Consolidated Financial Statements and Supplementary Information

Kettering Health
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Kettering Health

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2022 and 2021

Contents

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Report of Independent Auditors

The Board of Directors
Kettering Health

Opinion

We have audited the consolidated financial statements of Kettering Health (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Kettering Health at December 31, 2022 and 2021, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.

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

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

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

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

April 14, 2023

Kettering Health

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	**$ 21,867**	$ 84,678
Marketable securities	**232,789**	375,476
Current portion of assets whose use is limited	**5,293**	5,146
Patient accounts receivable	**262,080**	292,253
Other receivables	**59,884**	26,485
Inventories	**46,372**	49,432
Prepaid expenses and other current assets	**17,894**	36,802
Total current assets	**646,179**	870,272
Assets whose use is limited:		
Board designated	**917,833**	1,106,332
Donor or agency restricted	**21,130**	20,080
Trustee-held assets	**2,809**	4,770
Total assets whose use is limited	**941,772**	1,131,182
Retirement plans assets	**47,818**	60,192
Operating lease right-of-use assets, net	**46,013**	44,343
Property and equipment, net	**1,214,738**	1,168,271
Other long-term assets	**39,611**	53,112
Total assets	**$ 2,936,131**	$ 3,327,372

Consolidated Balance Sheets (continued)

(In Thousands)

	December 31 2022	December 31 2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 141,868**	$ 150,861
Payroll-related liabilities	**104,222**	124,758
Other accrued liabilities	**93,163**	184,913
Accrued interest	**11,295**	11,135
Estimated amounts due to third-party payors	**24,038**	60,046
Current portion of long-term debt	**12,843**	18,425
Total current liabilities	**387,429**	550,138
Accrued retirement plan liabilities	**47,818**	54,656
Professional self-insurance liability	**67,792**	62,243
Operating lease liabilities, net of current portion	**37,862**	36,177
Interest rate swap agreements liability	**11,655**	33,658
Other long-term liabilities	**17,733**	36,107
Long-term debt, net of current portion	**712,922**	728,060
Total liabilities	**1,283,211**	1,501,039
Net assets:		
Without donor restrictions	**1,630,766**	1,804,599
With donor restrictions	**22,154**	21,734
Total net assets	**1,652,920**	1,826,333
Total liabilities and net assets	**$ 2,936,131**	$ 3,327,372

See accompanying notes to the consolidated financial statements.

Kettering Health

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2022	**2021**
Revenue:		
Net patient service revenue	**$ 2,291,979**	$ 2,200,319
Other revenue	**167,402**	175,575
Total revenue	**2,459,381**	2,375,894
Expenses:		
Salaries and wages	**1,187,453**	1,115,581
Employee benefits	**203,693**	209,126
Supplies and other	**626,539**	586,481
Purchased services	**303,399**	267,356
Depreciation and amortization	**122,802**	121,419
Interest	**21,189**	19,279
Total expenses	**2,465,075**	2,319,242
Excess of (expenses over revenue) revenue over expenses before other income (loss)	**(5,694)**	56,652
Other income (loss):		
Loss on early extinguishment of debt	**–**	(4,554)
Gain on interest rate swap agreements	**19,655**	3,454
Other, primarily investment (loss) income	**(196,396)**	131,442
Total other (loss) income, net	**(176,741)**	130,342
Excess of (expenses over revenue) revenue over expenses	**(182,435)**	186,994

Kettering Health

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31	
	2022	**2021**
Net assets without donor restrictions		
Excess of (expenses over revenue) revenue over expenses	**$ (182,435)**	$ 186,994
Net assets released from restrictions for capital	**579**	2,623
Change in plan assets and benefit obligation of pension plan	**8,530**	3,938
Other changes, net	**(507)**	(1,828)
(Decrease) increase in net assets without donor restrictions	**(173,833)**	191,727
Net assets with donor restrictions		
Contributions and investment income	**2,125**	5,894
Net assets released from restrictions for capital	**(579)**	(2,623)
Net assets released from restrictions for operations	**(1,126)**	(2,133)
Increase in net assets with donor restrictions	**420**	1,138
(Decrease) increase in net assets	**(173,413)**	192,865
Net assets at beginning of year	**1,826,333**	1,633,468
Net assets at end of year	**$ 1,652,920**	$ 1,826,333

See accompanying notes to the consolidated financial statements.

