

CONSOLIDATED FINANCIAL STATEMENTS

**CATHOLIC HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

DECEMBER 31, 2020

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Catholic Health System, Inc.
Buffalo, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Health System, Inc. and its subsidiaries (collectively, the System), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 (collectively, the consolidated financial statements).

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated 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 System'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Health System, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 23, 2021

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31,

ASSETS	2020	2019
Current assets:		
Cash and cash equivalents	\$ 223,453	\$ 298,841
Patient accounts receivable	170,230	119,254
Other receivables	5,701	6,754
Inventories	23,675	22,458
Prepaid expenses and other current assets	17,347	7,824
Total current assets	440,406	455,131
Assets limited as to use	87,138	161,717
Investments	226,085	143,713
Property and equipment, net	465,186	422,109
Operating lease right-of-use assets	40,039	45,124
Other assets	119,736	118,098
Total assets	\$ 1,378,590	\$ 1,345,892
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term obligations	\$ 11,318	\$ 12,475
Current portion of operating lease liabilities	8,084	9,542
Accounts payable	68,351	69,473
Accrued expenses	113,433	106,014
Due to third-party payors	47,166	48,841
Medicare advances	66,837	-
Deferred revenue and refundable advances	11,206	-
Total current liabilities	326,395	246,345
Long-term obligations, net	311,570	322,985
Long-term operating lease liabilities, net	32,318	35,610
Other long-term obligations	631,280	548,487
Total liabilities	1,301,563	1,153,427
Net assets:		
Without donor restrictions	69,009	184,873
With donor restrictions	8,018	7,592
Total net assets	77,027	192,465
Total liabilities and net assets	\$ 1,378,590	\$ 1,345,892

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands of dollars)

For the Years Ended December 31,

	<u>2020</u>	<u>2019</u>
Revenues and other support without donor restrictions:		
Net patient service revenue	\$ 1,056,728	\$ 1,123,090
Other revenue	29,635	28,278
CARES Act Provider Relief Funding	87,144	-
Net assets released from restrictions	584	455
Total revenues and other support without donor restrictions	<u>1,174,091</u>	<u>1,151,823</u>
Expenses:		
Salaries and wages	569,558	559,179
Employee benefits	150,204	139,930
Medical and professional fees	53,998	61,862
Purchased services	148,015	124,314
Supplies	209,335	213,006
Depreciation and amortization	48,852	47,097
Interest	12,936	16,574
Insurance	16,080	13,348
Other expenses	38,966	32,760
Total expenses	<u>1,247,944</u>	<u>1,208,070</u>
Loss from operations	(73,853)	(56,247)
Nonoperating revenues and expenses:		
Investment income	19,822	28,262
Other components of net periodic pension cost	(11,435)	(8,603)
Other revenues and gains, net	489	973
Total nonoperating revenues and expenses	<u>8,876</u>	<u>20,632</u>
Deficiency of revenues over expenses	<u>\$ (64,977)</u>	<u>\$ (35,615)</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

(in thousands of dollars)

For the Years Ended December 31,

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Deficiency of revenues over expenses	\$ (64,977)	\$ (35,615)
Change in unrealized loss on interest rate swaps	(176)	(571)
Change in pension obligation, other than net periodic cost	(67,376)	(44,027)
Net assets released from restrictions used for capital	762	1,362
Amortization of terminated interest rate swaps	-	3,926
Capital grants	15,343	4,053
Contributions	5	10
Other	(192)	450
Decrease in net assets without donor restrictions before effects of discontinued operations	(116,611)	(70,412)
Gain (loss) from discontinued operations	756	(1,051)
Decrease in net assets without donor restrictions	(115,855)	(71,463)
Net assets with donor restrictions:		
Contributions	2,010	2,047
Investment income	32	62
Special events revenue, net	15	148
Net assets released from restrictions	(1,346)	(1,817)
Other	(294)	(554)
Increase (decrease) in net assets with donor restrictions	417	(114)
Decrease in net assets	(115,438)	(71,577)
Net assets, beginning of year	192,465	264,042
Net assets, end of year	<u>\$ 77,027</u>	<u>\$ 192,465</u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

For the Years Ended December 31,

	2020	2019
Cash flows from operating activities:		
Decrease in net assets	\$ (115,438)	\$ (71,577)
(Gain) loss from discontinued operations	(756)	1,051
Net deficit acquired	-	419
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	48,852	47,097
Change in minimum pension liability adjustment	67,376	44,027
Undistributed earnings in equity investees	(385)	(248)
Amortization of discount on debt issuance	24	429
Amortization of premium on debt issuance	(1,461)	(1,172)
Amortization of debt issuance costs	543	1,026
Loss on sale of property and equipment	-	45
Change in unrealized gain on investments	(15,810)	(14,232)
Realized gain on investments	(1,539)	(12,077)
Realized loss on interest rate swaps	182	585
Other	766	(11)
Decrease (increase) in assets:		
Patient accounts receivable	(50,976)	558
Other receivables	1,053	3,819
Inventories	(1,217)	1,177
Prepaid expenses and other current assets	(9,523)	4,951
Other assets	(330)	(50)
Increase (decrease) in liabilities:		
Accounts payable	4,848	2,061
Accrued expenses	7,488	21,661
Due to third-party payors	(1,675)	5,905
Medicare advances	66,837	-
Deferred revenue and refundable advances	11,206	-
Other liabilities	14,523	1,227
Net cash provided by operating activities	24,588	36,671
Cash flows from investing activities:		
Purchase of property and equipment	(95,582)	(82,589)
Purchase of assets limited as to use	(11,797)	2,716
Proceeds from sale of assets limited as to use	10,942	-
Purchase of investments	(66,234)	(7,827)
Proceeds from sale of investments	2,277	73,526
Distributions from equity investments	-	109
Purchase of intangible assets	(566)	(277)
Purchase of equity investments	-	(3,568)
Net cash used in investing activities	(160,960)	(17,910)
Cash flows from financing activities:		
Proceeds from issuance of long-term obligations	-	194,759
Repayments of current and long-term obligations	(13,304)	(83,080)
Termination of interest rate swaps	-	(2,898)
Net cash provided (used in) by financing activities	(13,304)	108,781
Increase (decrease) in cash, cash equivalents and restricted cash	(149,676)	127,542
Cash, cash equivalents and restricted cash - beginning of year	456,126	328,584
Cash, cash equivalents and restricted cash - end of year	<u><u>\$ 306,450</u></u>	<u><u>\$ 456,126</u></u>

See accompanying notes.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 1. ORGANIZATION

Catholic Health System, Inc. and Subsidiaries (CHS or the System) is an integrated healthcare delivery system in Western New York jointly sponsored by the Diocese of Buffalo, New York and Catholic Health Ministries. Trinity Health and the Diocese of Buffalo are the corporate members of CHS, with equal ownership interest.

Catholic Health System, Inc. is the sole corporate member of the following subsidiaries:

Parent Subsidiaries: The Parent Subsidiaries include Catholic Health Parent (CH), Catholic Health Emmaus, Inc. (Emmaus) and Sterling Surgical, LLC (Sterling).

Acute Care Subsidiaries: The Acute Care Subsidiaries (also collectively referred to as the Hospitals) include Mercy Hospital of Buffalo (MHB) including Mercy Hospital Foundation, Inc., Kenmore Mercy Hospital including Kenmore Mercy Foundation, Inc. and the McAuley Residence which includes KMH Homes Inc. (KMH), Sisters of Charity Hospital including Sisters Hospital Foundation, Inc. (SCH or Sisters Hospital) and Mount St. Mary's Hospital including Mount St. Mary's Hospital Foundation and Mount St. Mary's Child Care Center (MSM).

Home and Community Based Subsidiaries: The Home and Community Based Subsidiaries include Western New York Catholic Long-Term Care, Inc. d/b/a Father Baker Manor (FBM), St. Francis Geriatric and Healthcare Services, Inc. (SFG or St. Francis Geriatric), Niagara Homemakers Services, Inc. d/b/a Mercy Home Care (MHC), McAuley Seton Home Care Corporation (MSHC or McAuley Seton Home Care) and Catholic Health Infusion Pharmacy (Infusion Pharmacy).

Other Subsidiaries: The Other Subsidiaries include Our Lady of Victory Renaissance Corporation (OLV Renaissance or Our Lady of Victory Renaissance), Continuing Care Foundation (CCF), Catholic Health System Program of All Inclusive Care for the Elderly, Inc. (LIFE), Trinity Medical WNY, P.C. (Trinity), and Niagara Medicine, P.C. (Niagara Medicine).

Discontinued Operations: The Discontinued Operations consist of four long-term care facilities (St. Elizabeth's, St. Vincent's Home for the Aged, St. Francis Home of Williamsville and Nazareth Home of the Franciscan Sisters of the Immaculate Conception), whose operations ceased prior to 2016 and whose physical assets were sold prior to 2017. The residual assets and liabilities are maintained in the respective legal entities until such time that they can be wound down and legally disposed of or transferred.

The residual assets (net of inter-company receivables), liabilities (net of inter-company payables), and accumulated net deficit of the discontinued operations were \$9,057, \$4,528 and (\$3,729), respectively, as of December 31, 2020 and are included within their natural classifications in the accompanying consolidated balance sheets. The residual assets (net of inter-company receivables), liabilities (net of inter-company payables), and accumulated net deficit of these discontinued operations were \$8,447, \$4,669 and (\$4,485), respectively, as of December 31, 2019.

The aggregate gain (loss) from discontinued operations was approximately \$756 and (\$1,051) for the years ended December 31, 2020 and 2019, respectively.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Basis of Accounting: The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP).

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation: The consolidated financial statements of the System include the accounts of Catholic Health System (commonly referred to as the Parent) and each of its wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated to reflect the consolidated amounts.

Recently Adopted Accounting Pronouncements: In August 2018, Financial Accounting Standards Board (FASB) issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to the consolidated financial statements by modifying disclosure requirements for fair value measurements. The System adopted ASU 2018-13 on January 1, 2020. The adoption of ASU 2018-13 had no material impact on the consolidated financial statements.

In March 2021, the FASB issued ASU 2021-03, *Intangibles-Goodwill and other (Topic 350) – Accounting Alternative for Evaluating Triggering Events*. This ASU provides an accounting alternative expected to reduce the complexity for private companies and not-for-profit organizations when performing the goodwill triggering event evaluation. The ASU specifically allows private companies and not-for-profit organizations to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period, whether the reporting period is an interim or annual period. It eliminates the requirement for companies and organizations that elect this alternative to perform this assessment during the reporting period, limiting it to the reporting date only. This ASU also includes an unconditional one-time option for entities to adopt the alternative prospectively after its effective date. The amendments in the ASU are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. The adoption of ASU 2021-03 had no material impact on the consolidated financial statements.

New Accounting Pronouncements: In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the System for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The System is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. The System is currently assessing the impact that ASU 2020-07 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the System include, but are not limited to, the reserves for asset retirement obligations, implicit price concessions, reserve for third-party payor contractual adjustments and allowances, the provision for estimated receivables and payables for final settlements with those payors, the insurance reserves for workers’ compensation, health insurance, professional and general liability, and actuarial assumptions used in determining pension obligations.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties: Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net assets of the System.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to third-party payment matters will change by a material amount in the near term.

Cash and Cash Equivalents: The System considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. Cash equivalents are measured at fair value in the consolidated balance sheets and exclude amounts restricted, board designated, or held in trusts. The System maintains funds in excess of amounts insured by the Federal Depository Insurance limits. The System has diversified its deposit amounts in a variety of institutions to reduce the level of concentrated credit risk. The System has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

The reconciliation of cash, cash equivalents and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 223,453	\$ 298,841
Cash and cash equivalents in investments	981	664
Restricted cash and cash equivalents in assets limited as to use	<u>82,016</u>	<u>156,621</u>
Total cash, cash equivalents and restricted cash	<u>\$ 306,450</u>	<u>\$ 456,126</u>

Supplemental disclosure of cash flow information and non-cash investing and financing transactions for the years ended December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 12,946	\$ 15,271
Non-cash investing and financing transactions:		
Assets acquired under finance lease obligations	\$ 1,626	\$ 3,555
Increase (decrease) in construction related payables	\$ (5,970)	\$ 6,601

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Accounts Receivable: Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. The System grants credit without collateral to its patients, most of who are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Medicare	37%	33%
Medicaid	22	21
Blue Cross	8	6
Other third-party payors	26	28
Patients	<u>7</u>	<u>12</u>
	<u>100%</u>	<u>100%</u>

Other Receivables and Other Assets: Other receivables consist of third-party receivables, physician loans, Foundation receivables, managed care risk sharing receivables, lease and rent receivables and other receivables. There is no allowance for doubtful accounts established against these receivables. Other non-current assets consist of insurance recoveries, investments in healthcare ventures, goodwill, and other non-current assets.

The composition of current other receivables and other non-current assets is as follows at December 31:

	<u>2020</u>	<u>2019</u>
Current other receivables:		
Physician loans	\$ 772	\$ 1,127
Foundation receivables	1,039	1,833
Lease and rent receivables	461	430
Third-party receivables	1,776	2,146
Other	<u>1,653</u>	<u>1,218</u>
Other receivables	<u>\$ 5,701</u>	<u>\$ 6,754</u>
Non-current other assets:		
Insurance recoveries	\$ 106,785	\$ 105,904
Investments in healthcare ventures	2,848	2,638
Goodwill and other	<u>10,103</u>	<u>9,556</u>
Other assets	<u>\$ 119,736</u>	<u>\$ 118,098</u>

Inventories: Inventory consists primarily of drugs, medical supplies and food. These inventories are generally stated at the lower of cost (first-in, first-out) or net realizable value.

