SINGLE AUDIT REPORT

Premier Health Partners and Subsidiaries
Year Ended December 31, 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Premier Health Partners and Subsidiaries

Single Audit Report

Year Ended December 31, 2020

Contents

Ernst & Young LLP
Suite 1200
400 West Market Street
Louisville, KY 40202

Tel: +1 502 585 1400
ey.com

Report of Independent Auditors

The Board of Trustees
Premier Health Partners and Subsidiaries

We have audited the accompanying consolidated financial statements of Premier Health Partners and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Premier Health Partners and Subsidiaries at December 31, 2020 and 2019, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes 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 audit 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. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards* as of and for the Year Ended December 31, 2020

In accordance with *Government Auditing Standards*, we also have issued our report dated March 12, 2021, on our consideration of the Premier Health Partners and Subsidiaries internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Premier Health Partners and Subsidiaries internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Premier Health Partners and subsidiaries internal control over financial reporting and compliance.

Ernst & Young LLP

March 12, 2021
except for our report on the Schedule of Expenditures
of Federal Awards, for which the date is
March 22, 2022

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	**$ 297,717**	$ 92,134
Patient accounts receivable	**272,313**	275,943
Inventories	**18,916**	16,600
Prepaid expenses	**25,955**	19,711
Estimated receivable from third-parties	**158**	1,513
Other current assets	**23,547**	25,484
Total current assets	**638,606**	431,385
Assets limited as to use: *(Note D)*		
Board-designated investments	**1,018,304**	928,053
Other investments	**146,117**	135,999
Total assets limited as to use	**1,164,421**	1,064,052
Property and equipment, net *(Note E)*	**956,086**	1,027,839
Right-of-use assets *(Note F)*	**40,951**	41,068
Intangible assets, net *(Note M)*	**44,031**	44,632
Other assets	**173,007**	125,545
Total assets	**$ 3,017,102**	$ 2,734,521

Premier Health Partners and Subsidiaries

Consolidated Balance Sheets (Continued)
(Dollars in Thousands)

	December 31 2020	December 31 2019
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 107,963**	$ 82,256
Accrued expenses	**120,956**	96,280
Current portion of long-term debt *(Note H)*	**6,148**	6,087
Estimated payable to third-parties	**59,838**	5,875
Other current liabilities	**44,671**	55,161
Total current liabilities	**339,576**	245,659
Long-term debt, less current portion *(Note H)*	**954,394**	945,265
Operating lease liabilities *(Note F)*	**33,034**	31,522
Pension obligation *(Note I)*	**51,204**	102,979
Reserve for professional liability *(Note G)*	**37,851**	38,109
Interest rate swap liability *(Note J)*	**65,668**	48,931
Other liabilities	**250,452**	128,764
Total liabilities	**1,732,179**	1,541,229
Net assets:		
Without donor restrictions	**1,205,197**	1,122,393
With donor restrictions	**79,726**	70,899
Total net assets	**1,284,923**	1,193,292
Total liabilities and net assets	**$ 3,017,102**	$ 2,734,521

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended December 31	
	2020	**2019**
Operating revenue		
Patient service revenue	**$ 1,768,422**	$ 1,823,688
Other operating revenue	**173,402**	84,029
Total operating revenue	**1,941,824**	1,907,717
Operating expenses		
Salaries and wages	**936,978**	950,182
Employee benefits	**182,439**	183,662
Supplies	**358,109**	342,388
Purchased services, insurance and other	**330,649**	333,635
Hospital franchise tax	**24,881**	21,740
Depreciation and amortization	**130,226**	135,571
Interest	**31,994**	31,902
Total operating expenses	**1,995,276**	1,999,080
Loss from operations before exit, disposal and other costs	**(53,452)**	(91,363)
Exit, disposal and other costs	**(5,585)**	(14,847)
Loss from operations	**(59,037)**	(106,210)
Non-operating gains, net *(Note K)*	**73,795**	92,118
Excess (deficiency) of revenue over expenses	**14,758**	(14,092)
Change in plan assets and benefit obligations of pension plans	**59,826**	(12,933)
Change in net assets with donor restrictions and other	**17,047**	16,579
Increase (decrease) in net assets	**91,631**	(10,446)
Net assets at beginning of year	**1,193,292**	1,203,738
Net assets at end of year	**$ 1,284,923**	$ 1,193,292

See accompanying notes.

Premier Health Partners and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31 2020	2019
Operating activities		
Increase (decrease) in net assets	**$ 91,631**	$ (10,446)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**130,226**	135,571
Change in the valuation of swap agreements	**16,737**	23,423
Change in plan assets and benefit obligations of pension plans	**(59,826)**	12,933
Change in unrealized gains on assets limited as to use	**(46,555)**	(71,043)
Loss (gain) on disposal of assets	**586**	(1,825)
(Gain) loss on extinguishment of debt	**(541)**	938
Gains from alternative investments	**(40,949)**	(41,832)
Purchase of alternative investments	**(14,180)**	(15,839)
Distribution from alternative investments	**42,133**	37,169
Pension plan contribution	**(26,918)**	(9,000)
Centers for Medicare & Medicaid Services advance payments	**149,012**	–
Net change in assets and liabilities:		
Accounts receivable	**3,630**	(19,516)
Assets limited as to use	**(40,818)**	9,279
Other assets	**(14,136)**	(12,974)
Accounts payable and other accruals	**47,505**	(7,926)
Estimated receivable/payable with third parties	**193**	7,185
Pension plan liability	**34,969**	17,382
Other liabilities	**23,392**	10,127
Net cash provided by operating activities	**296,091**	63,606
Investing activities		
Proceeds from the sale of assets	**1,369**	8,618
Purchases of property and equipment	**(45,924)**	(78,613)
Investment in joint venture and other	**(22,199)**	–
Net cash used in investing activities	**(66,754)**	(69,995)
Financing activities		
Proceeds from financing transaction	**7,857**	–
Proceeds from refinancing long-term debt	**98,090**	422,523
Debt issuance costs	**(1,423)**	(3,683)
Interest rate swap collateral	**(13,450)**	5,090
Interest rate swap settlement	**–**	(7,165)
Extinguishment of long-term debt relating to refinancing	**(93,920)**	(403,790)
Repayment of long-term debt and finance leases	**(7,458)**	(7,487)
Net cash (used in) provided by financing activities	**(10,304)**	5,488
Increase (decrease) in cash, cash equivalents and restricted cash	**219,033**	(901)
Cash, cash equivalents and restricted cash at beginning of year	**96,344**	97,245
Cash, cash equivalents and restricted cash at end of year *(Note A)*	**$ 315,377**	$ 96,344

See accompanying notes.

A. Organization and Significant Accounting Policies

Organization

On January 1, 2018, MedAmerica Health Systems (MAHS), Catholic Health Initiatives (CHI), Atrium Health System (AHS) and Upper Valley Medical Center Parent and Controlled Affiliates (UVMC Parent) (collectively and altogether, the Parent Organizations) contributed nearly all of their interests in their respective affiliates, subsidiaries and other assets to Premier Health Partners (PHP), a not-for-profit organization in accordance with the Definitive System Reorganization Agreement (DSRM). Pursuant to the DSRM, the Parent Organizations are the member organizations of PHP.

PHP owns and operates organizations that provide healthcare services and support to communities in Southwest Ohio. Some of these organizations listed below are no longer active and operating. The dates these organizations ceased operations or closed is noted accordingly:

- Miami Valley Hospital (MVH)
- Atrium Medical Center (AMC)
- Upper Valley Medical Center (UVMC)
- Fidelity Health Care (FHC) and its wholly owned subsidiary Premier Community Health (PCH)
- CompuNet Clinical Labs (CCL)
- Samaritan Health Partners (SHP) (ceased operations December 31, 2020)
- Samaritan Behavioral Health, Inc. (SBHI)
- Premier Health Holding Company (PHHC), which owns Premier Health Specialists, Inc. (PHS), MVHE, Inc., and its wholly owned subsidiaries Extended Care, Samaritan Family Care, Inc. (SFC), and Premier Health Urgent Care, Inc (PHUC)
- UVMC Nursing Care, Inc. (UVNC)
- Upper Valley Professional Corporation (UVPC) and its wholly owned subsidiaries After Hours Family Care, Inc. (AHFC) (closed in August 2019), and UVPC Specialists, Inc. (UVPCSI)
- Good Samaritan Hospital (GSH) (closed in July 2018 and healthcare services moved to other PHP provider locations), including wholly owned The Heart Institute of Dayton (THID) (ceased operations at December 31, 2019)

A. Organization and Significant Accounting Policies (continued)

Organizations owned and operated by PHP that support the mission of the healthcare services include: Premier Health International Insurance Limited (PHIIL), Miami Valley Hospital Foundation, Good Samaritan Hospital Foundation, Premier Health Group, LLC, and UVMC Management Corporation.