Kettering Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31 2022	2021
Operating activities		
(Decrease) increase in net assets	**$ (173,413)**	$ 192,865
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**122,802**	121,419
Amortization of long-term debt issuance costs	**218**	229
Loss on early extinguishment of debt	**–**	4,554
Gain on interest rate swap agreements	**(19,655)**	(3,454)
Restricted contributions	**(3,890)**	(4,479)
Net change in unrealized (gains) losses on investments	**203,612**	(107,010)
Change in plan assets and benefit obligation of pension plan	**(8,530)**	(3,938)
Changes in assets and liabilities:		
Patient accounts receivable and other receivables	**(3,226)**	(39,888)
Inventories	**3,060**	(3,729)
Prepaid expenses and other current assets	**18,729**	(14,754)
Accounts payable	**4,519**	23,049
Other current liabilities	**(148,134)**	64,826
Other and noncurrent assets and liabilities	**12,274**	(88,644)
Net cash provided by operating activities	**8,366**	141,046
Investing activities		
Change in assets whose use is limited and marketable securities	**128,338**	(239,656)
Additions to property and equipment	**(182,781)**	(130,480)
Net cash used in investing activities	**(54,443)**	(370,136)
Financing activities		
Principal payments of long-term debt	**(20,938)**	(18,452)
Refunding of long-term debt	**–**	(156,648)
Proceeds from issuance of long-term debt	**–**	205,017
Draws on line of credit	**92,017**	–
Payments on line of credit	**(92,017)**	–
Cost of long-term debt issuance	**–**	(1,336)
Proceeds from restricted contributions	**4,204**	4,961
Net cash (used in) provided by financing activities	**(16,734)**	33,542
Decrease in cash and cash equivalents	**(62,811)**	(195,548)
Cash and cash equivalents at beginning of year	**84,678**	280,226
Cash and cash equivalents at end of year	**$ 21,867**	$ 84,678

See accompanying notes to the consolidated financial statements.

1. Organization and Significant Accounting Policies

Organization

Kettering Adventist Healthcare (KAH) is composed of the Obligated Group, which includes Kettering Medical Center doing business as (dba) Kettering Health Main Campus System, consisting of Kettering Health Main Campus, Kettering Health Troy, Kettering Health Miamisburg, Kettering Health Behavioral Medical Center, and Kettering College; Dayton Osteopathic Hospital dba Kettering Health Dayton System, consisting of Kettering Health Dayton and Kettering Health Washington Township; and Beavercreek Medical Center dba The Indu and Raj Soin Medical Center (Soin Medical Center). KAH also includes the operations of Grandcor, Ltd., a captive insurance company. Other entities included in the consolidated financial statements are Greene Memorial Hospital, Inc. dba Kettering Health Greene Memorial; Greene Foundation dba Greene Medical Foundation; The Fort Hamilton Hospital dba Kettering Health Hamilton; Fort Hamilton Hospital Foundation; Kettering Network Services; Kettering Adventist Healthcare; Kettering Affiliated Health Services, Inc. dba Kettering Health Senior Living; KettCor; Kettering Medical Center Foundation dba Kettering Health Foundation; and Alliance Physicians, Inc. dba Kettering Health Medical Group.

All entities are controlled by KAH, dba Kettering Health (the System), and are consolidated. All significant intercompany balances and transactions have been eliminated upon consolidation.

Kettering Health Foundation, Greene Medical Foundation, and Fort Hamilton Hospital Foundation exist for the purpose of soliciting and receiving contributions for the benefit of the System.

Kettering Health Senior Living operates a retirement housing complex consisting of houses, cottage apartments, and a mid-rise building with apartment units.

The System provides healthcare services through Kettering Health Main Campus, Kettering Health Troy, Kettering Health Miamisburg, Kettering Health Behavioral Medical Center, Kettering Health Dayton, Kettering Health Washington Township, Soin Medical Center, Kettering Health Greene Memorial, and Kettering Health Hamilton (collectively, the Hospitals).

The System also operates Kettering College, a division of Kettering Health Main Campus System, offering a curriculum primarily related to the allied health professions.

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

The System considers highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Highly liquid investments with original short-term maturities of less than three months that are included as part of marketable securities and assets whose use is limited, if any, are excluded from cash equivalents, as they are commingled with longer-term investments as part of the System's overall investment strategy. The amount of cash and cash equivalents carried on the consolidated balance sheets represents fair value.

Marketable Securities

Marketable securities consist primarily of marketable debt securities, domestic equity securities, and mutual funds used by the System to support short-term operational and capital needs. As of December 31, 2022 and 2021, $50,972 and $93,114, respectively, of marketable securities included marketable debt securities whose maturities were greater than one year from the date of the consolidated balance sheets. Due to the markets in which these securities are traded, the System believes the marketable debt securities can be liquidated at their fair value at any time and, therefore, has included the marketable debt securities as current assets.