Investments: Investments in marketable securities with readily determinable fair values and investments in debt securities are reported at their fair values in the consolidated balance sheets.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment income or loss (including realized and unrealized gains or losses on investments, interest, and dividends) is included in the deficiency of revenues over expenses, unless their use is restricted by donor stipulations or law.

Assets Limited as to Use: Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, and assets set aside by the Board of Directors for specific future purposes. The Board retains control of these funds and may at its discretion subsequently use for other purposes.

Property and Equipment: Property and equipment are stated at cost if purchased, or if contributed, at the fair value on the date contributed. Depreciation is computed using the straight-line method over useful lives ranging from three to forty years. Equipment under finance lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets.

Gifts of long-lived assets such as land, building, or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Operating Lease Right-of-Use Assets: The System records an operating lease right-of-use asset (that is an asset that represents the System's right to use the leased asset for the lease term) for leases that do not meet the criteria as a financing lease. The right-of-use asset is recorded at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating right-of-use assets are amortized using the straight-line method over the related lease term. For the years ended December 31, 2020 and 2019, amortization of operating lease right-of-use assets is included in other expenses in the accompanying consolidated statements of operations and changes in net assets.

Debt Issuance Costs: Debt issuance costs are presented as a reduction of the carrying amount of debt rather than as an asset and amortized over the life of the related obligation. Amortization of debt issuance costs is reported as interest expense in the consolidated statements of operations and changes in net assets. Debt issuance costs, net of accumulated amortization, amounted to \$5,143 and \$5,687 at December 31, 2020 and 2019, respectively.

Impairment of Long-Lived Assets: The System evaluates its long-lived assets for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The System evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. Based on these evaluations, there are no adjustments to the carrying value of long-lived assets for the years ended December 31, 2020 and 2019.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousands of dollars)***NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Asset Retirement Obligations: The System accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the System will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense for the years ended December 31, 2020 and 2019 was \$690 and \$656, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Other Long-Term Obligations: Other long-term obligations consist of long-term pension obligations, insurance liabilities, deferred FICA, asset retirement obligations, contingent performance obligation, interest rate swap liabilities, and other long-term obligations. The composition of other long-term obligations is as follows at December 31:

	<u>2020</u>	<u>2019</u>
Long-term pension obligations	\$ 432,503	\$ 360,501
Insurance liabilities	167,705	167,537
Deferred FICA	10,786	-
Asset retirement obligations	10,248	10,205
Contingent performance obligation	7,242	7,242
Interest rate swap liabilities	1,486	1,305
Other	<u>1,310</u>	<u>1,697</u>
Other long-term obligations	<u>\$ 631,280</u>	<u>\$ 548,487</u>

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Management believes that this method provides a reasonable representation 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 inpatient services. The System 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 management does not believe it is required to provide additional goods or services to the patient.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Third-party payors retain the right to review and propose adjustments to amounts recorded by the System. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The System's Healthcare Assistance Program (HAP) provides discounts to patients based on need. In addition, the System will also assist patients with the application process for free or low-cost insurance. Those uninsured patients who do not qualify for the HAP or low-cost insurance are provided an uninsured discount based on a service-specific uninsured rate. This uninsured rate is similar in calculation method and amount to third-party payor methods and rates. The System estimates the transaction price for patients with deductibles and coinsurance from 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 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 and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant in the twelve months ended December 31, 2020 or 2019.

A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other services are based upon a fee schedule and other methodologies.
- **Medicaid and Other:** Under the New York Health Care Reform Act (NYHCRA) hospitals are authorized to negotiate reimbursement rates for inpatient acute care services with all other non-Medicare payors except for Medicaid, Workers' Compensation and No-Fault, which are regulated by New York State. These negotiated rates may take the form of rates per discharge, reimbursed costs, and discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by New York State are determined on a prospective basis. These rates also vary according to a patient classification system defined by NYHCRA that is based on clinical, diagnostic, and other factors. Outpatient services are paid under various reimbursement methodologies, including prospective determined rates, cost reimbursement, fee schedules, and charges.

In addition, under NYHCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amount of the surcharge varies by payor and applies to a broad array of health care services. Surcharges are included in patient accounts receivable and the offset is in due to third-party payor liabilities. Surcharges are generally received and paid to the state within a few months. The System is required to prepare and file various reports on actual and allowable costs annually. Management believes that adequate provisions have been made in the consolidated financial statements for prior and current years' estimated settlements. The difference between the amount estimated and the actual final settlement is recorded as an adjustment to net patient service revenue in the year the final settlement is determined.

Amounts recognized for the years ended December 31, 2020 and 2019, related to prior years, including adjustments to prior year estimates, increased revenues by approximately \$1,600 and \$3,980, respectively. These changes in estimates are related to estimates for prior years cost report reopening, appeals, and tentative final cost reports, some of which are still subject to audit, additional reopening, and/or appeals.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are various proposals at the federal and state level that could, among other things, adjust payment rates. The outcome of these proposals, regulatory changes and other market conditions cannot presently be determined.

Implicit Price Concessions: Implicit price concessions are based upon management's assessment of expected net collections considering economic experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the collectability of accounts not covered by insurance based on historical cash collections. The results of this review are then used to make modifications to the implicit price concessions recognized at time of service. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Patient accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The implicit price concession for the year ended December 31, 2020 amounted to \$35,768 (\$25,880 – 2019).

Patient service revenue recognized in the period from these major payor sources is as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Medicare	44%	42%
Medicaid	18	17
Commercial	31	32
Other third-party payors	6	7
Patients	<u>1</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

Charity Care: The New York State Public Health Law requires all hospitals to implement financial aid policies and procedures for their patients. The law also requires hospitals to develop and make publicly available a summary of its financial aid policies and procedures. The System provides health care services to all patients on the basis of medical need, not on the ability to pay for services. For patients who meet certain criteria under the System's charity care policy, the System provides care to these patients without charge or at amounts less than its established rates and does not pursue collection of amounts. The System has determined it has provided an implicit price concession to uninsured patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Those patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates and the System has determined it has thus provided an implicit price concession. Price concessions, including charity care, are not reported as net patient service revenue.

In addition to charity care, the System provides services to patients covered by Medicaid. The payments received for services provided to patients covered by Medicaid- may be at or below costs in addition to the cost of care for patients without insurance.

Of the System's total expenses reported, an estimated \$9,183 and \$9,726 arose from providing services to charity patients for the years ended December 31, 2020 and 2019, respectively. Additional costs for the Hospitals include required payments for a gross receipts assessment to New York State which is used to fund the New York State Medicaid program and the HCRA. Revenues that offset the costs of Charity Care include payments from the New York State Uncompensated Care Pools.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collective Bargaining Agreements: The System has approximately 36% of its employees working under thirteen collective bargaining agreements. The agreements are set to expire beginning June 30, 2021 through March 31, 2022.

Operating and Nonoperating Revenues and Expenses: The System's primary mission is dedicated to meeting the health care needs in the regions in which it operates. The System is committed to providing a broad range of general and specialized health care services including inpatient, primary care, long-term care, outpatient services, and other health care related services. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Such activities include operation of cafeterias, parking lots, rental real estate and other ancillary activities. Other activities that result in gains or losses unrelated to the System's primary mission are considered to be nonoperating activities.

Other Revenue: The composition of other revenue for the years ended December 31, is set forth in the following table:

	<u>2020</u>	<u>2019</u>
340(b) program revenue	\$ 8,507	\$ 5,696
Grant revenue	6,481	3,381
Rental income	4,741	5,384
Medicaid health home care coordination revenue	2,554	2,476
Cafeteria revenue	1,969	3,180
Other revenue	1,789	2,556
Donor contributions to the Foundations without donor restrictions	1,430	2,472
Parking revenue	912	1,369
Other program revenue	887	1,563
Clinical research	<u>365</u>	<u>201</u>
Other revenue	\$ <u>29,635</u>	\$ <u>28,278</u>

Other Expenses: The composition of other expenses for the years ended December 31, is set forth in the following table:

	<u>2020</u>	<u>2019</u>
Rents and operating leases	\$ 14,098	\$ 11,539
Staff Development	7,066	268
NYS DOH cash receipts assessment	6,798	6,833
Dues	4,852	3,542
Rental equipment	2,837	2,882
Conferences, seminars and travel	2,125	3,387
Subscriptions	556	775
Sponsorships	272	480
Licenses and taxes	244	382
Other	<u>118</u>	<u>2,672</u>
Other expenses	\$ <u>38,966</u>	\$ <u>32,760</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions: Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor restrictions.

Contributions and pledges that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions expire, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Deficiency of Revenues over Expenses: The consolidated statements of operations and changes in net assets include deficiency of revenues over expenses, commonly referred to as the performance indicator. Changes in net assets without donor restrictions, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), the effective portion of cash flow hedging derivatives, pension liability adjustments, other than net periodic costs, and discontinued operations.

Net Assets without Donor Restrictions: Net assets without donor restrictions are available for the general operating purposes of the System and are not subject to any donor limitations.

Net Assets with Donor Restrictions: Net assets with donor restrictions include those which have been restricted by donors to be maintained in perpetuity as well as those whose use is limited by donors to a specific period or purpose and include the Hospitals interest in the donor-restricted net assets of the Mercy Hospital Foundation, Inc., Sisters Hospital Foundation, Inc., Kenmore Mercy Foundation, Inc., Mount St. Mary's Hospital Foundation, and Continuing Care Foundation, Inc. (collectively, the Foundations). Net assets with donor restrictions represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are met by specific actions of the Foundations. Some donor-imposed restrictions are temporary in nature and when a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions used for capital. Net assets with donor restrictions are released to net assets without donor restrictions as restrictions are met, which can occur within the same period. Gifts whose restrictions are met within the same period in which they are received are recorded as an increase in net assets without donor restrictions. Other donor-imposed restrictions are perpetual in nature, consisting primarily of endowments, which require that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Net assets with donor restrictions, which amounted to \$8,018 at December 31, 2020 (\$7,592 – 2019), consist primarily of contributions restricted for use towards various capital projects at the Hospitals. Proceeds from these contributions are included in the consolidated balance sheets under the captions of cash and cash equivalents and investments. Investment returns are included in net assets without donor restrictions unless the return is restricted by donor or law. Contributions receivable are included under the captions of other receivables within the consolidated balance sheets.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowments: For the years ended December 31, 2020 and 2019, the Mercy Hospital Foundation, Inc. and the Sisters Hospital Foundation Inc., had \$246 of net assets with donor restrictions to be maintained in perpetuity from the proceeds of a Charitable Remainder Unitrusts (CRUT). The CRUTs are included under the caption of investments within the consolidated balance sheets. The Foundations segregated these restricted funds that are to be maintained in perpetuity to enable preservation of purchasing power, as well as to ensure maintenance of the donor's intent. Mount St. Mary's Hospital Foundation, Inc. had \$60 of net assets with donor restrictions to be maintained in perpetuity, from the proceeds of a trust, as of December 31, 2020 (\$55 – 2019). The trust is included under the caption of investments within the consolidated balance sheets. Per the trust agreement, earnings shall be divided such that half of the earnings are to be used by the Foundation in line with donor-imposed stipulations and the other half is to be added to the principal and remain in perpetuity.

Income Taxes: The consolidated financial statements do not include a provision for income taxes, as the System is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the Internal Revenue Code which are reported under the caption of other expenses in the consolidated statements of operations and changes in net assets.

Transactions among Subsidiaries: Common costs incurred by CHS are allocated to the subsidiaries on a pro-rata cost basis formula. The allocation of these costs is recorded as other revenue by CHS and are recorded by the subsidiaries as a component of the natural account classification. The related income and expense are eliminated in the consolidated financial statements. The respective assets and liabilities are also eliminated in the consolidated financial statements.

Capitalized Software Costs: The System capitalizes certain costs that are incurred to purchase or to create and implement internal-use computer software, which includes software coding, installation, testing and certain data conversion from both internal and external providers in accordance with accounting guidance. These capitalized costs are amortized on a straight-line basis over ten years and reviewed for impairment on an annual basis. The System capitalized software, labor and various other costs of approximately \$61,872 and \$32,409 in 2020 and 2019 respectively. The vast majority of such costs capitalized in 2020 and 2019 are related to the implementation of a new electronic medical records system.

Reclassifications: Certain reclassifications have been made to amounts in the 2019 consolidated financial statements to conform to the 2020 presentation.

Subsequent Events: The System evaluated its December 31, 2020 consolidated financial statements for subsequent events through April 23, 2021, the consolidated financial statements were available to be issued.

NOTE 3. COVID-19 PANDEMIC

The COVID-19 pandemic has significantly impacted the operations and finances of the System during 2020 and into 2021. Such impacts stem primarily from public health measures instituted by federal, state and local governments to slow the spread of the disease and preserve sufficient medical facility capacity to treat COVID-19 outbreaks and surges. The System has adapted its operations accordingly and has taken various actions to maintain liquidity and mitigate the financial impacts of the pandemic. The pandemic is ongoing and the ultimate financial effect on COVID-19 on the System's financial statements cannot be determined at this time.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 3. COVID-19 PANDEMIC (CONTINUED)

On March 27, 2020, the federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) that in part, provides relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding is to be used to support health care related expenses or lost revenue attributable to COVID-19. During 2020, the System received approximately \$93,794 of federal CARES Act Provider Relief Funding of which \$87,144 was recognized as other operating income (CARES Act Provider Relief Funding) in the consolidated statements of operations and changes in net assets for the year ended December 31, 2020. The remaining \$6,650 of CARES Act Provider Relief Funding received during 2020 is recorded as a refundable advance liability on the consolidated balance sheets at December 31, 2020 and is expected to be recognized as other operating income in 2021.