Certain entities are financially interrelated to PHP. These entities include: Atrium Medical Center Foundation, UVMC Foundation and certain assets of UVMC Parent.

Principles of Consolidation

The financial statements of PHP have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements of PHP include the accounts of PHP and its controlled entities. Joint ventures at the consolidated level of PHP greater than 50% owned and controlled are consolidated in the PHP financial statements. Joint ventures that are owned 50% or less, and not controlled at the consolidated level of PHP, are not consolidated in the PHP financial statements. These investments are accounted for using the equity method of accounting and are included in other assets on the consolidated balance sheets. The consolidated financial statements also include the entities for which management has determined are financially interrelated entities. All material intercompany accounts and transactions are eliminated between affiliates upon consolidation of the PHP consolidated financial statements.

Reclassification

Certain footnote disclosure items relating to the prior year have been reclassified to conform to the current year's presentation.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PHP's management and the board of trustees.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of those assets whose use has been restricted by donors. Some restrictions are temporary in nature, meaning those resources can only be used after a specified date, for a particular program or service, or to acquire buildings or equipment. Other restrictions require that PHP maintain resources in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the associated net assets are reclassified as net assets without

A. Organization and Significant Accounting Policies (continued)

donor restrictions and reported in the consolidated statements of operations and changes in net assets. Donor restricted net assets that have met their restriction and the income from donor restricted net assets are used primarily to support healthcare services and capital needs.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the revenue and expenses of the periods reported. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Claims and Contingencies

In the normal course of business, PHP is subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. Management believes the amounts recorded in its consolidated financial statements are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, and other matters and to comply with applicable laws and regulations will not exceed the amounts reflected in its consolidated financial statements and, therefore, it is possible that recorded estimates may change by a material amount.

Cash and Cash Equivalents

PHP considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding the short-term investments within assets limited as to use.

The following table is a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets as of December 31:

	2020	2019
	(Dollars in Thousands)	
Cash and cash equivalents	**$ 297,717**	$ 92,134
Restricted cash included in other assets	**17,660**	4,210
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	**$ 315,377**	$ 96,344

A. Organization and Significant Accounting Policies (continued)

Patient Accounts Receivable and Patient Service Revenue

Patient accounts receivable and patient service revenue have been adjusted to the estimated amounts expected to be collected.

PHP has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of patient service revenue in future periods, as the amounts become known or as years are no longer subject to such audits, reviews and investigations.

For uninsured patients who do not qualify for charity care, PHP recognizes revenue based on established rates, subject to certain discounts as determined by PHP. The estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient service revenues and are being reported at the net amount expected to be received in the consolidated statements of operations and changes in net assets.

Inventories

Inventories, carried at average cost, include pharmacy and other medical supplies that are used in the hospital operations.

Fair Value Measurements

PHP follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value

A. Organization and Significant Accounting Policies (continued)

hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

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

Assets Limited as to Use

Assets limited as to use consist of Board-designated and other investments, which are used to support capital and operating needs of the organization. Investments consist of short-term investments, equity securities, mutual funds, common trust funds (CTFs), corporate and other bonds, U.S. government securities, and alternative investments in limited liability companies, hedge funds, and private equities.

A. Organization and Significant Accounting Policies (continued)

PHP has elected to account for CTFs at fair value as allowed under ASC 825, *Financial Instruments*, due to the nature of these investments and their similarity to exchange-traded mutual funds. The carrying value of limited liability companies, hedge funds, and private equities, collectively alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for using the equity method of accounting based on the net asset value (NAV) provided by the administrators. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments are subject to various risks including market, credit, liquidity, and foreign exchange risk. PHP believes the carrying amount of these financial instruments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investments. Because some of these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and therefore, may differ from the value that would have been used had a public market for such financial instruments existed. Such differences could be material. PHP's risk related to alternative investments is limited to its carrying value plus amounts committed to private equity as disclosed in Note D.

Some of PHP's alternative investments have liquidity restrictions, meaning amounts can be divested only at specific times based on the terms of the respective partnership agreements. Certain general resources are designated by the governing board for capital and other expenditures or are limited under the terms of the bond indenture and are reported as other investments on the consolidated balance sheets.

Gains and losses consist of realized gains and losses on the sale of investments, the market valuation changes in investments, as well as dividend and interest income. These gains and losses are included in the excess (deficiency) of revenue over expenses unless the income or loss is restricted by donor or law. Investment income or loss that is restricted by donor or law is included in the changes in net assets with donor restrictions and other, as appropriate. Changes in unrealized gains and losses on investments that have been designated as trading securities are also included in the excess (deficiency) of revenue over expenses as investment income or loss.

The global financial markets and the banking system are subject to volatility, which could adversely affect PHP. Certain PHP assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

PHP's collective investment program includes trust assets relating to its self-insurance program for professional liability claims. These trust assets provide funds for professional liability claims under a self-insurance program and are reported as an asset limited as to use.

A. Organization and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated, fair value at the date of receipt. Depreciation and amortization are calculated on a straight-line basis over the estimated asset lives. Depreciation taken on assets recorded as finance leases is determined over the shorter of the period of the lease term or the useful life of the underlying asset and is included as a component of accumulated depreciation and depreciation and amortization expense in the consolidated balance sheets and consolidated statements of operations and changes in net assets, respectively. Interest on construction-in-process is capitalized and amortized over the estimated lives of the related depreciable assets. Depreciation expense was $128.9 million and $133.7 million for the years ended December 31, 2020 and 2019, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

PHP evaluates the carrying value of long-lived assets, including property and equipment, and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. PHP may evaluate its business operations from time to time and determine that certain organization changes are required to meet the future strategic goals of PHP. Any resulting impairment losses or additional required depreciation due to shortened useful lives are recorded in the accompanying consolidated statements of operations and changes in net assets if those long-term assets are related to continuing operations.

Leases

PHP determines if an arrangement is a lease at inception. Operating leases are included in noncurrent assets, other current liabilities, and operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and in the current portion and long-term debt lines in the consolidated balance sheets.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, PHP generally uses the U.S. Treasury Yield Curve Rates using a period comparable with the lease term. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. The operating lease ROU asset also includes any lease payments made and is reported net of lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease depreciation expense is recognized on a straight-line basis over the shorter of the period of the lease term or the useful life of the underlying asset. The lease terms may include options to extend or terminate the lease. The ROU

A. Organization and Significant Accounting Policies (continued)

asset calculations and related liabilities include those options when it is reasonably certain that PHP will exercise an option. PHP has elected the practical expedient to not separate lease and non-lease components for all asset classes.

Exit, Disposal and Other Costs

Management continually evaluates its business and has implemented cost savings initiatives and reorganization efforts to react to changes affecting the business to better align its operations to its strategic plan. As such, in January 2018, management made the decision to close GSH. GSH was closed at the end of July 2018. For the years ended December 31, 2020 and 2019, PHP recorded charges of $4 million and $9.4 million, respectively, resulting from the GSH closure that included retention costs, voluntary retirement costs and other associated costs. These amounts are reflected in exit, disposal and other costs in the consolidated statements of operations and changes in net assets. PHP finalized the GSH closure project in 2020.

PHP also implemented other cost savings initiatives during 2020 and 2019 that resulted in exit, disposal and other costs of $1.6 million and $5.4 million, respectively, that were not related to the GSH closure. These amounts are reflected in exit, disposal and other costs in the consolidated statements of operations and changes in net assets.

Intangible Assets

Intangible assets consist of goodwill and other identifiable intangible assets such as non-compete agreements. Definite-lived intangible assets are amortized using the straight-line method, which allocates the cost over the estimated useful lives of generally three to five years. Goodwill is tested annually for impairment. PHP performed its goodwill impairment test on October 1, its annual goodwill evaluation test date. The evaluation by management determined no events or circumstances existed to conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Derivative Financial Instruments

PHP uses derivative financial instruments (interest rate swaps) in managing its capital costs. The interest rate swaps are valued and recorded at fair market value based on the contractual terms, including the period to maturity, and observable market-based inputs.