Assets Whose Use Is Limited and Investment (Loss) Income

Assets whose use is limited include board-designated funds for the acquisition of property and equipment, funds restricted by donors for charitable purposes, funds to cover self-insurance liabilities, and trustee-held assets for the retirement of long-term liabilities. These funds have been classified as noncurrent assets except for amounts required to meet current liabilities, which are classified as the current portion of assets whose use is limited at December 31, 2022 and 2021. All securities within assets whose use is limited are classified as trading securities.

1. Organization and Significant Accounting Policies (continued)

Investment (loss) income (including interest and dividend earnings, net realized (loss) gain on investments, and net change in unrealized (losses) gains on investments) is primarily included in the excess of (expenses over revenue) revenue over expenses as other, primarily investment (loss) income unless the investment (loss) income is restricted by donor or law.

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

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

Fair Value Measurements

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

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

1. Organization and Significant Accounting Policies (continued)

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

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

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

To meet the requirements of ASC 820, the System utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the System, including those traded on exchanges, to be valued at. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the System's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

Inventories

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

1. Organization and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost. Expenditures, which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed utilizing the straight-line method over the expected useful lives of the assets, which range from 3 to 40 years.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between five and ten years, with amortization beginning when the project is completed, and the software is placed in service.

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

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

The System evaluates the carrying value of long-lived assets and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Any resulting impairment losses or additional required depreciation due to shortened useful lives are reflected as other, primarily investment (loss) income in the consolidated statements of operations and changes in net assets. No impairment was recognized for the years ended December 31, 2022 or 2021.

1. Organization and Significant Accounting Policies (continued)

Leases

The System leases property and equipment under finance and operating leases. The System determines if an arrangement is a lease at inception. Right-of-use assets and lease liabilities are recognized for leases with terms greater than 12 months based on the net present value of the future minimum lease payments over the lease term at the commencement date. When readily determinable, the System uses the interest rate implicit in the lease to determine the present value of future minimum lease payments. However, most of the System's leases do not have a readily determinable implicit interest rate. For these leases, the System uses a risk-free rate from the U.S. Treasury based on the period comparable with that of each lease term. The right-of-use asset and lease liability include a value for options to extend a lease if the System is reasonably certain that the option will be exercised.

The current portion of operating lease liabilities is included in other accrued liabilities, and the noncurrent portion is classified as operating lease liabilities, net of current portion on the consolidated balance sheets. The related right-of-use assets, net, are included in operating lease right-of-use assets, net, on the consolidated balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term and is included in supplies and other expenses in the consolidated statements of operations and changes in net assets.

The current and noncurrent portions of finance lease liabilities are included in other accrued liabilities and other long-term liabilities, respectively, on the consolidated balance sheets. The related finance lease right-of-use assets, net, are included in property and equipment, net, on the consolidated balance sheets. Finance lease right-of-use assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the property or equipment. Such amortization expense is included in depreciation and amortization in the consolidated statements of operations and changes in net assets.

Investments in Unconsolidated Organizations

The System maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. Certain of these investments are accounted for using the equity method of accounting, as the System has significant influence over the operating and financial policies of the investee. The aggregate value of investments in unconsolidated organizations accounted for under the equity method of accounting was $19,401 and $27,806

1. Organization and Significant Accounting Policies (continued)

at December 31, 2022 and 2021, respectively, and is included in other long-term assets on the consolidated balance sheets. The System recognized equity method income of $195 and $10,463 for the years ended December 31, 2022 and 2021, respectively, which is included in other revenue and other, primarily investment (loss) income on the consolidated statements of operations and changes in net assets.

Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the years ended December 31, 2022 or 2021.

Goodwill and Intangible Assets

The System follows the provisions of ASC 958, *Not-for-Profit Entities* (ASC 958), which provides guidance for a not-for-profit entity with respect to goodwill and other intangible assets subsequent to an acquisition. In accordance with ASC 958, the System tests goodwill and indefinite-lived intangible assets for impairment on an annual basis utilizing qualitative and quantitative factors and between annual tests in certain circumstances. Goodwill impairment testing is done at the reporting unit level by comparing the fair value of the reporting unit's net assets against the carrying value of the reporting unit's net assets, including goodwill. The System as a whole is defined as the reporting unit for purposes of goodwill impairment testing. If a quantitative analysis is performed, the fair value of the reporting unit is generally estimated based on an analysis of discounted cash flows (Level 3 measurement). The System has goodwill of $12,809 and $16,753 at December 31, 2022 and 2021, respectively. The change in goodwill during the year ended December 31, 2022, is the result of an adjustment to previously recorded goodwill and is immaterial to the consolidated financial statements.