In April 2020, the Centers for Medicare & Medicaid Services (CMS) began to distribute cash advances to medical services providers, including the System, to provide short term liquidity. Such advances to the System amounted to \$66,837 as of December 31, 2020. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued, an extension from 120 days under the previous law. The recoupment allows providers 29 months after the receipt of the advances to payback the funds in full before interest would accrue. The System has recognized the full amount of the Medicare Advance on the consolidated balance sheets as current as the System expects to recognize the full amount within the next 12 months.

The CARES Act also permitted employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020. Approximately half of the deferred payroll tax payments are required to be paid by December 31, 2021 and the remaining half to be paid by December 31, 2022. The System's deferred payroll tax payments approximated \$21,572 and the System recognized approximately \$10,786 in both accrued expenses and other long-term obligations in the consolidated balance sheets as of December 31, 2020.

NOTE 4. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31 are:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 222,057	\$ 297,616
Patient accounts receivable and other receivables	177,471	125,499
Investments	201,919	122,118
Assets limited as to use	<u>19,136</u>	<u>27,523</u>
Financial assets available to meet general expenditures within one year	<u>\$ 620,583</u>	<u>\$ 572,756</u>

The System 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. The System has other assets limited as to use for donor-restricted purposes and debt service. Additionally, certain other board-designated assets are designated for future capital expenditures. These assets limited as to use, which are more fully detailed in Note 5, are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary. As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Additionally, the System maintains a \$20,000 line of credit as of December 31, 2020, as discussed in more detail in Note 9.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 5. ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows at December 31:

	<u>2020</u>	<u>2019</u>
By Board for capital improvements:		
Funded depreciation:		
Cash and cash equivalents	\$ 12,714	\$ 19,535
U.S. government obligations	2,884	2,944
Interest receivable	<u>11</u>	<u>14</u>
	15,609	22,493
Held by Trustee under Indenture Agreement:		
Cash and cash equivalents	45,157	103,783
U.S. government obligations	<u>961</u>	<u>966</u>
	46,118	104,749
Held by Trustee under Letter of Credit Agreement:		
Cash and cash equivalents	2,839	2,833
Board Designated for long-term care reinvestment:		
Cash and cash equivalents	3,621	5,109
Delivery System Reform Incentive Payment funds	17,890	25,580
Other	<u>1,061</u>	<u>953</u>
Assets limited as to use	<u>\$ 87,138</u>	<u>\$ 161,717</u>

NOTE 6. INVESTMENTS

Investments consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Investment in debt and equity securities:		
Fair value	\$ 226,085	\$ 143,713
Cost	<u>203,544</u>	<u>120,086</u>
Unrealized gain	<u>\$ 22,541</u>	<u>\$ 23,627</u>

Investment income is summarized as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 2,473	\$ 1,953
Net unrealized and realized gains on investments	<u>17,349</u>	<u>26,309</u>
Investment income	<u>\$ 19,822</u>	<u>\$ 28,262</u>

Included in investments is \$6,536 of restricted investments held by the Foundations due to donor restrictions (\$5,562 – 2019).

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousands of dollars)***NOTE 7. PROPERTY AND EQUIPMENT**

Property and equipment, recorded at cost, consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 9,648	\$ 9,280
Buildings	297,513	290,425
Equipment	432,219	326,789
Finance leases	55,174	53,547
Leasehold improvements	<u>165,264</u>	<u>151,894</u>
	959,818	831,935
Accumulated depreciation	(473,843)	(429,039)
Accumulated amortization on finance leases	<u>(47,079)</u>	<u>(44,030)</u>
	438,896	358,866
Construction in progress	<u>26,290</u>	<u>63,243</u>
Property and equipment, net	<u>\$ 465,186</u>	<u>\$ 422,109</u>

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$45,035 and \$42,923, respectively. Amortization expense on equipment under finance leases amounted to \$3,049 and \$3,518 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8. LEASES

The System has operating and finance leases for real estate, personal property and equipment. The System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

The System has lease arrangements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the System elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets represent the System's right to use an underlying asset during the lease term, and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of the System's operating leases do not provide an implicit rate, the System uses the risk-free rate for the equivalent lease term, as of the commencement date, in determining the present value of lease payments. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 8. LEASES (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>40,039</u>	\$ <u>45,124</u>
Lease liabilities:		
Operating lease current liabilities	\$ 8,084	\$ 9,542
Operating lease noncurrent liabilities	<u>32,318</u>	<u>35,610</u>
Total operating lease liabilities	\$ <u>40,402</u>	\$ <u>45,152</u>

Finance lease assets and liabilities were as follows as of December 31:

Finance lease assets:		
Property and equipment, net	\$ <u>5,348</u>	\$ <u>6,771</u>
Finance lease liabilities:		
Current portion of long-term obligations	\$ 2,912	\$ 3,820
Long-term obligations, net	<u>8,225</u>	<u>9,506</u>
Total finance lease liabilities	\$ <u>11,137</u>	\$ <u>13,326</u>

Operating expenses for the leasing activity of the System as lessee are as follows for the years ended December 31:

<u>Lease Type</u>	<u>Classification</u>	<u>2020</u>	<u>2019</u>
Operating/short-term lease costs	Other operating expenses	\$ 14,793	\$ 11,694
Financing lease interest	Interest expense	207	272
Financing lease amortization	Depreciation and amortization	<u>3,049</u>	<u>3,518</u>
Total		\$ <u>18,049</u>	\$ <u>15,484</u>

Cash paid for amounts included in the measurement of lease liabilities are as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Operating cash flows from operating leases	\$ 14,703	\$ 11,682
Operating cash flows from finance leases	207	272
Financing cash flows from finance leases	<u>5,206</u>	<u>4,287</u>
Total	\$ <u>20,116</u>	\$ <u>16,241</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 8. LEASES (CONTINUED)

Right-of-use assets obtained in exchange for new lease obligations are as follows for the year ended December 31:

	<u>2020</u>	<u>2019</u>
Operating leases	\$ 14,703	\$ 11,020
Financing leases	<u>1,626</u>	<u>3,555</u>
Total	<u>\$ 16,329</u>	<u>\$ 14,575</u>

The aggregate future lease payments for operating and finance leases as of December 31, 2020 were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2021	\$ 12,028	\$ 3,339	\$ 15,367
2022	8,704	2,444	11,148
2023	7,487	1,969	9,456
2024	6,413	1,273	7,686
2025	5,851	1,128	6,979
Thereafter	<u>19,994</u>	<u>2,379</u>	<u>22,373</u>
Total lease payments	60,477	12,532	73,009
Less: Interest	<u>(20,075)</u>	<u>(1,395)</u>	<u>(21,470)</u>
Present value of lease liabilities	<u>\$ 40,402</u>	<u>\$ 11,137</u>	<u>\$ 51,539</u>

Average lease terms and discount rates for the year ended December 31, were as follows:

	<u>2020</u>	<u>2019</u>
Weighted-average remaining lease term (years):		
Operating leases	9.1 years	8.3 years
Finance leases	6.5 years	6.6 years
Weighted-average discount rate:		
Operating leases	2.7%	2.7%
Finance leases	3.8%	3.8%

NOTE 9. LONG-TERM OBLIGATIONS

Long-term obligations are comprised of the following at December 31:

	<u>2020</u>	<u>2019</u>
Mercy Hospital of Buffalo		
Series 2012 Revenue Bonds (a)	\$ 2,512	\$ 2,599
Series 2015 Revenue Bonds (b)	10,221	10,491
Series 2019 Revenue Bonds (c)	68,782	69,121
Finance lease obligations and other, at interest rates ranging from 2.73% to 4.35%, collateralized by equipment	<u>5,373</u>	<u>6,867</u>
	86,888	89,078

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)

	<u>2020</u>	<u>2019</u>
Kenmore Mercy Hospital		
Series 2012 Revenue Bonds (a)	11,501	11,903
Series 2015 Revenue Bonds (b)	3,588	3,682
Series 2019 Revenue Bonds (c)	15,039	15,124
Term Loan for KMH Homes, Inc. (d)	1,883	2,552
Finance lease obligations and other, at various rates of interest ranging from 2.73% to 4.83%, collateralized by equipment	<u>2,604</u>	<u>2,978</u>
	34,615	36,239
Sisters of Charity Hospital		
Series 2015 Revenue Bonds (b)	4,816	4,945
Series 2019 Revenue Bonds (c)	37,725	37,920
Finance lease obligations, at various rates of interest ranging from 2.73% to 4.82%, collateralized by equipment	<u>3,161</u>	<u>3,450</u>
	45,702	46,315
Mount St. Mary's Hospital and Health Center		
Series 2019 Revenue Bonds (c)	5,347	5,371
Father Baker Manor		
Mortgage payable to Century Health Capital, Inc. (e)	-	3,498
Our Lady of Victory Renaissance Corporation		
Series 2007A Variable Rate Demand Bonds (f)	6,645	7,095
Series 2007B Variable Rate Demand Bonds (f)	1,140	1,140
Note payable (g)	<u>300</u>	<u>300</u>
	8,085	8,535
Trinity Medical WNY		
Finance lease obligations, at various rates of interest ranging from 3.15% to 5.79%, collateralized by equipment	32	31
Catholic Health System (Parent)		
Series 2015 Revenue Bonds (b)	69,487	73,425
Series 2019 Revenue Bonds (c)	<u>68,588</u>	<u>68,822</u>
	138,075	142,247
St. Francis Geriatric and Healthcare Services, Inc.		
Promissory Note (h)	8,765	9,116
Sterling Surgical Center, LLC		
Loan payable (i)	509	625
Mortgage payable (j)	<u>13</u>	<u>92</u>
	522	717
Total long-term obligations	\$ 328,031	\$ 341,147
Less: Debt issuance costs	(5,143)	(5,687)
Less: Current portion of long-term obligations	<u>(11,318)</u>	<u>(12,475)</u>
Total long-term obligations, net	<u>\$ 311,570</u>	<u>\$ 322,985</u>

- a. On July 12, 2012, \$17,315 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2012 were issued. The Bonds consisted of the following:

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)

- Series 2012A Bonds for \$14,235 were loaned to Kenmore Mercy Hospital for the purpose of financing the cost of a new two-story addition, which includes approximately 19,000 square feet on the first floor for a new emergency department, an approximately 14,794 square feet shell space on the second floor, and an approximately 16,000 square feet basement, as well as the cost of renovating existing space, expanding the existing parking lot and related demolition, and other mechanical and infrastructure improvements. Proceeds of the Series 2012A Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of \$157 and \$159, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.
- Series 2012B Bonds for \$3,080 were loaned to Mercy Hospital of Buffalo for the purpose of funding the cost of improvements to Mercy Hospital of Buffalo's existing approximately 381,000 square foot parking facility containing approximately 1,026 spaces. Proceeds of the Series 2012B Bonds were also applied to pay certain costs of issuing the Bonds. The discount and premium on the bonds of \$32 and \$46, respectively, are attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2012 Bonds were issued under the original Master Trust Indenture (MTI) that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2012 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and sinking fund installments of and interest on the Series 2012 Bonds as they become due. The Series 2012 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2020 are as follows:

3.50% Term Bonds Due July 1, 2022	\$	1,610
4.00% Term Bonds Due July 1, 2027		2,385
5.00% Term Bonds Due July 1, 2032 (i)		2,960
4.75% Term Bonds Due July 1, 2039		<u>5,530</u>
Total Series 2012A Bonds		12,485
3.50% Term Bonds Due July 1, 2022		710
5.00% Term Bonds Due July 1, 2032 (i)		1,160
4.75% Term Bonds Due July 1, 2039		<u>1,210</u>
Total Series 2012B Bonds		<u>3,080</u>
Total Series 2012 Bonds	\$	<u>15,565</u>

- (i) Optional redemption on July 1, 2022 at a redemption price of 100% of the principal amount of such Series 2012 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

The Series 2012 Loan Agreements specifies that the Obligated Group shall continuously pledge, as security for the payment of all liabilities and the performance of all obligations of the Obligated Group pursuant to the Loan Agreement, a security interest in and assignment of the gross receipts of the Obligated Group, together with the Hospitals' right to receive or collect the gross receipts. Further, the Obligated Group delivered a mortgage to secure all obligations and liabilities of the Hospitals under the Loan Agreement. As further security to the Loan Agreement, the Obligated Group granted DASNY a security interest in such fixtures, furnishings and equipment as owned by the Obligated Group. In addition, a letter of credit in the amount of the bonds was entered into with HSBC Bank to provide security on the 2006 Bonds. The original financial covenants required under the Loan Agreement were consistent with those of the original MTI. The covenants were updated with the restated MTI that was issued with the 2019 issuance.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousands of dollars)***NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)**

- b. On April 29, 2015, \$93,800 of Buffalo and Erie County Industrial Land Development Corporation Catholic Health System Obligated Group Revenue Bonds, Series 2015 were issued. Series 2015 was loaned to the Obligated Group for the purpose of financing the cost of improvements to the Labor & Delivery department, Pre/Post-Operative Holding areas, upgrading the electrical switchgear (Mercy Hospital of Buffalo), Ambulatory Surgery Center (Sisters Hospital and St. Joseph Campus), Operating Room Expansion (Kenmore Mercy Hospital), Enterprise Resource Planning software, leasehold improvements to the Administrative Regional Training Center, and purchase of the Administrative Regional Training Center (Catholic Health System). Proceeds of the Series 2015 Bonds were also applied to pay certain costs of issuing the Bonds. The premium on the bonds of \$9,968 is attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds.