The net cost and change in fair value of such interest rate swaps is recognized as a component of non-operating gains, net in the consolidated statements of operations and changes in net assets. The interest rate swap agreements are exposed to counterparty risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. Collateralization requirements mitigate some of the credit risk associated with PHP's interest rate swap agreements.

A. Organization and Significant Accounting Policies (continued)

Pension

PHP utilizes an approach that discounts the individual expected cash flows underlying interest and service costs using the applicable spot rates derived from the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. The use of disaggregated discount rates results in a different amount of weightings given to each subset of payments. The use of disaggregated discount rates affects the amount of service cost, because the benefit payments associated with new service credits for active employees tend to be of longer duration than the overall benefit payments associated with the plan's benefit obligation. As a result, the payments are associated with longer-term spot rates on the yield curve, resulting in lower present values than the calculations using the traditional single weighted-average discount rate.

Hospital Franchise Tax

The Ohio Hospital Franchise Fee program requires Ohio hospitals to pay a provider tax to the state in order to draw down federal Medicaid matching funds. For the years ended December 31, 2020 and 2019, PHP recorded as expense $24.9 million and $21.7 million, respectively, for the hospital franchise tax.

Effective January 1, 2020, the Ohio Hospital Franchise Fee program was revised. This change affects the way program funds are distributed but does not change the Franchise Fee Tax. Ohio hospitals now receive funds in the form of inpatient and outpatient-based rate add-ons through traditional Medicaid and Medicaid managed care plans. The base rate add-ons are recorded as part of patient service revenue. Prior to January 1, 2020, supplemental Medicaid payments were received as lump sum distributions periodically during the year and recorded as other operating revenue. During 2019 PHP received $26.2 million.

A. Organization and Significant Accounting Policies (continued)

Functional Expenses

The consolidated financial statements report certain categories of expenses that are primarily attributable to providing healthcare services and supporting functions. Some expenses require allocation on a reasonable basis that is consistently applied. Employee benefits are allocated on the basis of estimates of time and effort. Expenses reported in the consolidated statements of operations and changes in net assets are as follows for the years ended December 31:

	2020			2019		
	(Dollars in Thousands)					
	Healthcare Services	**Management and General**	**Total**	**Healthcare Services**	**Management and General**	**Total**
Salaries and wages	**$ 825,878**	**$ 111,100**	**$ 936,978**	$ 845,682	$ 104,500	$ 950,182
Employee benefits	**152,577**	**29,862**	**182,439**	157,963	25,699	183,662
Supplies	**357,456**	**653**	**358,109**	341,539	849	342,388
Purchased services, insurance and other	**249,773**	**80,876**	**330,649**	260,406	73,229	333,635
Hospital franchise tax	**24,881**	**–**	**24,881**	21,740	–	21,740
Depreciation and amortization	**127,402**	**2,824**	**130,226**	132,687	2,884	135,571
Interest	**31,994**	**–**	**31,994**	31,902	–	31,902
Total operating expenses	**$ 1,769,961**	**$ 225,315**	**$1,995,276**	$1,791,919	$ 207,161	$1,999,080

Excess (Deficiency) of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line excess (deficiency) of revenue over expenses, which represents the performance indicator for PHP. Consistent with industry practice, changes in net assets that are excluded from the excess (deficiency) of revenue over expenses include change in plan assets and benefit obligations of pension plans, and change in net assets with donor restrictions and other.

A. Organization and Significant Accounting Policies (continued)

Income Taxes

PHP has been determined by the Internal Revenue Service to be a tax-exempt non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. As a tax-exempt organization, its income is exempt from federal income tax except to the extent of any unrelated business activities. PHP consolidates certain subsidiaries, which are for-profit corporations subject to federal income taxes. These are:

- Premier Health Insuring Co. (PHIC), and PHHC (wholly owned subsidiaries of PHP)
- Premier Health Plan (PHPlan) (a wholly owned subsidiary of PHIC)
- MVHE, Inc., Samaritan Family Care, Inc., Premier Health Specialists, Inc. and Premier Health Urgent Care, Inc. (subsidiaries of PHHC)
- Good Samaritan Hospital, UVMC Management Corporation (subsidiaries of PHP) and After Hours Family Care, Inc. (subsidiary of UVPC)

Management annually reviews the tax positions and has determined that there are no material uncertain tax positions.

Recently Adopted Accounting Standards

Effective January 1, 2020, PHP adopted ASU 2018-13, *Fair Value Measurement (Topic 820).* This ASU improves the disclosure requirements on fair value measurements and is effective for fiscal years beginning after December 15, 2019. There were no disclosure impacts to the consolidated financial statements.

Effective January 1, 2020, PHP adopted ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20).* This update clarifies specific requirements and adds disclosure requirements considered relevant to financial statement users of organizations that sponsor defined benefit pension plans. PHP has added the required disclosures related to the employer-sponsored pension plan in Note I.

A. Organization and Significant Accounting Policies (continued)

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of Coronavirus Disease 2019 (COVID-19), a disease caused by a novel strain of coronavirus, a global pandemic. On March 9, 2020, the Governor of Ohio declared a state of emergency related to the COVID-19 outbreak, followed by, among other administrative or executive orders, an order of the Ohio Director of Health on March 17, 2020, canceling all nonessential surgeries and procedures in Ohio for the purpose of preserving personal protective equipment (PPE) and critical hospital capacity for the anticipated surge of COVID-19 patients. Such restrictions had a significant unfavorable impact on PHP's patient volumes and operations. The Governor of Ohio lifted the restrictions on nonessential surgeries and procedures effective May 1, 2020, however volumes in some service areas continued to lag through December 31, 2020.

Federal and state governments enacted legislation and administrative actions to assist health care facilities in providing care to patients during the pandemic. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted. Among other provisions, the CARES Act authorized relief funding to health care providers through the Public Health and Social Services Emergency Fund (Provider Relief Fund) and expanded the Medicare Accelerated and Advance Payment Program through which eligible providers may request accelerated Medicare payments of up to 100% of historical Medicare payments for a six-month period, to be repaid through withholdings against future Medicare fee-for-services payments. During the year ended December 31, 2020, PHP received distributions and payments from the Provider Relief Fund and Medicare Accelerated and Advance Payment Program, along with other state and local programs. The CARES Act also provides for the deferred payment of the employer portion of Social Security payroll taxes incurred between March 27, 2020 and December 31, 2020.

The ongoing extent of the COVID-19 pandemic's impact on PHP's operations, cash flows and financial position will be driven by many factors, most of which are beyond PHP's control or ability to forecast. Such factors include, but are not limited to, the scope and duration of social distancing and stay-at-home orders, ongoing business closures and restrictions, increases in uninsured or underinsured patients as a result of high levels of unemployment, and supply chain disruptions, including shortages, delays, and significant price increases for medical supplies. Because of these factors and the changing scale and severity of the pandemic, its ultimate impact on PHP's operations is unknown.

<u>CARES Act Provider Relief and Other Funding</u>

Distributions from the Provider Relief Fund are intended to reimburse health care providers for lost revenue and increased expenses related to the pandemic and are not subject to repayment; however, the company must attest to certain terms and conditions set forth by the legislation, including, among other things, that distributions received were used for expenses and lost revenue resulting from COVID-19. Distributions provided by the CARES Act Provider Relief Fund are recognized as income once there is reasonable assurance that the applicable terms and conditions required to retain the distributions are met.

A. Organization and Significant Accounting Policies (continued)

Management performs ongoing analyses of the impact of the pandemic on PHP's operations and considers the compliance and reporting requirements set forth by the CARES Act, including subsequent issuance of all frequently asked questions and interpretive guidance issued by the U.S. Department of Health and Human Services (HHS), to determine the amount of government funds to recognize. The Provider Relief Fund Payment Terms and Conditions distributed by the HHS directs recipients to use distributed funds to prevent, prepare for, and respond to the COVID-19 pandemic and reimburses recipients only for health care expenses and lost revenues attributable to the pandemic. Guidance on the recognition and reporting of government stimulus funds continues to evolve through the issuance of Post-Payment Notices of Reporting Requirements, each of which supplements and supersedes previously issued notices.

During the year ended December 31, 2020, PHP received and recognized $95.2 million related to distributions from the Provider Relief Fund as other operating revenue in the consolidated statement of operations and changes in net assets. Issuance of new guidance and/or amended interpretations of existing guidance may result in changes to management's estimate of government stimulus income and, in certain cases, may result in derecognition of amounts previously recognized.