Separate identifiable intangible assets, net of accumulated amortization, of $507 and $564 at December 31, 2022 and 2021, respectively, which are not deemed to have an indefinite life, continue to be amortized over their useful lives, which range from three to five years. Future amortization expense of these identifiable intangible assets is not material to the System's consolidated financial statements.

1. Organization and Significant Accounting Policies (continued)

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the System in perpetuity. Net assets with donor restrictions are primarily restricted for strategic capital projects or in support of the System's mission, including, but not limited to, education services and clinical programs.

Net Patient Service Revenue and Patient Accounts Receivable

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

Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The 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. These services are considered to be a single performance obligation. Outpatient services are performance obligations satisfied at a point in time, and net patient service revenue is recognized when goods or services are provided, and the System does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASC 606, *Revenue from Contracts with Customers* (ASC 606) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the consolidated balance sheet date. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at

1. Organization and Significant Accounting Policies (continued)

the consolidated balance sheet date. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the consolidated balance sheet date.

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

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

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and/or implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of change. Adjustments arising from a change in the transaction price, which resulted in an increase to net patient service revenue, were approximately

(In Thousands)

1. Organization and Significant Accounting Policies (continued)

$22,441 and $19,060 for the years ended December 31, 2022 and 2021, respectively, and were not material to net patient service revenue for either period and, therefore, did not result in a change in the System's revenue recognition policy.

The System may receive payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities include advance payments of $0 and $94,406 at December 31, 2022 and 2021, respectively, from the Centers for Medicare and Medicaid Services (CMS) as part of the Medicare Accelerated and Advanced Payment Program (see Note 13 for additional information).

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

Net patient service revenue by major payor source for the years ended December 31, is as follows:

	2022		**2021**	
Medicare	**$ 870,113**	**38%**	$ 803,212	37%
Medicaid	**265,566**	**12**	271,707	12
Commercial and other third party	**1,136,028**	**49**	1,094,161	50
Self-pay	**20,272**	**1**	31,239	1
	$ 2,291,979	**100%**	$ 2,200,319	100%

The System is paid prospectively determined rates for the majority of inpatient acute care, outpatient, and ambulatory care services provided (principally Medicare, Medicaid, and certain commercial payors). This net patient service revenue is subject to retroactive adjustments due to audits, reviews, changes in program administration and rules, and the outcome of litigation. These adjustments are considered variable considerations and are included in the determination of the estimated transaction price for providing patient care in the period the related services are

1. Organization and Significant Accounting Policies (continued)

provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of net patient service revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to reviews or audits.

During the year ended December 31, 2021, CMS notified the System of its intent to recoup excess funds related to the historical reimbursement methodology between qualifying nursing schools and Graduate Medical Education institutions. During the year ended December 31, 2022, the System received a favorable interpretation related to reimbursement methodology. As a result, the System recorded an increase of $16,080 and a decrease of $15,044 in 2022 and 2021, respectively, in net patient service revenue in the consolidated statements of operations and changes in net assets.

During the year ended December 31, 2021, the System received a favorable interpretation related to reimbursement rates at Grandview Cancer Center. As a result, the System determined the previously recorded liability was no longer needed, which resulted in an increase to net patient service revenue of $19,606 during the year ended December 31, 2021.

Based on and inclusive of the matters above, as well as other miscellaneous settlement activity, the System recorded a total increase of $32,643 and $6,784 in 2022 and 2021, respectively, in net patient service revenue, as a result of changes in estimated settlements with Medicare, Medicaid, and other commercial payors. These amounts were not material to net patient service revenue for either period and, therefore, did not result in a change in the System's revenue recognition policy.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The System has established a corporate compliance program to assist in maintaining compliance with such laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines and penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that current recorded estimates will change by material amounts in the near term.

1. Organization and Significant Accounting Policies (continued)

Charity Care

The System provides medically necessary services without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. In assessing a patient's ability to pay, the System not only utilizes generally recognized poverty income levels of the communities it serves but also includes certain cases where incurred charges are significant when compared to the patient's financial resources. Charity care amounts are not included in net patient service revenue.

The estimated direct and indirect costs of charity care, quantified as the cost of free or discounted health services provided to persons who cannot afford to pay, were $31,932 and $27,137 for the years ended December 31, 2022 and 2021, respectively. Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the net patient service revenue recognized and written off for health services provided to persons who cannot afford to pay. The State of Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the System for services provided to qualified persons who cannot afford to pay. The amount of HCAP reimbursement was $12,482 and $8,899 for the years ended December 31, 2022 and 2021, respectively, and is included in net patient service revenue.