The Series 2015 Bonds were issued under the MTI that was created in 2006 pursuant to the formation of the Obligated Group. In connection with the issuance of the Series 2015 Bonds, the Obligated Group entered into a Loan Agreement whereby the Obligated Group is required to make monthly payments sufficient to pay, among other things, the principal and sinking fund installments of and interest on the Series 2015 Bonds as they become due. The Series 2015 Bonds bear interest at a fixed rate. The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2020 are as follows:

5.00% Serial Bonds Due July 1, 2021	\$	4,075
5.00% Serial Bonds Due July 1, 2022		4,265
5.00% Serial Bonds Due July 1, 2023		4,480
5.00% Serial Bonds Due July 1, 2024		4,705
5.00% Serial Bonds Due July 1, 2025		4,955
5.00% Serial Bonds Due July 1, 2026		1,900
5.00% Serial Bonds Due July 1, 2027		1,995
5.00% Serial Bonds Due July 1, 2028		2,095
5.00% Serial Bonds Due July 1, 2029		2,200
5.00% Serial Bonds Due July 1, 2030		2,305
5.25% Term Bonds Due July 1, 2035		13,440
5.00% Term Bonds Due July 1, 2040		17,275
4.00% Term Bonds Due July 1, 2045		<u>17,630</u>
Total Series 2015 Bonds	\$	<u>81,320</u>

- c. On April 15, 2019, \$184,645 of DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2019 were issued. The Bonds consisted of the following:

Series 2019A Bonds for \$140,720 were loaned to the Obligated Group for the purpose of (i) financing portions of certain improvements, equipment and strategic investments, including a new electronic medical records system, maternity services renovations and new sterile processing department; (ii) refund, in full, certain existing bank credit facilities, currently outstanding in the aggregate principal amount of approximately \$26,000,000; (iii) refund (a) all of the DASNY Catholic Health System Obligated Group Revenue Bonds, Series 2006A-D and (b) all of the DASNYs Catholic Health System Obligated Group Revenue Bonds, Series 2008; and (iv) pay costs of issuance on the Series 2019A Bonds and the refunding of the Refunded Bonds. The unamortized discount and premium on the bonds as of December 31, 2020 was \$163 and \$10,999, respectively. The unamortized discount and premium on the bonds as of December 31, 2019 was \$176 and \$11,890. The Series 2019A Bonds bear interest at a fixed rate.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2019B Bonds for \$43,925 were loaned to the Obligated Group for the purpose of (i) financing portions of certain improvements, equipment and strategic investments, including a new electronic medical records system, maternity services renovations and new sterile processing department and (ii) pay costs of issuance on the Series 2019B Bonds. The premium on the bonds of \$1,526 is attributable to the difference between the stated interest rate on these bonds and will be amortized over the life of the bonds. The 2019B bonds were issued as multimodal bonds, initially in the weekly rate mode, and will remain so until successfully converted to bear interest for a different rate period. The bonds pay interest at a variable remarketed rate and are collateralized by a letter of credit with Manufacturers and Traders Trust Company and expires on April 25, 2029.

The interest rates, maturities, and aggregate principal amounts outstanding at December 31, 2020 are as follows:

5.00% Serial Bonds Due July 1, 2026	\$	2,935
5.00% Serial Bonds Due July 1, 2027		3,075
5.00% Serial Bonds Due July 1, 2028		4,085
5.00% Serial Bonds Due July 1, 2029		4,275
5.00% Serial Bonds Due July 1, 2030		4,485
3.00% Serial Bonds Due July 1, 2031		4,705
5.00% Serial Bonds Due July 1, 2032		4,825
3.00% Serial Bonds Due July 1, 2033		5,945
5.00% Serial Bonds Due July 1, 2034		6,130
5.00% Serial Bonds Due July 1, 2035		6,430
5.00% Serial Bonds Due July 1, 2036		6,750
4.00% Serial Bonds Due July 1, 2037		7,090
4.00% Serial Bonds Due July 1, 2038		7,370
4.00% Serial Bonds Due July 1, 2039		7,670
4.00% Serial Bonds Due July 1, 2040		9,135
5.00% Serial Bonds Due July 1, 2041		9,495
4.00% Term Bonds Due July 1, 2045		<u>46,320</u>
Total Series 2019A Bonds		140,720
Serial Bonds Due July 1, 2046		14,030
Serial Bonds Due July 1, 2047		14,465
Term Bonds Due July 1, 2048		<u>15,430</u>
Total Series 2019B Bonds		<u>43,925</u>
Total Series 2019 Bonds	\$	<u>184,645</u>

Pursuant to the issuance of the Series 2019 A and B bonds, the Master Trust Indenture was amended and restated to, among other things, include additional members to the obligated group (Mount St. Mary's Hospital, McAuley-Seton Home Care, and Mercy Home Care), remove the previous liquidity and maximum leverage ratio covenant, and revise the long-term debt service coverage ratio to be not less than 1.10. If at any time the Long-Term Debt Service Coverage Ratio is not met, the Obligated Group agrees to retain an independent consultant to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following fiscal year to the level required or, if in the opinion of the consultant the attainment of that level is impracticable, to the highest level attainable.

Notwithstanding the foregoing, it shall be an event of default under the MTI if for each of two consecutive fiscal years, the Long-Term Debt Service Coverage Ratio is less than 1.00. The System is in compliance with these covenants as of December 31, 2020.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)

- d. On December 20, 2017, KMH Homes Inc. entered into a term note with M&T Bank in the amount of \$3,752. The loan calls for monthly payments of \$64, which includes principal and interest. Initial payment began on February 1, 2018 with the final payment in July 2023. The debt is guaranteed by the System.
- e. Mortgage payable to Century Health Capital (an FHA - Insured Mortgage). The mortgage is payable in monthly installments of \$64 including fixed interest of 5.375%. Monthly payments continue through maturity in March 2025. The mortgage is collateralized by the building and equipment. The mortgage payable was paid in full during October 2020.
- f. On April 1, 2007, OLV Renaissance entered into agreements with the Erie County Industrial Development Agency (the Agency) for the purpose of obtaining revenue bonds used to finance construction of its Skilled Nursing Facility (SNF) and Program of All-Inclusive Care for the Elderly (PACE) facilities. The agency took title to the facility through a lease agreement and simultaneously conveyed title back to OLV Renaissance through an installment sale of the lease interests. OLV Renaissance is obligated to make lease rental payments to the bond trustee, as the Agency's assignee, in amounts which correspond to the principal and interest payments on the bonds. At the expiration of the leases' term (April 2032), title fully reverts back to OLV Renaissance. On April 25, 2007, the Agency issued variable rate demand revenue bonds with an aggregate principal amount of \$11,860. The bond issue consists of two series of bonds: \$10,220 in variable rate demand Revenue Bonds Series 2007A (Series 2007A Bonds) and \$1,640 in variable rate demand Revenue Bonds Series 2007B (Series 2007B Bonds).

The variable interest rate is determined by the remarketing agent based on (1) market interest rates for comparable securities; (2) other financial market rates and indices (including, but not limited to treasury bills, commercial paper, commercial bank prime rates, HUD project notes, federal fund rates and LIBOR); (3) general financial and credit market conditions; (4) credit rating and financial condition of OLV Renaissance; and (5) applicable tender provisions which may have bearing on the rate. The variable interest rate was 0.12% and 1.70% for the Series 2007A bonds and 0.40% and 1.98% for the Series 2007B bonds at December 31, 2020 and 2019, respectively. See Note 10 regarding the interest rate swap agreement OLV Renaissance entered into with respect to the Series 2007A Revenue Bonds.

The bonds are subject to conversion to a fixed interest rate at the written direction of OLV Renaissance. Upon conversion, the remarketing agent shall determine the fixed interest rate as the lowest rate of interest that would be necessary to sell the bonds in the secondary market at par plus accrued interest, based on prevailing market conditions and the yields at which comparable securities are being sold.

The Series 2007A Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from \$310 to \$740 at variable interest rates. The Series 2007B Revenue Bonds are subject to mandatory sinking fund redemptions in years 2016 to 2032 in amounts ranging from \$55 to \$115.

Under the terms of the financing documents, OLV Renaissance has guaranteed payment of all amounts due under the Bonds. Additionally, the bonds are secured by first mortgage liens on all buildings, improvements and equipment now owned or subsequently acquired by OLV Renaissance, all accounts receivable without donor restrictions and a right of setoff against OLV Renaissance's funds held by the trustee.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 9. LONG-TERM OBLIGATIONS (CONTINUED)

In accordance with the financing documents, at the option of the Issuer and upon notice given by OLV Renaissance, the Series 2007A and 2007B Revenue Bonds are subject to optional redemption at 100%. In connection with the Bond financing, OLV Renaissance has executed an irrevocable direct pay letter of credit with a financial institution for a maximum amount of \$11,996. There is no outstanding amount as of December 31, 2020 or 2019. The letter of credit was extended in April 2020, with an expiration date of February 28, 2030. The updated MTI follows the Restated and Amended Master Trust Indenture, dated as of April 25, 2019 by and among the members of the Obligated Group. Financial covenants and the Continuing Disclosure Agreement follow as well.

- g. During 2006, OLV Renaissance borrowed \$300 from Erie County to develop 74 rental apartments. The note is a payable with interest at the applicable federal rate in effect at the time of the disbursement (5.86%) on the thirtieth annual anniversary of the final disbursement of the note. At the maturity date, OLV Renaissance may elect to extend the term of this loan for an additional twenty-year term. Upon notice of such election to Erie County, and at expiration of such twenty-year term, the unpaid balance of the note plus any accrued interest thereon shall be forgiven, provided that OLV Renaissance remit any repayment from the related party from their note receivable.
- h. On January 19, 2019, St. Francis Geriatric and Healthcare Services, Inc. entered into a promissory note with Five Star Bank in the amount of \$9,750. The loan calls for monthly payments of \$59, which includes principal and interest. Payments began on February 19, 2019 with the final payment due on January 19, 2028.
- i. Term note payable in minimum monthly installments of approximately \$11, which includes accrued interest at a rate of 5.35%, through May 2025.
- j. Mortgage payable in minimum monthly installments of approximately \$7, which includes a fixed interest rate of 4.46%, through February 2021.

Aggregate maturities of long-term obligations, including Finance lease obligations, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, subsequent to December 31, 2020 are as follows:

	<u>Long-Term Debt</u>	<u>Finance Leases</u>	<u>Total</u>
2021	\$ 8,406	\$ 2,912	\$ 11,318
2022	6,610	2,182	8,792
2023	6,619	1,714	8,333
2024	6,477	1,143	7,620
2025	5,791	1,033	6,824
Thereafter	<u>282,991</u>	<u>2,153</u>	<u>285,144</u>
	316,894	11,137	328,031
Less: Debt issuance costs	(5,143)	-	(5,143)
Less: Current maturities	<u>(8,406)</u>	<u>(2,912)</u>	<u>(11,318)</u>
Long-term obligations, net	<u>\$ 303,345</u>	<u>\$ 8,225</u>	<u>\$ 311,570</u>

The System had a revolving line of credit of \$20,000 as of December 31, 2020 and 2019. There was no amount outstanding on the revolving line of credit as of December 31, 2020 or 2019.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the Series 2006 and 2008 Bonds and execution of the Loan Agreement, the Hospitals entered into interest rate swap agreements (derivative agreements) with HSBC Bank and JP Morgan Chase (the Financial Institutions) for purposes of mitigating risk posed by the Bonds accruing interest at a variable rate. Further, the Hospitals agreed not to take or omit to take any action that could reasonably be expected to result in the termination of the derivative agreement unless otherwise approved by the Financial Institutions, provided, however, that termination of the derivative agreement shall not constitute an event of default for purposes of the Loan Agreement, but upon any such termination of the derivative agreement, the Financial Institutions may require that the Hospitals direct the Series 2006 or Series 2008 Bonds be converted to bonds that bear a fixed rate of interest. The interest rate swap agreements outstanding on the Series 2006 Bonds were settled in 2014. Termination costs in the amount of \$5,772 will be amortized over the remaining life of the bonds. For the year ended December 31, 2019, the amortization expense related to the termination costs was \$1,028. The interest rate swap agreement outstanding on the Series 2008 Bonds was settled in 2019. Termination costs in the amount of \$2,898 were included in the amortization of terminated interest rate swaps for the year ended December 31, 2019 in the consolidated statements of operations and changes in net assets.

During 2007, OLV Renaissance entered into a hedging agreement with respect to interest rate exposure on the Series 2007A Revenue Bond. OLV Renaissance uses the interest rate swap agreement to reduce its exposure to interest rate changes. The interest rate swap fixes the interest rate paid by OLV Renaissance at 4.143% over the life of the bond, which matures in April 2032. The instrument qualifies for hedge treatment and is designated a cash flow hedge of future interest payments. The change in fair value for the effective portion of the hedge has been excluded from deficiency of revenues over expenses and is recorded within changes in net assets.

The fair value of derivative instruments as of December 31 is as follows:

(in thousands of dollars)	2020		2019	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts floating to fixed	Other long-term obligations	\$ 1,486	Other long-term obligations	\$ 1,305

The effects of derivative instruments on the consolidated statements of operations and changes in net assets at December 31 is as follows:

(in thousands of dollars)	Ineffective portion in Statement of Operations		Effective portion in Net Assets	
	2020	2019	2020	2019
Change in fair value of interest rate swaps	\$ (6)	\$ (14)	\$ (176)	\$ (571)
Termination of interest rate swaps	\$ -	\$ -	\$ -	\$ 2,898

The Hospitals measure their interest rate swaps at fair value on a recurring basis. The fair value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The inputs utilized in the valuation process of the interest rate swaps are considered to be Level II within the fair value hierarchy defined in Note 14.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS

Pension Arrangements: Effective January 1, 2001, the System began maintaining a qualified defined benefit pension plan covering substantially all of its employees at its constituent hospitals. As of that date, active participants in the KMH, MHB, and SCH plans who were employed at the Hospitals are covered under the Retirement Plan of the Catholic Health System (the Plan). Effective January 1, 2002, all other entities in the System, with the exception of the Nazareth Home, began participating in the Plan. Pension assets and liabilities from legacy plans, if any, were transferred to the Plan on September 25, 2002.