During the year ended December 31, 2020, PHP applied for and was awarded (obligated) $6.9 million of Federal Emergency Management Agency (FEMA) funds. During 2020, PHP utilized and recognized $3.6 million of these funds as other operating revenue in the consolidated statement of operations and changes in net assets. In addition, PHP recognized $7.4 million of employee retention credits as other operating revenue in the consolidated statement of operations and changes in net assets.

<u>Medicare Accelerated and Advance Payments</u>

In April 2020, the PHP received Medicare accelerated payments of $149.0 million. Payments under the Medicare Accelerated and Advance Payment Program represent consideration that must be repaid. Effective October 1, 2020, providers are required to repay Medicare accelerated payments beginning one year after the date of payment issuance via recoupment against future claims for Medicare beneficiaries in accordance with the repayment terms. For the first eleven months of the repayment term, the Centers for Medicare and Medicaid Services (CMS) will automatically recoup 25.0% of Medicare payments otherwise owed to providers. After the first eleven months of the repayment term, CMS will increase the recoupment amount to 50.0% of Medicare payments otherwise owed to providers for a six-month period. If a balance remains after the six-month period, providers will receive a letter for full repayment. If full payment is not received within thirty days of the letter's issuance, the balance will accrue interest at an annual percentage rate of 4.0% assessed for each thirty-day period during which the balance remains unpaid.

A. Organization and Significant Accounting Policies (continued)

PHP classifies outstanding Medicare accelerated payments as current and long-term liabilities based on estimates of future consideration for patient care provided to Medicare beneficiaries that will not be due from Medicare and used to offset outstanding accelerated payment balances within one year. At December 31, 2020, the current portion of outstanding Medicare accelerated payments was $55.1 million and recorded as estimated payable to third-parties on PHP's consolidated balance sheet. The long-term portion of outstanding Medicare accelerated payments expected to be repaid during the recoupment period was $93.9 million and recorded as other long-term liabilities on PHP's consolidated balance sheet. The estimated remaining outstanding balance of $8.1 million will be repaid in full after the recoupment period and is included as part of the $93.9 million in other long-term liabilities on PHP's consolidated balance sheet.

Deferred Employer Portion of Social Security Taxes

At December 31, 2020, PHP had deferred payments of $33.0 million related to its portion of Social Security taxes as provided for by the CARES Act, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The current and long-term portions of the deferred payments each totaled $16.5 million and were recorded within accrued expenses and other liabilities, respectively, on PHP's consolidated balance sheet.

B. Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which PHP expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, PHP bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by PHP. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PHP believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. PHP measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and PHP does not believe it is required to provide additional goods or services to the patient.

B. Patient Service Revenue (continued)

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

PHP determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with PHP's policy, and/or implicit price concessions provided to uninsured patients. PHP determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. PHP determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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 health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations 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,

B. Patient Service Revenue (continued)

and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge PHP'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 PHP.

In addition, the contracts PHP has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party 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. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and PHP'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 with contracted payors, including Medicare and Medicaid, are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. The effect of these settlements was recognition of patient service revenue of $2.0 million and $6.8 million in 2020 and 2019, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. PHP also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. PHP estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any applicable 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, 2020 and 2019, the changes to the estimates of implicit price concessions for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019, was not significant.

Consistent with PHP's mission, care is provided to patients regardless of their ability to pay. Therefore, PHP has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts PHP expects to collect based on its collection history with those patients. Patients who meet PHP's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The estimated cost incurred by PHP to provide these services to patients, based on a cost to charge ratio, who were unable to pay was $33.5 million and $42.1 million for the years ended December 31, 2020 and 2019, respectively.

B. Patient Service Revenue (continued)

PHP recorded charity care subsidies of $14.8 million and $14.7 million for the years ended December 31, 2020 and 2019, respectively, which were recognized as a component of patient service revenue in the consolidated statements of operations and changes in net assets. Charity care subsidies comprise the Ohio Hospital Care Assurance program and the Montgomery County Human Services Levy.

The composition of patient care service revenue by payor is as follows for the years ended December 31:

	2020	**2019**
	(Dollars in Thousands)	
Medicare	**$ 620,633**	$ 641,843
Medicaid	**241,662**	212,620
Commercial	**888,326**	949,365
Self-pay	**17,801**	19,860
	$ 1,768,422	$ 1,823,688

PHP 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 PHP's 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, PHP 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.

C. Financial Assets and Liquidity

For the years ended December 31, 2020 and 2019, PHP had a working capital surplus of $205 million (excluding the impact of the Medicare Accelerated and Advance Payments) and $186 million, respectively.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following:

	2020	2019
	(Dollars in Thousands)	
Cash and cash equivalents	**$ 297,717**	$ 92,134
Patient accounts receivable	**272,313**	275,943
Assets limited as to use:		
Board-designated investments	**933,925**	855,792
Other investments	**33,236**	30,549
	$ 1,537,191	$ 1,254,418

PHP has certain board-designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. PHP has other assets limited as to use for donor-restricted purposes, debt service and for the professional and general liability captive insurance program, which are included in other investments on the consolidated balance sheets. These assets limited as to use, which are more fully described in Note D, are not available for general expenditure within the next year and are not reflected in the amounts above. As part of PHP's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

D. Assets Limited as to Use and Fair Value of Assets and Liabilities

The carrying amount reported in the consolidated balance sheets for current assets (other than investments, which are separately disclosed) and current liabilities are reasonable estimates of fair value due to their short-term nature. These current assets and current liabilities are not required to be marked to fair value on a recurring basis, and therefore are not disclosed in the accompanying table. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020, are as follows:

		Fair Value Measurements at Reporting Date Using[a]		
	Total	**Level 1**	**Level 2**	**Level 3**
		(Dollars in Thousands)		
Assets				
Cash and cash equivalents	**$ 297,717**	**$ 297,717**	**$ –**	**$ –**
Assets limited as to use:				**–**
Short-term investments	**50,261**	**50,261**	**–**	**–**
Equity securities	**47,392**	**47,392**	**–**	**–**
Mutual funds:				
Domestic large cap	**17,644**	**17,644**	**–**	**–**
Domestic small cap	**429**	**429**	**–**	**–**
International	**56,028**	**56,028**	**–**	**–**
Fixed income	**212,842**	**212,842**	**–**	**–**
Corporate and other bonds:				
Corporate and other bonds	**76,806**	**–**	**76,806**	**–**
Asset-backed securities	**21,600**	**–**	**21,600**	**–**
U.S. government securities:				
U.S. government securities	**35,290**	**–**	**35,290**	**–**
U.S. government agencies	**28,785**	**–**	**28,785**	**–**
Subtotal fair value measurements	**547,077**	**384,596**	**162,481**	**–**
Alternative investments at NAV:				
Limited liability companies	**144,254**			
Hedge funds	**37,214**			
Private equity[b]	**80,701**			
Interest in financially interrelated entities[c]	**228,066**			
CTFs measured at NAV[d]	**127,109**			
Total assets limited as to use	**1,164,421**			
Total assets	**$ 1,462,138**			
Liabilities				
Interest rate swap liability	**$ 65,668**	**$ –**	**$ –**	**$ 65,668**

D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, are as follows:

		Fair Value Measurements at Reporting Date Using[a]		
	Total	**Level 1**	**Level 2**	**Level 3**
		(Dollars in Thousands)		
Assets				
Cash and cash equivalents	$ 92,134	$ 92,134	$ –	$ –
Assets limited as to use:				
Short-term investments	20,530	20,530	–	–
Equity securities	42,717	42,717	–	–
Mutual funds:				
Domestic large cap	19,007	19,007	–	–
Domestic small cap	142	142	–	–
International	38,318	38,318	–	–
Fixed income	308,224	308,224	–	–
Corporate and other bonds:				
Corporate and other bonds	19,491	–	19,491	–
Asset-backed securities	17,896	–	17,896	–
U.S. government securities:				
U.S. government securities	8,674	–	8,674	–
U.S. government agencies	4,274	–	4,274	–
Subtotal fair value measurements	479,273	428,938	50,335	–
Alternative investments at NAV:				
Limited liability companies	134,730			
Hedge funds	49,560			
Private equity[b]	68,247			
Interest in financially interrelated entities[c]	216,079			
CTFs measured at NAV[d]	116,163			
Total assets limited as to use	1,064,052			
Total assets	$ 1,156,186			
Liabilities				
Interest rate swap liability	$ 48,931	$ –	$ –	$ 48,931

[a] There were no securities transferred between Level 1, 2 or 3 during 2020 or 2019.

