increase in net assets with donor restrictions attributable to St. Elizabeth Medical Center, Inc.	1,279	–	–	1,279	88
Increase (decrease) in net assets attributable to St. Elizabeth Medical Center, Inc.	310,489	(6,506)	–	303,983	(94,827)
Noncontrolling interest:					
Excess of expenses over revenue attributable to noncontrolling interest	(42)	–	–	(42)	(83)
Paid in capital by equity owners	–	–	–	–	75
Decrease in net assets attributable to noncontrolling interest	(42)	–	–	(42)	(8)
Increase (decrease) in net assets	310,447	(6,506)	–	303,941	(94,835)
Net assets at beginning of period	1,992,070	9,844	–	2,001,914	2,096,749
Net assets at end of period	\$ 2,302,517	\$ 3,338	\$ –	\$ 2,305,855	\$ 2,001,914