Effective January 1, 2001 or 2002, as applicable, all nonunion employees who had met the age and service requirements under their previous Plan were given the option of choosing to participate in the cash balance feature of the Plan. Those who choose not to participate in the cash balance feature accrue benefits under the same formula as their previous Plan. All nonunion employees who become participants after that date automatically participate under the cash balance formula.

The Plan bases benefits upon both years of service and earnings. Participants under the Hospitals formula earn benefits under a final average formula or a career average formula. The cash balance formula is a hypothetical account balance formula. A participant's benefit obligation is assigned to the location at which the person works. As participants transfer within the System to other CHS subsidiaries, the obligations and a proportional amount of the Plan's assets transfer, accordingly.

Funded Status: The following tables summarize changes in the projected benefit obligation, the Plan assets and the funded status of the CHS pension plan as well as the components of net periodic benefit costs, including key assumptions as of December 31:

	<u>2020</u>	<u>2019</u>
Projected Benefit Obligations		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 812,915	\$ 690,160
Service cost	26,195	22,734
Interest cost	27,513	30,087
Expenses	(31,756)	(979)
Benefits paid	(1,328)	(25,879)
Actuarial loss	<u>109,217</u>	<u>96,792</u>
Projected benefit obligation at end of year	\$ <u>942,756</u>	\$ <u>812,915</u>
Accumulated benefit obligations at end of year	\$ <u>859,627</u>	\$ <u>742,646</u>
Plan Assets		
Change in plan assets:		
Fair value of assets at beginning of year	\$ 452,414	\$ 372,061
Actual return on plan assets	57,919	74,245
System contributions	33,045	33,011
Expenses	(1,369)	(1,024)
Benefits paid	<u>(31,756)</u>	<u>(25,879)</u>
Fair value of plan assets at end of year	\$ <u>510,253</u>	\$ <u>452,414</u>
Funded status at end of year	\$ <u>(432,503)</u>	\$ <u>(360,501)</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS (CONTINUED)

	<u>2020</u>	<u>2019</u>
Amounts recognized in the consolidated balance sheets:		
Other long-term obligations	\$ <u>(432,503)</u>	\$ <u>(360,501)</u>
Net amounts recognized	\$ <u>(432,503)</u>	\$ <u>(360,501)</u>
Amounts recognized in net assets without donor restrictions consist of:		
Actuarial net loss	\$ (289,953)	\$ (222,576)
Prior service cost	<u>(7)</u>	<u>(9)</u>
Total amount recognized	\$ <u>(289,960)</u>	\$ <u>(222,585)</u>
Other changes recognized in net assets without donor restrictions:		
Net gain arising during the period	\$ 83,071	\$ 51,997
Amortization of prior service cost	(2)	(178)
Amortization of loss	<u>(15,749)</u>	<u>(7,774)</u>
Total amount recognized	\$ <u>67,320</u>	\$ <u>44,045</u>
Components of net periodic benefit cost:		
Service cost	\$ 26,195	\$ 22,734
Interest cost	27,513	30,087
Expected return on plan assets	(31,825)	(29,432)
Amortization of prior service cost	2	178
Amortization of net loss	15,721	7,748
Recognized actuarial loss	<u>24</u>	<u>26</u>
Net periodic pension cost	\$ <u>37,630</u>	\$ <u>31,341</u>

The System's estimated prior service cost of \$2 and net loss of \$22,874 will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

The Plan's investment policies and strategies were used to develop the expected long-term rate of return on risk-free investment (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return of each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The Plan's target asset allocation and the actual asset allocation percentages for the years ended December 31, 2020 and 2019 are as follows at the respective measurement dates:

<u>Asset Category</u>	<u>Target</u>	<u>Actual</u>	
		<u>2020</u>	<u>2019</u>
Equities	70%	73%	75%
Fixed income	25	24	24
Other	<u>5</u>	<u>3</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS (CONTINUED)

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternatives (a fund of hedge funds), and cash. Asset mix is targeted to a specific allocation that is established by evaluating expected return, standard deviation, and correlation of various assets against the Plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The Statement of Policy and Investment Objectives governs permitted types of investments and outlines specific benchmarks and performance percentiles. The Catholic Health Benefit Plan Committee oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance. The use of derivative financial instruments as an investment vehicle is specifically limited.

Accounting Standards Codification Topic 820 allows for the use of a practical expedient for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value. For investments in non-unitized investments, the equivalent is the Plan's proportionate share of the partner's capital of the investment partnerships as reported by the general partners. Through its monitoring activities, the Plan believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Cash and Cash Equivalents: Include certain instruments in highly liquid debt instruments with original maturities of three months or less at date of purchase.

Equity Securities: Equity securities are valued at the closing price reported on the applicable exchange on which the securities are traded or are estimated using quoted market prices for similar securities.

Debt Securities: Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Mutual Funds: Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Commingled Funds: Commingled funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on net asset value, which is calculated using the most recent fund financial statements.

Hedge Funds: Hedge funds utilize either a direct or a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table presents the Plan's financial instruments as of December 31, 2020, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 14.

At December 31, 2020	Level I	Level II	Level III	Total
Pension plans:				
Cash and cash equivalents	\$ 21,595	\$ -	\$ -	\$ 21,595
Equity securities	98,334	-	-	98,334
Debt securities:				
Government and government agency obligations	-	17,175	-	17,175
Corporate bonds	-	68,469	-	68,469
Asset backed securities	-	11,743	-	11,743
Mutual funds:				
Equity mutual funds	26,657	-	-	26,657
Fixed mutual funds	20,089	-	-	20,089
Subtotal	\$ 166,675	\$ 97,387	\$ -	264,062
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				183,582
Fixed income commingled funds				23,351
Hedge funds				39,258
Total				<u>\$ 510,253</u>
At December 31, 2019	Level I	Level II	Level III	Total
Pension plans:				
Cash and cash equivalents	\$ 10,165	\$ -	\$ -	\$ 10,165
Equity securities	77,972	-	-	77,972
Debt securities:				
Government and government agency obligations	-	21,014	-	21,014
Corporate bonds	-	51,521	-	51,521
Asset backed securities	-	14,014	-	14,014
Mutual funds:				
Equity mutual funds	50,067	-	-	50,067
Fixed mutual funds	20,078	-	-	20,078
Subtotal	\$ 158,282	\$ 86,549	\$ -	244,831
Investment measured at net asset value:				
Commingled funds:				
Equity commingled funds				167,242
Fixed income commingled funds				20,070
Hedge funds				20,271
Total				<u>\$ 452,414</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 11. EMPLOYEE BENEFIT PLANS (CONTINUED)

Contributions: Contributions to the Plan are made to make benefit payments to plan participants. The funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements plus such additional amounts as may be determined to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

The System is expected to contribute an aggregate amount of approximately \$28,900 to the pension plan trust during the year ending December 31, 2020 to be allocated amongst participating entities.

Benefit Payments: Estimated future benefit payments by the System are as follows as of December 31:

2021	\$	33,616
2022	\$	36,003
2023	\$	38,384
2024	\$	40,461
2025	\$	42,606
2026 - 2029	\$	238,018

	<u>2020</u>	<u>2019</u>
Weighted average assumptions used to determine end of the year benefit obligations:		
Discount rate	2.55%	3.45%
Rate of compensation increase	Age Based	Age Based
Weighted average assumptions used to determine net periodic pension cost:		
Discount rate	3.45%	4.45%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	Age Based	Age Based
Measurement date	12/31/2020	12/31/2019

NOTE 12. INSURANCE ARRANGEMENTS

Professional and General Liability Arrangements

The System participates in the Trinity Health insurance program, which provides coverage for healthcare professional (medical malpractice) and general liability exposures. The primary limits were \$20,000 per occurrence for healthcare professional liability and general liability for the years ending December 31, 2020 and 2019. Professional and general liabilities are insured by Trinity Assurance, Ltd. (TAL), formerly Venzke Insurance Company, Ltd. (Venzke). TAL is a Cayman-domiciled insurer wholly owned by Trinity Health. Excess coverage was also provided to the System, and this excess coverage is fully reinsured with nonaffiliated commercial insurance companies.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 12. INSURANCE ARRANGEMENTS (CONTINUED)

The coverage provided is on a claims-made basis. The System therefore retains the liability for unasserted claims resulting from incidents that occurred on services provided prior to the consolidated financial statement date. The System has independent actuaries estimate the ultimate costs of such unasserted claims, which were discounted at 2.5% for the years ended December 31, 2020 and 2019. The System's reserve for unpaid and incurred but not reported claims at December 31, 2020 and 2019 is \$99,432 and \$96,853, respectively, and is included within other long-term obligations. The charges to expenses for professional and general liability for the years ended December 31, 2020 and 2019 were \$14,256 and \$11,584, respectively, which has been included in insurance expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. Amounts recognized as insurance receivables related to the claims were \$84,495 and \$82,261 at December 31, 2020 and 2019, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance on uncollectible amounts.

Workers' Compensation Arrangements

The System's insurance program for workers' compensation has a deductible of \$750 per occurrence during the years ending December 31, 2020 and 2019. Claims in excess of the deductible are fully insured. Losses from asserted claims and from unasserted claims identified under the System's incident reporting programs were accrued on a discounted basis based upon actuarial estimates of the settlement of such claims. The discount rate applied is 2.5% during the years ending December 31, 2020 and 2019. The System's current portion of liabilities for unpaid and incurred but not reported claims at December 31, 2020 and 2019 is \$9,349 and \$8,750, respectively, and is included in accrued expenses. The System's long-term portion of liabilities for unpaid and incurred but not reported claims at December 31, 2020 and 2019 is \$68,273 and \$70,684, respectively, and is included in other long-term obligations.

The charges to expenses for workers' compensation costs approximated \$8,696 and \$9,295 for the years ended December 31, 2020 and 2019, respectively, which has been included in employee benefits expense. The required claims liability and any anticipated insurance recoveries are to be reported on a gross basis. The System's current portion of insurance receivables related to the claims at December 31, 2020 and 2019 is \$434 and \$543, respectively, and is included in prepaid expenses and other current assets. The System's long-term portion of insurance receivables related to the claims at December 31, 2020 and 2019 is \$22,290 and \$23,643, respectively, and is included in other non-current assets. Insurance recoveries are measured on the same basis as the liability subject to the need for a valuation allowance for uncollectible amounts.

Employee Health Arrangements

The System's insurance for employee health costs is self-insured up to \$500 and \$450 per claim during the years ending December 31, 2020 and 2019, respectively. Claims in excess of self-insurance levels are fully insured. Claims are accrued based upon the System's estimates of the aggregate liability for claims incurred using certain actuarial assumptions used in the insurance industry and based on the System's experience. The System's liability for unpaid health insurance claims, which has been included in accrued expenses at December 31, 2020 and 2019, was \$8,739 and \$8,242, respectively.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 13. LEGAL MATTERS

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. While certain regulatory inquiries have been made at December 31, 2020, compliance with such laws and regulations is currently subject to government review and interpretation as well as regulatory actions unknown and/or unasserted at this time. Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse effect on the System's future financial position, results from operations or cash flows.

NOTE 14. FAIR VALUE MEASUREMENTS

The System's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis on the System's consolidated balance sheets include cash and cash equivalents, equity securities, debt securities, exchange traded funds, mutual funds, and interest rate swaps. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the System uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I) and the lowest priority to unobservable inputs (level III). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.

Level II: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level II input must be observable for substantially the full term of the asset or liability.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depend on the type of security being priced but are typically benchmark yields, credit spreads, prepayment speeds, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement, respectively. The System classifies these securities as Level II within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

The following tables summarize investments measured at fair value based on net asset value (NAV) per share as of December 31, 2020 and 2019.

Cash and Cash Equivalents: The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets. The System considers all highly liquid investments, generally with original maturities of three months or less when purchased, and short-term investments excluding amounts limited as to use, to be cash equivalents.

Equity Securities: Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded or are estimated using quoted market prices for similar securities.

Debt Securities and Government and Government Agency Obligations: Debt securities and government and government agency obligations are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Exchange Traded Funds: Exchange traded funds are valued at the closing price reported on the applicable exchange on which the security traded is tracked.

Mutual Funds: Mutual funds are valued using the NAV based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Other: Other investments consist of life insurance policies which are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

Investment in Ascension Alpha Fund, LLC: This fund is wholly owned subsidiary of Ascension Health and includes pooled short-term investment funds, equity securities, and fixed income securities. The fund's investments also include alternative investments and other investments, which are valued at the net asset value of the investments.

Interest Rate Swap Liability: The fair value of the interest rate swap is determined based on financial models that consider current and future market interest rates and adjustments for nonperformance risk. The fair value of these interest rate derivatives is based on quoted prices for similar instruments from a commercial bank, and therefore, the interest rate derivative is considered a Level II item in the fair value hierarchy.