[b] PHP has committed capital yet to be called of $42.3 million and $49.0 million at December 31, 2020 and 2019, respectively, to private equity funds over the next one to three years.

D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

(c) Interest in financially interrelated entities are valued in accordance with ASC 820 and are included with the overall investment portfolio of PHP. Asset allocation specific to these entities is 75% marketable equity securities, 1% marketable fixed-income securities, 20% alternative investments and 4% cash at December 31, 2020, and 75% marketable equity securities, 2% marketable fixed-income securities, 19% alternative investments, and 4% cash at December 31, 2019.

(d) In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

PHP maintains diversification in its investment programs by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2020 and 2019. Funds restricted by donors for charitable purposes, included in cash and cash equivalents, investments, and assets limited as to use, were $83.2 million and $75.1 million at December 31, 2020 and 2019, respectively.

Cash and Cash Equivalents and Assets Limited as to Use

PHP's cash and cash equivalents and assets limited as to use are comprised of short-term investments, money market, equity securities, mutual funds (domestic, international and fixed), corporate bonds and other bonds, asset-backed securities, U.S. government securities, and U.S. government agencies. With the exception of alternative investments, which are accounted for using the equity method of accounting, these holdings 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, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable fixed-income securities, is based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most cash and short-term investments, equity securities, mutual funds and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. PHP does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include corporate and other bonds, asset-backed securities, U.S. government securities, and U.S. governmental agencies. Such financial instruments are generally classified within Level 2 of the fair value hierarchy. Primarily all of PHP's corporate and other bonds, asset-backed securities, U.S. government

D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

securities, and U.S. government agencies are actively traded, and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and valuation techniques as of December 31, 2020 and 2019, used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market
U.S. government agencies	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of fair value of the CTFs at December 31, 2020 and 2019, based on the fact that the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2020 or 2019.

Some alternative investments are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Investments that have lock-up provisions longer than one year as of December 31, 2020 and 2019, were $89.9 million and $76.8 million, respectively. The remaining alternative investments are not subject to lock-up restrictions.

Interest Rate Swap Agreements

PHP uses interest rate swaps to manage its exposure to fluctuations in interest rates and the overall long-term debt portfolio. PHP's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA) yield curve and respective fixed rates. The valuation of PHP's interest rate swap agreements is performed by PHP's counterparty and validated through the use of independent third-party valuation, including the unobservable inputs used in the calculation.

D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreement at December 31:

Interest Rate Swap Agreement	Receiving Floating/ Fixed Rate 2020	Receiving Floating/ Fixed Rate 2019	Paying Fixed/ Floating Rate 2020	Paying Fixed/ Floating Rate 2019	Discount Rate
May 2011	**67% of LIBOR**	67% of LIBOR	**3.260%**	3.225%	Avg. of LIBOR curve
May 2011	**67% of LIBOR[(1)]**	67% of LIBOR[(2)]	**SIFMA**	SIFMA	Avg. of LIBOR curve
May 2011	**67% of LIBOR**	67% of LIBOR	**3.225%**	3.225%	Avg. of LIBOR curve
May 2011	**67% of LIBOR[(2)]**	67% of LIBOR[(2)]	**SIFMA**	SIFMA	Avg. of LIBOR curve
August 2016	**5.00%**	5.00%	**LIBOR[(3)]**	LIBOR[(3)]	Avg. of LIBOR curve
September 2019	**70% of LIBOR**	70% of LIBOR	**3.708%**	3.708%	Avg. of LIBOR curve
September 2019	**70% of LIBOR**	70% of LIBOR	**3.711%**	3.711%	Avg. of LIBOR curve

(1) Receiving rate is 67% of LIBOR plus a spread of 0.6045%.

(2) Receiving rate is 67% of LIBOR plus a spread of 0.6395%.

(3) Paying rate is 70% of LIBOR plus a spread of 0.78%.

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, 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. Although PHP has determined that certain inputs used to value the 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 PHP or the counterparty. As a result, PHP has determined that the interest rate swap agreements will be classified in Level 3 of the fair value hierarchy.

D. Assets Limited as to Use and Fair Value of Assets and Liabilities (continued)

Level 3 Liabilities

The following table represents the changes in fair value of PHP's Level 3 liabilities (interest rate swap liability) for the years ended December 31:

	2020	**2019**
	(Dollars in Thousands)	
Balance at January 1	**$ (48,931)**	$ (32,302)
Total unrealized (losses) gains and adjustments included in net income:		
Mark-to-market adjustment	**(17,267)**	(26,436)
Settlements	**–**	7,165
Credit valuation adjustment	**530**	2,642
Balance at December 31	**$ (65,668)**	$ (48,931)

All realized and unrealized gains (losses) on interest rate swap agreements, including payments due to and from a counterparty, are presented net and included in the consolidated statements of operations and changes in net assets as non-operating gains, net.

E. Property and Equipment, Net

The composition of property and equipment, net is as follows as of December 31:

	Average Life	**2020**	**2019**
		(Dollars in Thousands)	
Land		**$ 75,049**	$ 76,455
Land improvements	8–10 years	**46,216**	45,523
Buildings	25–40 years	**1,408,136**	1,409,629
Equipment	3–7 years	**942,028**	922,342
Right-of-use assets – finance leases		**70,706**	60,013
Construction-in-process		**11,415**	25,402
		2,553,550	2,539,364
Less allowances for depreciation		**1,597,464**	1,511,525
Property and equipment, net		**$ 956,086**	$ 1,027,839

PHP had construction commitments of $31.4 million and $17.3 million outstanding at December 31, 2020 and 2019, respectively.

F. Leases

PHP has operating and finance leases for real estate and certain equipment. The leases have remaining lease terms of one year to 17 years, some of which include options to extend the leases for up to five years, and some of which include the options to terminate the leases within one year. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. At December 31, 2020 and 2019, PHP had ROU assets of $41.0 and $41.1 million, respectively and lease liabilities for operating leases totaling approximately $41.5 and $41.0 million, respectively. PHP had ROU assets for finance leases totaling approximately $49.0 million (net of $21.7 million of accumulated depreciation) and $45.3 million (net of $14.7 million of accumulated depreciation) as of December 31, 2020 and 2019, respectively. PHP has lease liabilities for finance leases totaling approximately $58.3 and $53.9 million as of December 31, 2020 and 2019, respectively.

Operating expenses for the leasing activity of PHP as lessee for the years ending December 31:

	Classification	**2020**	2019
		(Dollars in Thousands)	
Operating lease expense	Purchased services, insurance and other	**$ 10,557**	$ 11,082
Finance lease amortization	Depreciation and amortization	**6,947**	3,007
Finance lease interest	Interest expense	**2,288**	1,569
Total lease cost		**$ 19,792**	$ 15,658

Supplemental cash flow information for the years ended December 31:

	2020	2019
	(Dollars in Thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 9,908**	$ 10,717
Operating cash flows from finance leases	**2,288**	1,569
Financing cash flows from finance leases	**5,981**	789
Total	**$ 18,177**	$ 13,075

F. Leases (continued)

The following are the ROU assets obtained in exchange for lease obligations for the years ended December 31:

	2020	2019
	(Dollars in Thousands)	
Operating leases	**$ 2,637**	$ 1,530
Finance leases	**10,344**	37,459
Total	**$ 12,981**	$ 38,989

The aggregate future lease payments for operating and finance leases were as follows:

	December 31, 2020	
	Operating	Finance
	(Dollars in Thousands)	
2021	**$ 8,552**	**$ 7,590**
2022	**6,930**	**7,150**
2023	**5,657**	**6,816**
2024	**4,576**	**6,483**
2025	**3,988**	**6,497**
Thereafter	**15,335**	**44,980**
Total lease payments	**45,038**	**79,516**
Less imputed interest	**3,526**	**21,185**
Total	**$ 41,512**	**$ 58,331**

	December 31,	
	2020	2019
Weighted Average Remaining Lease Term (Years)		
Operating leases	**8**	7
Finance leases	**11**	12
Weighted Average Discount Rates		
Operating leases	**2.3%**	2.6%
Finance leases	**3.9%**	4.3%

G. Reserve for Professional Liability

PHP and most of its subsidiaries maintain professional liability coverage through Premier Health International Insurance Limited (PHIIL). The Premier Health physician companies (MVHE, SFC, PHS, UVPC and UVPCSI) are also covered by PHIIL for all liability claims, except for professional liability, which is obtained from a commercial carrier. PHIIL was formed to provide professional liability (PL), general liability (GL), directors and officers, and employment insurance coverage to the organization and its subsidiaries. The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the consolidated balance sheet date. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. The reserve is undiscounted and based on management's best estimate, which is subject to change. The professional liability, general liability, directors and officers, and employment insurance coverage accrual of $37.9 million and $38.1 million at December 31, 2020 and 2019, respectively, is included in the reserve for professional liability in the consolidated balance sheets. PHIIL has excess insurance through commercial carriers in the amount of $40 million for claims in excess of the self-insured retention: $10 million per occurrence (PL), $5 million per occurrence (GL), $28.5 million combined aggregate for PL and GL. The excess policy also provides coverage for underlying policies not insured through PHIIL, such as auto and helipad.