The following tables set forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2020 and 2019:

At December 31, 2020	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	\$ 82,016	\$ -	\$ -	\$ 82,016
Government and government agency obligations	2,884	2,229	-	5,113
Other	-	9	-	9
Total	\$ 84,900	\$ 2,238	\$ -	\$ 87,138
Investments:				
Cash and cash equivalents	\$ 981	\$ -	\$ -	\$ 981
Equity securities	14,644	-	-	14,644
Debt securities	734	946	-	1,680
Exchange traded funds	4,767	-	-	4,767
Mutual funds	2,093	-	-	2,093
Other	-	506	-	506
Subtotal	\$ 23,219	\$ 1,452	\$ -	\$ 24,671
Investment measured at net asset value:				
Investment in Ascension Alpha Fund, LLC				<u>201,414</u>
Total				\$ <u>226,085</u>
Interest rate swap liability	\$ -	\$ 1,486	\$ -	\$ <u>1,486</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars)

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

At December 31, 2019	Level I	Level II	Level III	Total
Assets limited as to use:				
Cash and cash equivalents	\$ 156,621	\$ -	\$ -	\$ 156,621
Equity securities	7	-	-	7
Government and government agency obligations	2,944	2,132	-	5,076
Other	-	13	-	13
Total	\$ 159,572	\$ 2,145	\$ -	\$ 161,717
Investments:				
Cash and cash equivalents	\$ 664	\$ -	\$ -	\$ 664
Equity securities	12,604	-	-	12,604
Debt securities	754	1,084	-	1,838
Exchange traded funds	4,638	-	-	4,638
Mutual funds	1,851	-	-	1,851
Other	-	516	-	516
Subtotal	\$ 20,511	\$ 1,600	\$ -	\$ 22,111
Investment measured at net asset value:				
Investment in Ascension Alpha Fund, LLC				<u>121,602</u>
Total				\$ 143,713
Interest rate swap liability	\$ -	\$ 1,305	\$ -	\$ 1,305

NOTE 15. RELATED PARTY TRANSACTIONS

CIPA WNY IPA d/b/a “Catholic Medical Partners” was incorporated in 1996 to establish managed care contracts that support clinical integration and provider accountability for cost and quality. The hospitals, long-term care, and home care subsidiaries are members of Catholic Medical Partners. The System has five of its executive staff on the Catholic Medical Partners’ Board of Directors.

As discussed in Note 12, the System obtains insurance coverage from Trinity Health.

East Aurora Medical Building, L.P. (EAMB) is a joint venture between Olean RE Property, LLC., Buffalo Family Group, Inc., Aurora Mercy Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and seven other joint venture limited partners. On April 10, 2018, EAMB refinanced its outstanding debt of \$2,200 at which time Mercy Hospital of Buffalo became sole guarantor of principal and interest on the debt. As of December 31, 2020, the outstanding balance of debt was \$2,073 (\$2,122 – 2019).

Caritas Medical Arts Building L.L.C. is a joint venture between Sisters of Charity Hospital and Ciminelli Development Company. The debt related to this joint venture was refinanced during 2020 and the updated guaranty has full recourse to each partner (previously each partner guaranteed 1/3 of the debt). As of December 31, 2020, there was \$1,345 (\$1,479 – 2019) of debt outstanding related to the Caritas Medical Arts Building L.L.C., The guaranteed debt amount was \$1,345 and \$423 as of December 31, 2020 and 2019, respectively.

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of dollars)

NOTE 15. RELATED PARTY TRANSACTIONS (CONTINUED)

Marian Professional Center Associates, L.P. is a joint venture between Ciminelli Development Company, Mercy Hospital of Buffalo, Alsace Abbott Corporation (a wholly owned Corporation of Mercy Hospital of Buffalo), and three other joint venture partners. As of December 31, 2020, there was \$4,196 (\$4,377 – 2019) of debt outstanding related to the Marian Professional Center Associates, L.P., of which the System has guaranteed \$2,098 (\$2,188 – 2019). Per the guaranty agreement, the System's obligation shall decrease on a dollar for dollar basis as the principal amount of the obligation is paid down.

NR Physician Group, P.L.L.C. is a joint venture between Niagara Medicine, P.C., Roswell Park Comprehensive Cancer Center and Buffalo Medical Group. NR Physician Group, P.L.L.C. provides radiation oncology services.

Niagara Falls Memorial Medical Center Cath Lab is a joint venture between Catholic Health System, Inc., Kaleida Health, Erie County Medical Center Corporation and Niagara Falls Memorial Medical Center. The joint operating agreement's purpose is to establish the joint operating responsibilities for the Cath lab on the campus of Niagara Falls Memorial Medical Center and provide Cath lab services for the residents of Niagara County.

NOTE 16. FUNCTIONAL EXPENSES

Consistent with US GAAP the System provides an analysis of expenses by both natural and functional classification. Natural expenses are defined by their nature such as salaries, rent, supplies, etc. Functional expenses are classified by the type of activity for which expenses were incurred, for example, management and general and direct program costs. Expenses were allocated by function using a reasonable and consistent approach that was primarily based on the personnel costs directly attributable by function.

	December 31, 2020		
	Healthcare Services	Management and General	Total
Salaries and wages	\$ 517,221	\$ 52,337	\$ 569,558
Employee benefits	136,244	13,960	150,204
Medical and professional fees	44,884	9,114	53,998
Purchased services	119,491	28,524	148,015
Supplies	208,688	647	209,335
Depreciation and amortization	43,392	5,460	48,852
Interest	9,496	3,440	12,936
Insurance	15,902	178	16,080
Other expenses	29,060	9,906	38,966
Total	<u>\$ 1,124,378</u>	<u>\$ 123,566</u>	<u>\$ 1,247,944</u>

	December 31, 2019		
	Healthcare Services	Management and General	Total
Salaries and wages	\$ 498,633	\$ 60,546	\$ 599,179
Employee benefits	124,797	15,133	139,930
Medical and professional fees	41,147	20,715	61,862
Purchased services	108,121	16,193	124,314
Supplies	212,366	640	213,006
Depreciation and amortization	43,882	3,215	47,097
Interest	13,487	3,087	16,574
Insurance	13,255	93	13,348
Other expenses	28,203	4,557	32,760
Total	<u>\$ 1,083,891</u>	<u>\$ 124,179</u>	<u>\$ 1,208,070</u>

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING SUPPLEMENTARY INFORMATION

To the Board of Directors
Catholic Health System, Inc.
Buffalo, New York

We have audited the consolidated financial statements of Catholic Health System, Inc. and its Subsidiaries (together the System) as of December 31, 2020 and 2019 and for the years then ended and our report thereon appears on pages 1 - 2 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited) is the responsibility of management and is provided for purposes of additional analysis of the consolidated financial statements. Such information is unaudited and therefore, we do not express an opinion on the Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs (Schedule of Social Accountability - Unaudited).

The consolidating information for Catholic Health System, Inc. and its subsidiaries, presented on pages 43 through 56, and the consolidating information for Kenmore Mercy Hospital and subsidiaries, presented on pages 57 through 59, is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies 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 consolidating 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 of America. In our opinion, the 2020 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 23, 2021

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

**SCHEDULE OF NET COST OF PROVIDING CARE OF PERSONS LIVING IN POVERTY AND
COMMUNITY BENEFIT PROGRAMS (SCHEDULE OF SOCIAL ACCOUNTABILITY - UNAUDITED)**
Years Ended December 31, 2020 and 2019
(in thousands of dollars)

The total net costs related to the care of the poor and benefits for the broader community as of December 31, 2020 and 2019 are set forth in the following table:

	<u>2020</u>	<u>2019</u>
Charity care	\$ 9,183	\$ 9,726
Cost of community benefit programs	66,787	54,625
Unpaid cost of Medicaid programs	<u>90,006</u>	<u>70,616</u>
	<u>\$ 165,976</u>	<u>\$ 134,967</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Current assets:							
Cash and cash equivalents	\$ 19,088	\$ 136,055	\$ 41,934	\$ 21,184	\$ 5,080	\$ 112	\$ 223,453
Patient accounts receivable	197	154,057	10,822	5,154	-	-	170,230
Other receivables	694	4,436	281	290	-	-	5,701
Inventories	9	22,491	1,175	-	-	-	23,675
Prepaid expenses and other current assets	15,130	1,524	47	646	-	-	17,347
Due from affiliates	121,946	3,300	3,770	346	1,572	(130,934)	-
Total current assets	157,064	321,863	58,029	27,620	6,652	(130,822)	440,406
Interest in net assets of related Foundations	-	-	130	5	129	(264)	-
Assets limited as to use	40,081	41,331	3,077	1,525	1,124	-	87,138
Investments	-	200,395	25,690	-	-	-	226,085
Property and equipment, net	163,384	267,222	15,916	18,664	-	-	465,186
Operating lease right-of-use assets	12,190	31,684	1,260	13,371	-	(18,466)	40,039
Other assets	34,591	100,842	7,106	1,508	2,724	(27,035)	119,736
Due from affiliates	5,116	11,759	-	-	368	(17,243)	-
Total assets	\$ 412,426	\$ 975,096	\$ 111,208	\$ 62,693	\$ 10,997	\$ (193,830)	\$ 1,378,590
LIABILITIES AND NET ASSETS (DEFICIT)							
Current liabilities:							
Current portion of long-term obligations	\$ 5,649	\$ 4,792	\$ 365	\$ 512	\$ -	\$ -	\$ 11,318
Current portion of operating lease liabilities	2,439	6,913	193	2,021	-	(3,482)	8,084
Accounts payable	20,788	44,306	426	2,831	-	-	68,351
Accrued expenses	28,922	71,989	8,026	4,159	337	-	113,433
Due to third-party payors	-	41,499	1,654	3,576	437	-	47,166
Medicare advances	-	63,692	3,145	-	-	-	66,837
Deferred revenue and refundable advances	1,534	8,848	824	-	-	-	11,206
Due to affiliates	2,900	42,737	16,656	63,446	10,198	(135,937)	-
Total current liabilities	62,232	284,776	31,289	76,545	10,972	(139,419)	326,395
Long-term obligations, net	130,542	165,193	8,358	7,477	-	-	311,570
Long-term operating lease liabilities, net	9,942	24,796	1,082	11,482	-	(14,984)	32,318
Other long-term obligations	84,732	514,723	25,125	2,946	3,754	-	631,280
Due to affiliates	12,128	-	-	-	-	(12,128)	-
Total liabilities	299,576	989,488	65,854	98,450	14,726	(166,531)	1,301,563
Net assets (deficit):							
Without donor restrictions	109,391	(21,957)	45,224	(36,354)	(3,729)	(23,566)	69,009
With donor restrictions	3,459	7,565	130	597	-	(3,733)	8,018
Total net assets (deficit)	112,850	(14,392)	45,354	(35,757)	(3,729)	(27,299)	77,027
Total liabilities and net assets (deficit)	\$ 412,426	\$ 975,096	\$ 111,208	\$ 62,693	\$ 10,997	\$ (193,830)	\$ 1,378,590

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Revenues and other support without donor restrictions:							
Net patient service revenue	\$ 2,417	\$ 921,428	\$ 79,732	\$ 62,731	\$ -	\$ (9,580)	\$ 1,056,728
Other revenue	187,091	29,265	4,040	11,081	-	(201,842)	29,635
CARES Act Provider Relief Funding	21	83,849	2,254	1,020	-	-	87,144
Net assets released from restrictions	-	584	-	-	-	-	584
Total revenues and other support without donor restrictions	189,529	1,035,126	86,026	74,832	-	(211,422)	1,174,091
Expenses:							
Salaries and wages	73,278	470,678	52,648	44,632	-	(71,678)	569,558
Employee benefits	18,854	131,453	13,068	5,761	-	(18,932)	150,204
Medical and professional fees	10,854	49,423	1,069	2,968	-	(10,316)	53,998
Purchased services	59,297	132,828	4,911	22,175	-	(71,196)	148,015
Supplies	(2,276)	195,018	10,126	4,504	-	1,963	209,335
Depreciation and amortization	10,043	45,270	1,375	2,196	-	(10,032)	48,852
Interest	5,560	11,456	1,033	1,368	-	(6,481)	12,936
Insurance	551	14,094	814	1,125	-	(504)	16,080
Other expenses	13,576	40,828	5,240	3,914	-	(24,592)	38,966
Total expenses	189,737	1,091,048	90,284	88,643	-	(211,768)	1,247,944
Income (loss) from operations	(208)	(55,922)	(4,258)	(13,811)	-	346	(73,853)
Nonoperating revenues and expenses:							
Investment income	1,475	18,732	2,044	1	-	(2,430)	19,822
Other components of net periodic pension cost	(2,605)	(10,874)	(524)	(37)	-	2,605	(11,435)
Other revenues and gains, net	369	579	12	50	-	(521)	489
Total nonoperating revenues and expenses	(761)	8,437	1,532	14	-	(346)	8,876
Excess (deficiency) of revenues over expenses	\$ (969)	\$ (47,485)	\$ (2,726)	\$ (13,797)	\$ -	\$ -	\$ (64,977)