PHP recorded a decrease in insurance expense of approximately $6.0 million and $8.2 million for the years ended December 31, 2020 and 2019, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, tort reform and other environmental factors, and improved claim resolution history.

H. Long-Term Debt

The details of long-term debt, net of original issue discount/premium and issuance costs, are as follows:

	December 31 2020	December 31 2019
	(Dollars in Thousands)	
Bonds		
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2011 Series A, final maturity in 2023, fixed interest rate was 5.61% (net of unamortized premium of $1,171 and unamortized issue cost of $285 in 2019)	**$ –**	$ 95,751
City of Middletown, Ohio, Fixed Rate Revenue Bonds – 2016 Series A, final maturity in 2045, fixed interest rate was 5.00% (net of unamortized issue cost of $323 and $336 in 2020 and 2019, respectively)	**82,617**	82,604
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2016 Series G, final maturity in 2046, fixed interest rate was 3.09% (net of unamortized issue cost of $1,570 and $1,831 in 2020 and 2019, respectively)	**298,430**	298,169
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2019 Series A, final maturity in 2045, fixed interest rate was 4.43% (net of unamortized premium of $44,295 and $48,255 in 2020 and 2019, respectively, and unamortized issue cost of $2,866 and $3,052 in 2020 and 2019, respectively)	**329,634**	333,407
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series B, final maturity in 2045, average interest rate was 0.55% and 1.35% in 2020 and 2019, respectively (net of unamortized issue cost of $276 and $287 in 2020 and 2019, respectively)	**42,224**	42,213
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2019 Series C, final maturity in 2045, average interest rate was 0.45% and 1.35% in 2020 and 2019, respectively (net of unamortized issue cost of $276 and $287 in 2020 and 2019, respectively)	**42,224**	42,213
State of Ohio, Fixed Rate Revenue Bonds – 2020 Series, final maturity in 2041, fixed interest rate was 4.45% (net of unamortized premium of $12,318 and unamortized issue cost of $1,397 in 2020)	**96,421**	–
Total bonds, including current portion	**891,550**	894,357

H. Long-Term Debt (continued)

	December 31	
	2020	**2019**
	(Dollars in Thousands)	
Notes payable		
Various notes payable, fixed interest rates ranging from 0% to 1.79%, including current portion	**$ 10,661**	$ 3,093
Finance lease obligations		
Total finance lease obligations, including current portion	**58,331**	53,902
Less current portion of debt and finance leases		
Total current portion of debt and finance leases	**6,148**	6,087
Total long-term debt	**$ 954,394**	$ 945,265

Maturities of long-term bonds for the five years succeeding December 31, 2020, and thereafter are as follows *(dollars in thousands)*:

2021	$ –
2022	–
2023	3,425
2024	11,750
2025	12,280
Thereafter	814,190
Minimum payments before premiums and issue costs	841,645
Premiums	56,613
Issue costs	(6,708)
Minimum payments on bonds	$ 891,550

On August 1, 2016, Premier Health Partners amended and restated its Master Trust Indenture with The Bank of New York Mellon Trust Company, N.A. (Master Trustee), and formed PHPOG, which comprises MVH, AMC and UVMC (Members). Under terms of the master indenture, substantially all of the MVH, AMC and UVMC properties, buildings and equipment are leased from the governmental issuer (County of Montgomery, Ohio; City of Middletown, Ohio; and County of Miami, Ohio) of all outstanding bonds. Members of the PHPOG are jointly and severally liable for all outstanding bonds, except for the notes payable. PHPOG is also responsible for the performance of all debt covenants.

H. Long-Term Debt (continued)

On September 15, 2020, Premier Health Partners Obligated Group (PHPOG) issued the State of Ohio, Hospital Revenue Bonds, Series 2020 fixed rate bonds in the amount of $85.5 million (issued with a $12.6 million premium). The Series 2020 bonds were issued pursuant to a Bond Trust Indenture dated as of September 1, 2020, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Capital, Inc. and PNC Capital Markets, LLC. The Series 2020 bonds have a final maturity of November 15, 2041. The Series 2020 bonds were used to call and extinguish the 2011A Series bonds.

On September 24, 2019, PHPOG issued the County of Montgomery, Ohio Hospital Facilities Revenue Refunding Bonds, Series 2019A fixed rate bonds and Series 2019 B and C variable rate bonds in the amounts of $288.2 million (issued with a $49.3 million premium), $42.5 million and $42.5 million, respectively. The Series 2019A, B and C bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2019, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Capital Inc. and PNC Capital Markets LLC. The Series 2019A, B and C bonds have a final maturity of November 15, 2045. The 2019 Series B and C variable rate revenue bonds are backed by a Letter of Credit from PNC and this will expire on September 24, 2024. The 2019A, B and C bonds were used to call and extinguish the following bond series as outlined in the table below:

	Issuing Series			
	Series 2019A	**Series 2019B**	**Series 2019C**	**Total**
	(Dollars in Thousands)			
Refunded Series				
Refunding Series 2009B Bonds	$ 15,000	$ –	$ –	$ 15,000
Refunding Series 2012A Bonds	78,135	–	–	78,135
Refunding Series 2016C Bonds	29,435	–	–	29,435
Refunding Series 2016D Bonds	27,845	–	–	27,845
Refunding Series 2018 Bonds	58,505	–	–	58,505
Refunding Atrium Series 2008A Bonds	41,425	–	–	41,425
Refunding Atrium Series 2008B Bonds	41,125	–	–	41,125
Refunding UVMC Series 2016B Bonds	24,670	–	–	24,670
Refunding Series 2016E Bonds	1,630	42,195	–	43,825
Refunding Series 2016F Bonds	1,630	–	42,195	43,825
Total	$ 319,400	$ 42,195	$ 42,195	$ 403,790

On August 31, 2016, PHPOG issued $82.9 million of the City of Middletown, Ohio Hospital Facilities Revenue Bonds, Series 2016A fixed rate bonds. The Series 2016A bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Bank PLC. The 2016A bonds will expire on November 15, 2045.

H. Long-Term Debt (continued)

On August 31, 2016, PHPOG issued $300 million of the County of Montgomery, Ohio Taxable Hospital Revenue Bonds, Series 2016G fixed rate bonds. The Series 2016G bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016, between PHPOG and The Bank of New York Mellon Trust Company, N.A. and underwritten by Barclays Bank PLC. PHPOG will pay a taxable rate of 2.911% on $250 million and a taxable rate of 3.992% on the remaining $50 million. The 2016G bond agreement has $250 million that will expire November 15, 2026, and $50 million that will expire on November 15, 2046.

The 2011A Series Bonds were issued and secured under the terms of a Bond Trust Indenture dated as of April 1, 2011, between PHPOG and The Bank of New York Mellon Trust Company, N.A.

Bond agreements and letters of credit include certain restrictive covenants, which include among other things, minimum requirements for leverage ratio, cash, and revenues available for debt service. At December 31, 2020 and 2019, PHPOG was in compliance with its financial debt covenants.

For the years ended December 31, 2020 and 2019, net interest paid on bonds was $28.2 million and $27.8 million, respectively. For the years ended December 31, 2020 and 2019, there was no capitalized interest.

Notes Payable

In November 2020, PHP entered into a financing arrangement for a building in the amount of $8.1 million. The payments began December 2020 and will continue through November 2038.

In July 2017, PHP entered into a financing arrangement to purchase land in the amount of $5.0 million, to be paid in equal annual installments beginning July 31, 2018 through July 31, 2025.

These amounts are included in the current portion and long-term debt lines in the consolidated balance sheets.

I. Pension Plan

The Premier Health Partners Employees Retirement Plan (PHP Plan) was formed on January 1, 2013. Participants of the PHP Plan earn benefits using formulas that existed under the defined benefit plans for MAHS Plan, GSH Plan, AHS Plan, and UVMC Plan for employees hired before January 1, 2008. In December 2016, PHP's board approved an amendment to the PHP Plan for participants hired prior to January 1, 2008. For these affected participants, their formulas were frozen as of January 1, 2018, and from that date forward they are covered under the cash balance formula.

I. Pension Plan (continued)

Individuals hired after January 1, 2008, earn benefits based on a percentage of compensation and with escalating percentages related to years of service (cash balance formula). Individuals earning benefits under this formula shall become 100% vested in all amounts credited to their accounts upon completion of three vesting years, as defined in the PHP Plan. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits for individuals hired after January 1, 2008, are fully portable upon termination of employment.

PHP's funding policy is to contribute amounts to the PHP Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). PHP recognizes in the consolidated balance sheets the funded status of its defined benefit pension plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic cost in the same periods will be recognized as a component of net assets without donor restrictions.

The following table sets forth the funded status of PHP's pension plans and the amounts recognized in the consolidated balance sheets for the years ended December 31:

	2020	2019
	(Dollars in Thousands)	
Accumulated benefit obligation	**$ 893,135**	$ 806,836
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 813,609**	$ 680,306
Service cost	**21,800**	21,214
Interest cost	**23,156**	26,991
Actuarial loss	**70,395**	114,149
Benefits paid	**(30,875)**	(29,051)
Projected benefit obligation at end of year	**898,085**	813,609
Change in plan assets		
Fair value of plan assets at beginning of year	**710,630**	598,642
Actual return on plan assets	**140,208**	132,039
Contributions	**26,918**	9,000
Benefits paid	**(30,875)**	(29,051)
Fair value of plan assets at end of year	**$ 846,881**	$ 710,630
Funded status and net pension liability	**$ (51,204)**	$ (102,979)

I. Pension Plan (continued)

Included as a reduction in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension expense as of December 31:

	2020	2019
	(Dollars in Thousands)	
Net prior service credit	**$ 20,166**	$ 23,375
Net actuarial loss	**(224,457)**	(287,492)
	$ (204,291)	$ (264,117)

Net actuarial loss is amortized as a component of net periodic pension cost, only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit is amortized on a straight-line basis over the estimated life of the PHP Plan's participants. The net prior service credit and net actuarial loss included as a reduction in net assets without donor restrictions that are expected to be recognized in net periodic pension expense during the year ending December 31, 2021 are $3.2 million and $36.7 million, respectively, for the PHP plan.

The following amounts related to pension benefit activity have been recognized in net assets without donor restrictions for the years ended December 31:

	2020	2019
	(Dollars in Thousands)	
Net actuarial gain/(loss)	**$ 26,554**	$ (23,814)
Amortization of actuarial loss	**36,481**	14,090
Amortization of unrecognized prior service credit	**(3,209)**	(3,209)
Increase/(decrease) in net assets without donor restrictions	**$ 59,826**	$ (12,933)

Net pension expense included the following components for the years ended December 31:

	2020	2019
	(Dollars in Thousands)	
Service cost	**$ 21,800**	$ 21,214
Interest cost	**23,157**	26,991
Expected return on assets	**(43,260)**	(41,705)
Amortization of unrecognized prior service credit	**(3,209)**	(3,209)
Amortization of actuarial loss	**36,481**	14,091
Net pension expense	**$ 34,969**	$ 17,382

I. Pension Plan (continued)

The components of net pension expense, other than the service cost component, are recorded in non-operating gains, net in the consolidated statements of operations and changes in net assets.

The change in the funded status between December 31, 2019 and 2020 was primarily the result of the $26.9 million contribution, favorable market returns on plan assets and movement of discount rates.

Weighted-average assumptions to determine the benefit obligation for the PHP Plan are as follows as of December 31:

	2020	**2019**
Discount rate	**2.64%**	3.31%
Average salary increase rate	**3.97**	3.97
Interest credit rate	**4.01**	4.01

Weighted-average assumptions to determine the net periodic benefit expense for the PHP Plan are as follows for the years ended December 31:

	2020	**2019**
Discount rate	**3.31%**	4.43%
Interest cost discount rate on benefit obligations	**2.89**	4.07
Service cost discount rate	**3.41**	4.52
Interest cost discount rate on service cost	**2.99**	4.18
Long-term rate of return	**6.50**	6.50
Average salary increase rate	**3.97**	3.97
Interest credit rate	**4.01**	4.01

In selecting the expected long-term return on plan assets for the PHP Plan, management considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of the plan. This includes the asset allocation and the expected returns that are anticipated to be earned over the life of the plan. This basis is consistent with the prior year.

I. Pension Plan (continued)

Projected benefit payments for the ten years succeeding December 31, 2020, are as follows:

	PHP Plan
2021	$ 36,885
2022	45,591
2023	46,793
2024	49,002
2025	50,509
2026–2030	264,777
	$ 493,557

PHP expects to make a $19.2 million contribution to its pension plan in 2021.

The fair values of the PHP Plan's assets at December 31, 2020, by asset category, are as follows:

		Fair Value Measurements[a]		
Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**
		(Dollars in Thousands)		
Short-term investments	**$ 31,721**	**$ 31,721**	**$ –**	**$ –**
Mutual funds:				
Domestic small cap	**31,551**	**31,551**	**–**	**–**
International	**54,057**	**54,057**	**–**	**–**
Corporate and other bonds:				
Corporate and other bonds	**238,017**	**–**	**238,017**	**–**
Asset-backed securities	**148**	**–**	**148**	**–**
U.S. government securities:				
U.S. government securities	**197,877**	**–**	**197,877**	**–**
Subtotal fair value measurements	**553,371**	**117,329**	**436,042**	**–**
Alternative investments measured at NAV[b]:				
Limited liability companies	**120,063**			
Hedge funds	**27,375**			
CTFs measured at NAV[b]	**146,072**			
Total PHP Plan assets	**$ 846,881**			

I. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2019, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements[a] Level 1	Level 2	Level 3
		(Dollars in Thousands)		
Short-term investments	$ 21,405	$ 21,405	$ –	$ –
Mutual funds:				
Domestic small cap	26,488	26,488	–	–
International	35,833	35,833	–	–
Corporate and other bonds:				
Corporate and other bonds	162,364	–	162,364	–
Asset-backed securities	398	–	398	–
U.S. government securities:				
U.S. government securities	194,714	–	194,714	–
Subtotal fair value measurements	441,202	83,726	357,476	
Alternative investments measured at NAV[b]:				
Limited liability companies	115,103			
Hedge funds	35,751			
CTFs measured at NAV[b]	118,574			
Total PHP Plan assets	$ 710,630			

[a] There were no securities transferred between Level 1, 2 or 3 during 2020 or 2019.

[b] In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Fair value methodologies for short-term investments, mutual funds, corporate and other bonds, and U.S. government securities sections included in Level 1 and Level 2 are consistent with the inputs described in Note D.

I. Pension Plan (continued)

Following is the summary of the inputs and valuation techniques as of December 31, 2020 and 2019, used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CTFs at December 31, 2020 and 2019, based on the fact the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2020 or 2019.

Alternative investments, which consist of hedge funds and limited liability companies, are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2020 and 2019, based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with the terms of the partnership agreements. Hedge fund and limited liability companies' redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated.

PHP's objective for the pension plan is to provide the payment of all future participant benefits. To meet this objective, the plan assets are invested in a manner that considers asset and liability movements and prudent efforts are made to exceed growth in liabilities. The PHP Plan is actively invested to achieve growth of capital and capital preservation. PHP maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Consideration is given to variables such as productivity, inflation, global competitiveness, and market risk. PHP's objective for the PHP Plan is to be in the range of 35% to 68% invested in return-seeking assets and 32% to 65% invested in liability-driven investments. Within those ranges, the Plan's target allocation for December 31, 2020, by asset category, is 50% return-seeking assets and 50% liability-driven investments. Accordingly, based on this diversification, management does not believe there are any concentrations of credit risk at the measurement date.

During each of the years ended December 31, 2020 and 2019, PHP recognized costs for its defined contribution plans of $13.1 million.