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Parent	Acute Care Subsidiaries	Home and Community Based Subsidiaries	Other Subsidiaries	Discontinued Operations	Eliminations	Total
Net assets without donor restrictions:							
Excess (deficiency) of revenues over expenses	\$ (969)	\$ (47,485)	\$ (2,726)	\$ (13,797)	\$ -	\$ -	\$ (64,977)
Change in unrealized gain on interest rate swaps	-	-	-	(176)	-	-	(176)
Change in pension obligation, other than net periodic cost	(11,138)	(54,046)	(2,043)	(149)	-	-	(67,376)
Net assets released from restrictions used for capital	-	762	-	-	-	-	762
Capital grants	15,263	80	-	-	-	-	15,343
Contributions	5	-	-	-	-	-	5
Other	-	16	9	2	-	(219)	(192)
Increase (decrease) in net assets without donor restrictions before effects of discontinued operations	3,161	(100,673)	(4,760)	(14,120)	-	(219)	(116,611)
Gain from discontinued operations	-	-	-	-	756	-	756
Increase (decrease) in net assets without donor restrictions	3,161	(100,673)	(4,760)	(14,120)	756	(219)	(115,855)
Net assets with donor restrictions:							
Contributions	-	1,490	-	520	-	-	2,010
Investment income	-	32	-	-	-	-	32
Special events revenue, net	-	15	-	-	-	-	15
Change in interest in related Foundation	-	-	10	-	-	(10)	-
Net assets released from restrictions	-	(1,346)	-	-	-	-	(1,346)
Other	-	-	-	(514)	-	220	(294)
Increase (decrease) in net assets with donor restrictions	-	191	10	6	-	210	417
Increase (decrease) in net assets	3,161	(100,482)	(4,750)	(14,114)	756	(9)	(115,438)
Net assets (deficit), beginning of year	109,689	86,090	50,104	(21,643)	(4,485)	(27,290)	192,465
Net assets (deficit), end of year	<u>\$ 112,850</u>	<u>\$ (14,392)</u>	<u>\$ 45,354</u>	<u>\$ (35,757)</u>	<u>\$ (3,729)</u>	<u>\$ (27,299)</u>	<u>\$ 77,027</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Catholic Health Parent	Catholic Health Emmaus	Sterling Surgical Center	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$ 18,972	\$ -	\$ 116	\$ -	\$ 19,088
Patient accounts receivable	-	-	197	-	197
Other receivables	694	-	-	-	694
Inventories	9	-	-	-	9
Prepaid expenses and other current assets	15,104	-	26	-	15,130
Due from affiliates	125,781	91	-	(3,926)	121,946
Total current assets	160,560	91	339	(3,926)	157,064
Assets limited as to use	40,081	-	-	-	40,081
Property and equipment, net	163,051	-	333	-	163,384
Operating lease right-of-use assets	10,848	-	1,342	-	12,190
Other assets	30,724	5,714	6,098	(7,945)	34,591
Due from affiliates	5,116	-	-	-	5,116
Total assets	\$ 410,380	\$ 5,805	\$ 8,112	\$ (11,871)	\$ 412,426
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term obligations	\$ 5,530	\$ -	\$ 119	\$ -	\$ 5,649
Current portion of operating lease liabilities	2,282	-	157	-	2,439
Accounts payable	20,662	-	126	-	20,788
Accrued expenses	28,644	-	278	-	28,922
Deferred revenue and refundable advances	1,534	-	-	-	1,534
Due to affiliates	2,900	3,497	429	(3,926)	2,900
Total current liabilities	61,552	3,497	1,109	(3,926)	62,232
Long-term obligations, net	130,139	-	403	-	130,542
Long-term operating lease liabilities, net	8,757	-	1,185	-	9,942
Other long-term obligations	84,732	-	-	-	84,732
Due to affiliates	12,128	-	-	-	12,128
Total liabilities	297,308	3,497	2,697	(3,926)	299,576
Net assets (deficit):					
Without donor restrictions	109,613	2,308	5,415	(7,945)	109,391
With donor restrictions	3,459	-	-	-	3,459
Total net assets (deficit)	113,072	2,308	5,415	(7,945)	112,850
Total liabilities and net assets (deficit)	\$ 410,380	\$ 5,805	\$ 8,112	\$ (11,871)	\$ 412,426

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Catholic Health Parent	Catholic Health Emmaus	Sterling Surgical Center	Eliminations	Total
Revenues and other support without donor restrictions:					
Net patient service revenue	\$ -	\$ -	\$ 2,417	\$ -	\$ 2,417
Other revenue	187,091	-	-	-	187,091
CARES Act Provider Relief Funding	-	-	21	-	21
Total revenues and other support without donor restrictions	<u>187,091</u>	<u>-</u>	<u>2,438</u>	<u>-</u>	<u>189,529</u>
Expenses:					
Salaries and wages	72,047	-	1,231	-	73,278
Employee benefits	18,607	-	247	-	18,854
Medical and professional fees	10,723	-	131	-	10,854
Purchased services	59,080	-	217	-	59,297
Supplies	(2,903)	-	627	-	(2,276)
Depreciation and amortization	10,011	-	32	-	10,043
Interest	5,524	-	36	-	5,560
Insurance	504	-	47	-	551
Other expenses	13,199	-	377	-	13,576
Total expenses	<u>186,792</u>	<u>-</u>	<u>2,945</u>	<u>-</u>	<u>189,737</u>
Income (loss) from operations	299	-	(507)	-	(208)
Nonoperating revenues and expenses:					
Investment income	1,475	-	-	-	1,475
Other components of net periodic pension cost	(2,605)	-	-	-	(2,605)
Other revenues and gains, net	369	-	-	-	369
Total nonoperating revenues and expenses	<u>(761)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(761)</u>
Excess (deficiency) of revenues over expenses	<u>\$ (462)</u>	<u>\$ -</u>	<u>\$ (507)</u>	<u>\$ -</u>	<u>\$ (969)</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Catholic Health Parent	Catholic Health Emmaus	Sterling Surgical Center	Eliminations	Total
Net assets without donor restrictions:					
Excess (deficiency) of revenues over expenses	\$ (462)	\$ -	\$ (507)	\$ -	\$ (969)
Change in pension obligation, other than net periodic cost	(11,138)	-	-	-	(11,138)
Capital grants	15,263	-	-	-	15,263
Contributions	5	-	-	-	5
Increase (decrease) in net assets without donor restrictions	3,668	-	(507)	-	3,161
Net assets (deficit), beginning of year	109,404	2,308	5,922	(7,945)	109,689
Net assets (deficit), end of year	<u>\$ 113,072</u>	<u>\$ 2,308</u>	<u>\$ 5,415</u>	<u>\$ (7,945)</u>	<u>\$ 112,850</u>

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Current assets:					
Cash and cash equivalents	\$ 44,152	\$ 32,967	\$ 49,260	\$ 9,676	\$ 136,055
Patient accounts receivable	67,727	47,270	25,132	13,928	154,057
Other receivables	1,469	1,798	376	793	4,436
Inventories	11,118	6,319	2,581	2,473	22,491
Prepaid expenses and other current assets	548	712	146	118	1,524
Due from affiliates	711	2,455	83	51	3,300
Total current assets	<u>125,725</u>	<u>91,521</u>	<u>77,578</u>	<u>27,039</u>	<u>321,863</u>
Assets limited as to use	16,000	21,928	2,929	474	41,331
Investments	40,025	123,155	30,125	7,090	200,395
Property and equipment, net	103,194	77,608	57,155	29,265	267,222
Operating lease right-of-use assets	23,095	7,639	283	667	31,684
Other assets	50,432	32,952	12,964	4,494	100,842
Due from affiliates	-	10,303	1,456	-	11,759
Total assets	<u>\$ 358,471</u>	<u>\$ 365,106</u>	<u>\$ 182,490</u>	<u>\$ 69,029</u>	<u>\$ 975,096</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term obligations	\$ 1,535	\$ 1,076	\$ 2,181	\$ -	\$ 4,792
Current portion of operating lease liabilities	4,290	2,032	243	348	6,913
Accounts payable	17,084	14,292	9,707	3,223	44,306
Accrued expenses	20,683	35,217	8,430	7,659	71,989
Due to third-party payors	16,201	15,996	5,163	4,139	41,499
Medicare advances	30,598	15,507	11,622	5,965	63,692
Deferred revenue and refundable advances	81	6,570	149	2,048	8,848
Due to affiliates	6,872	18,568	15,819	1,478	42,737
Total current liabilities	<u>97,344</u>	<u>109,258</u>	<u>53,314</u>	<u>24,860</u>	<u>284,776</u>
Long-term obligations, net	84,227	44,106	31,567	5,293	165,193
Long-term operating lease liabilities, net	18,881	5,553	40	322	24,796
Other long-term obligations	261,812	169,338	62,182	21,391	514,723
Total liabilities	<u>462,264</u>	<u>328,255</u>	<u>147,103</u>	<u>51,866</u>	<u>989,488</u>
Net assets (deficit):					
Without donor restrictions	(105,453)	33,179	35,072	15,245	(21,957)
With donor restrictions	1,660	3,672	315	1,918	7,565
Total net assets (deficit)	<u>(103,793)</u>	<u>36,851</u>	<u>35,387</u>	<u>17,163</u>	<u>(14,392)</u>
Total liabilities and net assets (deficit)	<u>\$ 358,471</u>	<u>\$ 365,106</u>	<u>\$ 182,490</u>	<u>\$ 69,029</u>	<u>\$ 975,096</u>

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Revenues and other support without donor restrictions:					
Net patient service revenue	\$ 386,026	\$ 290,921	\$ 159,583	\$ 84,898	\$ 921,428
Other revenue	5,356	15,747	1,778	6,384	29,265
CARES Act Provider Relief Funding	20,584	39,756	9,393	14,116	83,849
Net assets released from restrictions	108	358	38	80	584
Total revenues and other support without donor restrictions	412,074	346,782	170,792	105,478	1,035,126
Expenses:					
Salaries and wages	179,828	164,943	72,435	53,472	470,678
Employee benefits	50,679	46,787	19,612	14,375	131,453
Medical and professional fees	21,799	17,161	5,771	4,692	49,423
Purchased services	53,627	46,825	21,044	11,332	132,828
Supplies	82,890	61,156	38,283	12,689	195,018
Depreciation and amortization	17,719	14,586	9,184	3,781	45,270
Interest	5,306	3,451	2,473	226	11,456
Insurance	6,202	4,545	2,081	1,266	14,094
Other expenses	18,140	13,624	5,735	3,329	40,828
Total expenses	436,190	373,078	176,618	105,162	1,091,048
Income (loss) from operations	(24,116)	(26,296)	(5,826)	316	(55,922)
Nonoperating revenues and expenses:					
Investment income	4,365	10,459	2,715	1,193	18,732
Other components of net periodic pension costs	(6,495)	(2,679)	(1,425)	(275)	(10,874)
Other revenues and gains, net	216	275	60	28	579
Total nonoperating revenues and expenses	(1,914)	8,055	1,350	946	8,437
Excess (deficiency) of revenues over expenses	\$ (26,030)	\$ (18,241)	\$ (4,476)	\$ 1,262	\$ (47,485)

CATHOLIC HEALTH SYSTEM - ACUTE CARE SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Mercy Hospital of Buffalo	Sisters Hospital	Kenmore Mercy Hospital	Mount St. Mary's Hospital	Total
Net assets without donor restrictions:					
Excess (deficiency) of revenues over expenses	\$ (26,030)	\$ (18,241)	\$ (4,476)	\$ 1,262	\$ (47,485)
Change in pension obligation, other than net periodic cost	(24,704)	(23,905)	(4,516)	(921)	(54,046)
Net assets released from restrictions used for capital	183	403	100	76	762
Capital grants	-	-	-	80	80
Other	17	-	(1)	-	16
Increase (decrease) in net assets without donor restrictions	(50,534)	(41,743)	(8,893)	497	(100,673)
Net assets with donor restrictions:					
Contributions	372	947	30	141	1,490
Investment income	21	-	-	11	32
Special events revenue, net	-	11	4	-	15
Net assets released from restrictions	(291)	(761)	(138)	(156)	(1,346)
Increase (decrease) in net assets with donor restrictions	102	197	(104)	(4)	191
Increase (decrease) in net assets	(50,432)	(41,546)	(8,997)	493	(100,482)
Net (deficit) assets, beginning of year	(53,361)	78,397	44,384	16,670	86,090
Net (deficit) assets, end of year	<u>\$ (103,793)</u>	<u>\$ 36,851</u>	<u>\$ 35,387</u>	<u>\$ 17,163</u>	<u>\$ (14,392)</u>

CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Father Baker Manor	St. Francis Geriatric	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Current assets:						
Cash and cash equivalents	\$ 905	\$ 438	\$ 853	\$ 36,928	\$ 2,810	\$ 41,934
Patient accounts receivable	3,353	6	307	5,541	1,615	10,822
Other receivables	-	2	276	-	3	281
Inventories	41	-	-	54	1,080	1,175
Prepaid expenses and other current assets	10	4	-	19	14	47
Due from affiliates	7	7	2,895	216	645	3,770
Total current assets	<u>4,316</u>	<u>457</u>	<u>4,331</u>	<u>42,758</u>	<u>6,167</u>	<u>58,029</u>
Interest in net assets of related Foundations	130	-	-	-	-	130
Assets limited as to use	3,077	-	-	-	-	3,077
Investments	-	-	-	25,690	-	25,690
Property and equipment, net	4,457	10,390	-	411	658	15,916
Operating lease right-of-use assets	-	-	3	201	1,056	1,260
Other assets	1,701	318	724	3,538	825	7,106
Due from affiliates	-	-	-	-	-	-
Total assets	<u>\$ 13,681</u>	<u>\$ 11,165</u>	<u>\$ 5,058</u>	<u>\$ 72,598</u>	<u>\$ 8,706</u>	<u>\$ 111,208</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
Current liabilities:						
Current portion of long-term obligations	\$ -	\$ 365	\$ -	\$ -	\$ -	\$ 365
Current portion of operating lease liabilities	-	-	3	51	139	193
Accounts payable	177	35	23	142	49	426
Accrued expenses	3,299	90	635	3,527	475	8,026
Due to third-party payors	782	-	17	784	71	1,654
Medicare advances	261	-	-	2,884	-	3,145
Deferred revenue and refundable advances	-	-	824	-	-	824
Due to affiliates	15,729	845	37	6	39	16,656
Total current liabilities	<u>20,248</u>	<u>1,335</u>	<u>1,539</u>	<u>7,394</u>	<u>773</u>	<u>31,289</u>
Long-term obligations, net	-	8,358	-	-	-	8,358
Long-term operating lease liabilities, net	-	-	-	150	932	1,082
Other long-term obligations	6,605	320	3,667	13,841	692	25,125
Total liabilities	<u>26,853</u>	<u>10,013</u>	<u>5,206</u>	<u>21,385</u>	<u>2,397</u>	<u>65,854</u>
Net assets (deficit):						
Without donor restrictions	(13,302)	1,152	(148)	51,213	6,309	45,224
With donor restrictions	130	-	-	-	-	130
Total net assets (deficit)	<u>(13,172)</u>	<u>1,152</u>	<u>(148)</u>	<u>51,213</u>	<u>6,309</u>	<u>45,354</u>
Total liabilities and net assets (deficit)	<u>\$ 13,681</u>	<u>\$ 11,165</u>	<u>\$ 5,058</u>	<u>\$ 72,598</u>	<u>\$ 8,706</u>	<u>\$ 111,208</u>

CATHOLIC HEALTH SYSTEM - HOME AND COMMUNITY BASED SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Father Baker Manor	St. Francis Geriatric	Mercy Home Care	McAuley Seton Home Care	Infusion Pharmacy	Total
Revenues and other support without donor restrictions:						
Net patient service revenue	\$ 16,999	\$ -	\$ 6,195	\$ 44,410	\$ 12,128	\$ 79,732
Other revenue	681	1,755	907	237	460	4,040
CARES Act Provider Relief Funding	1,062	-	-	1,011	181	2,254
Total revenues and other support without donor restrictions	18,742	1,755	7,102	45,658	12,769	86,026
Expenses:						
Salaries and wages	18,069	537	4,975	25,904	3,163	52,648
Employee benefits	3,395	157	1,532	7,219	765	13,068
Medical and professional fees	239	-	33	762	35	1,069
Purchased services	2,272	371	413	1,589	266	4,911
Supplies	1,591	156	9	1,322	7,048	10,126
Depreciation and amortization	568	402	17	322	66	1,375
Interest	351	361	26	290	5	1,033
Insurance	620	12	70	111	1	814
Other expenses	2,183	9	223	2,230	595	5,240
Total expenses	29,288	2,005	7,298	39,749	11,944	90,284
Income (loss) from operations	(10,546)	(250)	(196)	5,909	825	(4,258)
Nonoperating revenues and expenses:						
Investment income	28	1	4	2,008	3	2,044
Other components of net periodic pension cost	(123)	-	(79)	(297)	(25)	(524)
Other revenues and gains, net	3	-	1	7	1	12
Total nonoperating revenues and expenses	(92)	1	(74)	1,718	(21)	1,532
Excess (deficiency) of revenues over expenses	\$ (10,638)	\$ (249)	\$ (270)	\$ 7,627	\$ 804	\$ (2,726)
Net assets without donor restrictions:						
Excess (deficiency) of revenues over expenses	\$ (10,638)	\$ (249)	\$ (270)	\$ 7,627	\$ 804	\$ (2,726)
Change in pension obligation, other than net periodic cost	(485)	-	(217)	(1,472)	131	(2,043)
Other	5	4	-	-	-	9
Increase (decrease) in net assets without donor restrictions	(11,118)	(245)	(487)	6,155	935	(4,760)
Net assets with donor restrictions:						
Change in interest in related Foundations	10	-	-	-	-	10
Increase in net assets with donor restrictions	10	-	-	-	-	10
Increase (decrease) in net assets	(11,108)	(245)	(487)	6,155	935	(4,750)
Net (deficit) assets, beginning of year	(2,064)	1,397	339	45,058	5,374	50,104
Net (deficit) assets, end of year	\$ (13,172)	\$ 1,152	\$ (148)	\$ 51,213	\$ 6,309	\$ 45,354

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Total
Current assets:						
Cash and cash equivalents	\$ 422	\$ 373	\$ 17,755	\$ 2,497	\$ 137	\$ 21,184
Patient accounts receivable	-	-	622	4,490	42	5,154
Other receivables	46	10	9	225	-	290
Prepaid expenses and other current assets	241	-	42	363	-	646
Due from affiliates	51	-	19	276	-	346
Total current assets	760	383	18,447	7,851	179	27,620
Interest in net assets of related Foundations	5	-	-	-	-	5
Assets limited as to use	370	-	1,155	-	-	1,525
Property and equipment, net	11,352	-	4,765	2,547	-	18,664
Operating lease right-of-use assets	-	-	5,044	8,327	-	13,371
Other assets	299	-	21	843	345	1,508
Total assets	\$ 12,786	\$ 383	\$ 29,432	\$ 19,568	\$ 524	\$ 62,693
LIABILITIES AND NET ASSETS (DEFICIT)						
Current liabilities:						
Current portion of long-term obligations	\$ 480	\$ -	\$ -	\$ 32	\$ -	\$ 512
Current portion of operating lease liabilities	-	-	392	1,629	-	2,021
Accounts payable	696	-	1,606	529	-	2,831
Accrued expenses	305	-	1,211	2,643	-	4,159
Due to third-party payors	-	-	3,576	-	-	3,576
Due to affiliates	5	3	836	61,265	1,337	63,446
Total current liabilities	1,486	3	7,621	66,098	1,337	76,545
Long-term obligations, net	7,477	-	-	-	-	7,477
Long-term operating lease liabilities, net	-	-	4,694	6,788	-	11,482
Other long-term obligations	1,640	-	1,256	-	50	2,946
Total liabilities	10,603	3	13,571	72,886	1,387	98,450
Net assets (deficit):						
Without donor restrictions	1,952	14	15,861	(53,318)	(863)	(36,354)
With donor restrictions	231	366	-	-	-	597
Total net assets (deficit)	2,183	380	15,861	(53,318)	(863)	(35,757)
Total liabilities and net assets (deficit)	\$ 12,786	\$ 383	\$ 29,432	\$ 19,568	\$ 524	\$ 62,693

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Total
Revenues and other support without donor restrictions:						
Net patient service revenue	\$ -	\$ -	\$ 27,706	\$ 35,025	\$ -	\$ 62,731
Other revenue	5,650	11	28	5,568	(176)	11,081
CARES Act Provider Relief Funding	-	-	-	1,020	-	1,020
Total revenues and other support without donor restrictions	5,650	11	27,734	41,613	(176)	74,832
Expenses:						
Salaries and wages	296	-	2,838	41,498	-	44,632
Employee benefits	101	-	919	4,741	-	5,761
Medical and professional fees	9	-	56	2,900	3	2,968
Purchased services	1,911	10	17,745	2,509	-	22,175
Supplies	105	-	694	3,705	-	4,504
Depreciation and amortization	1,439	-	290	467	-	2,196
Interest	410	-	-	955	3	1,368
Insurance	72	-	9	1,044	-	1,125
Other expenses	36	9	624	3,245	-	3,914
Total expenses	4,379	19	23,175	61,064	6	88,643
Income (loss) from operations	1,271	(8)	4,559	(19,451)	(182)	(13,811)
Nonoperating revenues and expenses:						
Investment income	-	-	1	-	-	1
Other components of net periodic pension cost	-	-	(37)	-	-	(37)
Other revenues and gains, net	22	-	-	28	-	50
Total nonoperating revenues and expenses	22	-	(36)	28	-	14
Excess (deficiency) of revenues over expenses	\$ 1,293	\$ (8)	\$ 4,523	\$ (19,423)	\$ (182)	\$ (13,797)

CATHOLIC HEALTH SYSTEM - OTHER SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Our Lady of Victory Renaissance	Continuing Care Foundation	LIFE	Trinity	Niagara Medicine	Total
Net assets without donor restrictions:						
Excess (deficiency) of revenues over expenses	\$ 1,293	\$ (8)	\$ 4,523	\$ (19,423)	\$ (182)	\$ (13,797)
Change in unrealized loss on interest rate swaps	(176)	-	-	-	-	(176)
Change in pension obligation, other than net periodic cost	-	-	(149)	-	-	(149)
Other	-	-	2	-	-	2
Increase (decrease) in net assets without donor restrictions	1,117	(8)	4,376	(19,423)	(182)	(14,120)
Net assets with donor restrictions:						
Contributions	-	515	-	5	-	520
Other	-	(514)	-	-	-	(514)
Increase in net assets with donor restrictions	-	1	-	5	-	6
Increase (decrease) in net assets	1,117	(7)	4,376	(19,418)	(182)	(14,114)
Net assets (deficit), beginning of year	1,066	387	11,485	(33,900)	(681)	(21,643)
Net assets (deficit), end of year	<u>\$ 2,183</u>	<u>\$ 380</u>	<u>\$ 15,861</u>	<u>\$ (53,318)</u>	<u>\$ (863)</u>	<u>\$ (35,757)</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)
CONSOLIDATING BALANCE SHEET

(in thousands of dollars)

December 31, 2020

ASSETS	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 45,622	\$ 3,442	\$ 196	\$ -	\$ 49,260
Patient accounts receivable	21,996	3,136	-	-	25,132
Other receivables	180	-	196	-	376
Inventories	2,581	-	-	-	2,581
Prepaid expenses and other current assets	135	8	3	-	146
Due from affiliates	115	42	2	(76)	83
Total current assets	<u>70,629</u>	<u>6,628</u>	<u>397</u>	<u>(76)</u>	<u>77,578</u>
Interest in net assets of affiliated Foundation	3,672	-	-	(3,672)	-
Assets limited as to use	1,749	1,180	-	-	2,929
Investments	26,763	-	3,362	-	30,125
Property and equipment, net	49,082	8,072	1	-	57,155
Operating lease right-of-use assets	283	-	-	-	283
Other assets	10,785	3,776	-	(1,597)	12,964
Due from affiliates	1,456	-	-	-	1,456
Total assets	<u>\$ 164,419</u>	<u>\$ 19,656</u>	<u>\$ 3,760</u>	<u>\$ (5,345)</u>	<u>\$ 182,490</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Current portion of long-term obligations	\$ 1,482	\$ 699	\$ -	\$ -	\$ 2,181
Current portion of operating lease liabilities	243	-	-	-	243
Accounts payable	8,996	696	15	-	9,707
Accrued expenses	6,986	1,438	6	-	8,430
Due to third-party payors	4,555	608	-	-	5,163
Medicare advances	11,622	-	-	-	11,622
Deferred revenue and refundable advances	-	149	-	-	149
Due to affiliates	2,545	13,284	67	(77)	15,819
Total current liabilities	<u>36,429</u>	<u>16,874</u>	<u>88</u>	<u>(77)</u>	<u>53,314</u>
Long-term obligations, net	27,296	4,271	-	-	31,567
Long-term operating lease liabilities, net	40	-	-	-	40
Other long-term obligations	52,174	10,008	-	-	62,182
Total liabilities	<u>115,939</u>	<u>31,153</u>	<u>88</u>	<u>(77)</u>	<u>147,103</u>
Net assets (deficit):					
Without donor restrictions	48,165	(11,497)	3,357	(4,953)	35,072
With donor restrictions	315	-	315	(315)	315
Total net assets (deficit)	<u>48,480</u>	<u>(11,497)</u>	<u>3,672</u>	<u>(5,268)</u>	<u>35,387</u>
Total liabilities and net assets (deficit)	<u>\$ 164,419</u>	<u>\$ 19,656</u>	<u>\$ 3,760</u>	<u>\$ (5,345)</u>	<u>\$ 182,490</u>

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Revenue and other support without donor restrictions:					
Net patient service revenue	\$ 143,687	\$ 15,902	\$ (6)	\$ -	\$ 159,583
Other revenue	1,375	92	311	-	1,778
CARES Act Provider Relief Funding	8,639	754	-	-	9,393
Net assets released from restriction	-	-	38	-	38
Total revenue and other support without donor restrictions	153,701	16,748	343	-	170,792
Expenses:					
Salaries and wages	60,821	11,404	210	-	72,435
Employee benefits	16,675	2,873	64	-	19,612
Medical and professional fees	5,503	256	12	-	5,771
Purchased services	19,250	1,740	54	-	21,044
Supplies	36,972	1,309	2	-	38,283
Depreciation and amortization	8,454	730	-	-	9,184
Interest	2,163	310	-	-	2,473
Insurance	1,826	255	-	-	2,081
Other expenses	4,741	900	607	(513)	5,735
Total expenses	156,405	19,777	949	(513)	176,618
Income (loss) from operations	(2,704)	(3,029)	(606)	513	(5,826)
Nonoperating revenues and expenses:					
Investment income	2,378	15	322	-	2,715
Other components of net periodic pension cost	(1,269)	(156)	-	-	(1,425)
Other revenues and gains, net	57	3	-	-	60
Total nonoperating revenues and expenses	1,166	(138)	322	-	1,350
Excess (deficiency) of revenues over expenses	\$ (1,538)	\$ (3,167)	\$ (284)	\$ 513	\$ (4,476)

CATHOLIC HEALTH SYSTEM, INC. AND SUBSIDIARIES

(KENMORE MERCY HOSPITAL AND SUBSIDIARIES)

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

(in thousands of dollars)

For the Year Ended December 31, 2020

	Kenmore Mercy Hospital	The McAuley Residence	The Kenmore Mercy Foundation	Eliminations	Consolidated
Net assets without donor restrictions:					
Excess (deficiency) of revenues over expenses	\$ (1,538)	\$ (3,167)	\$ (284)	\$ 513	\$ (4,476)
Change in interest in affiliated Foundation	(183)	-	-	183	-
Change in pension obligation, other than net periodic cost	(4,092)	(424)	-	-	(4,516)
Net assets released from restrictions used for capital	-	-	100	-	100
Contributions	511	-	-	(511)	-
Other	-	(1)	-	-	(1)
Increase (decrease) in net assets without donor restrictions	(5,302)	(3,592)	(184)	185	(8,893)
Net assets with donor restrictions:					
Contributions	-	-	30	-	30
Special events revenue, net	-	-	4	-	4
Change in interest in the KMH Foundation, Inc.	(104)	-	-	104	-
Net assets released from restrictions	-	-	(138)	-	(138)
Increase (decrease) in net assets with donor restrictions	(104)	-	(104)	104	(104)
Increase (decrease) in net assets	(5,406)	(3,592)	(288)	289	(8,997)
Net assets (deficit), beginning of year	53,886	(7,905)	3,960	(5,557)	44,384
Net assets (deficit), end of year	<u>\$ 48,480</u>	<u>\$ (11,497)</u>	<u>\$ 3,672</u>	<u>\$ (5,268)</u>	<u>\$ 35,387</u>