J. Interest Rate Swaps

The following table summarizes the notional and valuation assets (liabilities) of PHP's interest rate swaps as of December 31 (*dollars in millions*):

Interest Rate Swap Agreement	Transaction Type	Termination Date	Notional Amount 2020	Notional Amount 2019	Valuation Amount 2020	Valuation Amount 2019
May 2011	Fixed Pay	2045	**$ 42.5**	$ 42.5	**$ (20.9)**	$ (15.3)
May 2011	Basis swap	2037	**50.0**	50.0	**2.6**	2.5
May 2011	Fixed Pay	2045	**42.5**	42.5	**(20.4)**	(14.7)
May 2011	Basis swap	2037	**50.0**	50.0	**2.8**	2.4
August 2016	Total Return	2026	**82.9**	82.9	**0.5**	0.3
September 2019	Fixed Pay	2045	**41.5**	41.5	**(15.0)**	(11.9)
September 2019	Fixed Pay	2045	**41.5**	41.5	**(15.3)**	(12.2)
Total Liability					**$ (65.7)**	$ (48.9)

PHP's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. PHP has posted collateral with a designated custodian of $17.7 million at December 31, 2020 ($4.2 million at December 31, 2019) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included in other assets on the consolidated balance sheets, restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in non-operating gains, net on the consolidated statements of operations and changes in net assets.

K. Non-operating Gains, Net

Non-operating gains, net are as follows:

	Year Ended December 31 2020	2019
	(Dollars in Thousands)	
Interest income, net of investment fees	**$ 14,008**	$ 17,406
Realized gains on assets limited as to use	**54,797**	52,158
Change in unrealized gains on assets limited as to use	**46,555**	71,043
Unrealized losses on interest rate swaps	**(16,737)**	(23,423)
Other losses	**(24,828)**	(25,066)
Non-operating gains, net	**$ 73,795**	$ 92,118

L. Concentration of Credit Risk

PHP's primary purpose is to provide healthcare services. PHP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows at December 31:

	2020	2019
Medicare	**29%**	27%
Medicaid	**10**	9
Anthem	**19**	17
United HealthCare	**9**	9
Other third-party payors	**24**	26
Patients' responsibility	**9**	12
Total	**100%**	100%

M. Intangible Assets, Net

Goodwill and intangible assets have been generated primarily from the acquisition of certain businesses. The following table sets forth the related carrying values of goodwill and other intangibles, as of December 31:

	2020	2019
	(Dollars in Thousands)	
Goodwill balance, January 1,	**$ 43,706**	$ 32,420
Goodwill acquired	**–**	11,286
Goodwill balance, December 31,	**43,706**	43,706
Intangible assets, December 31,	**3,658**	6,996
Intangible asset accumulated amortization	**(3,333)**	(6,070)
Net intangible assets	**325**	926
Total goodwill and intangible assets, December 31,	**$ 44,031**	$ 44,632

Amortization expense for the years ended December 31, 2020 and 2019, was $1.3 million and $1.8 million, respectively.

In 2019, PHP acquired the remaining ownership interest in a business in which it had a controlling interest, resulting in an increase to goodwill of $11.3 million.

N. Subsequent Events

PHP has evaluated subsequent events through March 12, 2021, which is the date the consolidated financial statements were issued and made available. No recognized or unrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

O. Cost of Community Benefits (Unaudited)

Cost of Community Benefit	2020 PHP	PHP % of Operating Expense	2019 PHP	PHP % of Operating Expense
		(Dollars in Thousands)		
Charity care and means-tested government programs				
Charity care at cost	**$ 18,735**		$ 27,373	
Unreimbursed Medicaid	**123,582**		120,801	
Unreimbursed costs – other means-tested government programs	**7,332**		6,001	
Total charity care and means-tested government programs	**149,649**	**7.5%**	154,175	7.7%
Other benefits				
Community health improvement and community benefit operations	**2,713**		3,482	
Health professions education	**3,080**		4,346	
Subsidized health services	**29,873**		37,057	
Cash and in-kind contributions to community groups	**13,363**		8,561	
Total other benefits	**49,029**	**2.5%**	53,446	2.7%
Total quantifiable benefits	**198,678**	**10.0%**	207,621	10.4%
Community building activities				
Physical improvements	**325**		1,096	
Other	**-**		14,270	
Total community building activities	**325**	**0.0%**	15,366	0.8%
Total loss on Medicare services	**159,795**	**8.0%**	131,561	6.5%
Total community benefits	**$ 358,798**	**18.0%**	$ 354,548	17.7%

Medicaid and Medicare include total costs of treating patients which is higher than the costs covered by those programs.

Supplementary Information

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program Title	**Federal CFDA Number**	**Pass-Through Identifying Number**	**Federal Expenditures**
Research and development cluster:			
U.S. Department of Health and Human Services:			
Pass-through:			
Cincinnati Children's Hospital Medical Center			
Medical Assistance Program	93.778	308760	$ 23,216
The University of Alabama at Birmingham			
Cardiovascular Diseases Research	93.837	U01HL120338	3,528
The Ohio State University Research Foundation			
Cardiovascular Diseases Research	93.837	U24HL140168	37,951
The University of Alabama at Birmingham			
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5U01NS095869-02	2,000
Total Research and Development Cluster			66,695
U.S. Department of Health and Human Services			
Pass-through:			
Montgomery County Alcohol, Drug, & Mental Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	862,272
Opioid STR	93.788	N/A	68,653
Direct:			
COVID-19 Testing for the Uninsured	93.461		60,270
Total U.S. Department of Health and Human Services			991,195
U.S. Department of Education			
Pass-through:			
Montgomery County Greater Dayton Hospital Association			
Special Education – Grants for Infants and Families	84.181	H181A190024	100,000
Total U.S. Department of Education			100,000
U.S. Department of Homeland Security			
Pass-through:			
Ohio Emergency Management Agency			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4507-OH	4,277,233
Total U.S. Department of Homeland Security			4,277,233

Premier Health Partners and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program Title	**Federal CFDA Number**	**Pass-Through Identifying Number**	**Federal Expenditures**
U.S. Department of the Treasury			
Pass-through:			
The State of Ohio			
Coronavirus Relief Fund	21.019	SLT0018	$ 805,316
Total U.S. Department of the Treasury			805,316
Total expenditures of federal awards			$ 6,240,439

Catalog of Federal Domestic Assistance (CFDA)

See accompanying notes to the schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes federal grant activity of Premier Health Partners and Subsidiaries under programs of the federal government for the year ended December 31, 2020 and is presented using the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. Indirect Cost Rate

Premier Health Partners and Subsidiaries elected not to utilize the 10 percent de minimis indirect cost rate allowed by Uniform Guidance.

Compliance and Internal Control Reports and Schedule Required by the Uniform Guidance

Ernst & Young LLP
Suite 1200
400 West Market Street
Louisville, KY 40202

Tel: +1 502 585 1400
ey.com

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Senior Management and the Board of Trustees
Premier Health Partners and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Premier Health Partners and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 12, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

March 12, 2021

Building a better working world

Ernst & Young LLP
Suite 1200
400 West Market Street
Louisville, KY 40202

Tel: +1 502 585 1400
ey.com

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Senior Management and the Board of Trustees
Premier Health Partners and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Premier Health Partners and Subsidiaries' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Premier Health Partners and Subsidiaries' major federal programs for the year ended December 31, 2020. Premier Health Partners and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Premier Health Partners and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Premier Health Partners and Subsidiaries' compliance with those requirementsand performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Premier Health Partners' compliance.

Opinion on Each Major Federal Program

In our opinion, Premier Health Partners and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of Premier Health Partners and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planningand performing our audit of compliance, we considered Management of Premier Health Partners and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal controlover compliance. Accordingly, we do not express an opinion on the effectiveness of Premier Health Partners and Subsidiaries' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

March 22, 2022

Premier Health Partners and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended December 31, 2020

Section I – Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	**Unmodified**

Internal control over financial reporting:

Material weakness(es) identified?	______ **Yes**	__X__ **No**
Significant deficiency(ies) identified?	______ **Yes**	__X__ **None reported**
Noncompliance material to financial statements noted?	______ **Yes**	__X__ **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	______ **Yes**	__X__ **No**
Significant deficiency(ies) identified?	______ **Yes**	__X__ **None reported**

Type of auditor's report issued on compliance for major federal programs	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ **Yes**	__X__ **No**

Identification of major federal programs:

Assistance Listing numbers	**Name of federal program or cluster**
21.019	Coronavirus Relief Fund
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.036	Disaster Grants – Public Assistance

Section I – Summary of Auditor's Results (continued)

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	______ **Yes** __X__ **No**

Part II – Consolidated Financial Statement Findings

No matters were reported.

Part III – Federal Award Findings and Questioned Costs

No matters were reported.