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the System expects to be entitled in exchange for providing goods and services in accordance with ASC 606. The amounts recognized reflect consideration due from customers, third-party payors, the federal government, and others. Primary categories of other revenue include federal governmental grants and reimbursement of costs, retail pharmacy, physician services, Kettering College tuition, leases and rentals, food service, and other miscellaneous revenue.

(In Thousands)

1. Organization and Significant Accounting Policies (continued)

The composition of other revenue by sources for the years ended December 31, is as follows:

	2022	2021
Retail pharmacy	**$ 76,727**	$ 66,870
Physician services	**38,250**	35,119
Other	**19,561**	21,050
Kettering College tuition and other	**16,973**	20,113
Provider Relief Funds	**14,937**	13,340
Federal Emergency Management Agency	**954**	19,083
	$ 167,402	$ 175,575

Excess of (Expenses Over Revenue) Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the excess of (expenses over revenue) revenue over expenses, which represents the performance (operating) indicator for the System. Consistent with industry practice, changes in net assets that are excluded from the excess of (expenses over revenue) revenue over expenses include investment (loss) income on funds with donor restrictions, contributions with donor restrictions, and certain defined benefit pension plan adjustments.

Gifts With Donor Restrictions

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received, or the condition is met. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions for capital or net assets released from restrictions for operations.

1. Organization and Significant Accounting Policies (continued)

Federal Income Tax

Primarily all System entities are recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC) as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3) with the exception of KettCor, which is a for-profit corporation. As a result, most of the income generated by the System is exempt from taxation. The provision for income taxes for KettCor is not significant to the System's consolidated financial statements.

The System completed an analysis of its certain and uncertain tax positions in accordance with applicable accounting guidance and determined that no amounts were required to be recognized in the consolidated financial statements at December 31, 2022 or 2021.

Related-Party Transactions

The System has a policy regarding the identification and disclosure of any transactions with related parties. During the years ended December 31, 2022 and 2021, the System has no material related party transactions.

(In Thousands)

2. Concentration of Credit Risk

The System's primary purpose is to provide health care services. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The following schedule summarizes the mix of patient accounts receivable at December 31:

	2022	2021
Medicare	**32%**	29%
Commercial and other third party	**47**	53
Medicaid	**11**	11
Self-pay	**10**	7
	100%	100%

3. Assets Whose Use Is Limited

The following schedule summarizes assets whose use is limited at December 31:

	2022	2021
Money market funds	**$ 7,208**	$ 8,663
U.S. government debt securities	**378**	418
U.S. government agency debt securities	**274**	361
Corporate debt securities, including asset-backed securities	**1,357**	1,522
Domestic equity securities	**3,010**	28,174
Mutual funds	**4,104**	4,999
Common collective trust funds	**930,734**	1,092,191
	947,065	1,136,328
Less current portion of assets whose use is limited	**5,293**	5,146
	$ 941,772	$ 1,131,182

The System maintains diversification in its assets whose use is limited by allocating the assets to various asset classes and market segments and retains multiple professional investment firms with differing investment approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit at December 31, 2022 or 2021.

(In Thousands)

3. Assets Whose Use Is Limited (continued)

Interest and dividend earnings, net realized (losses) gains on investments, and the net change in unrealized (losses) gains on investments are considered investment (loss) income.

Investment (loss) income is recorded in different consolidated financial statement lines on the consolidated statements of operations and changes in net assets based on the nature of the activities that the investment (loss) income supports or impacts.

The following are details of where investment (loss) income is recorded for the years ended December 31:

	2022	**2021**
Other revenue	**$ 3,127**	$ 4,745
Other, primarily investment (loss) income	**(182,565)**	131,442
	$ (179,438)	$ 136,187

4. Property and Equipment, Net

The following schedule summarizes property and equipment, net at December 31:

	2022	**2021**
Land improvements	**$ 85,050**	$ 81,105
Buildings and fixed equipment	**1,597,390**	1,511,048
Movable equipment	**797,726**	743,890
	2,480,166	2,336,043
Less accumulated depreciation	**(1,487,541)**	(1,386,691)
	992,625	949,352
Construction-in-progress	**74,071**	74,962
Land	**148,042**	143,957
	$ 1,214,738	$ 1,168,271

4. Property and Equipment, Net (continued)

Total depreciation and amortization expense recorded in the consolidated statements of operations and changes in net assets includes $120,403 and $120,192 depreciation expense for the years ended December 31, 2022 and 2021, respectively, and $2,399 and $1,227 amortization expense related to finance leases for the years ended December 31, 2022 and 2021, respectively.

Computer software costs are $127,175 and $126,512 at December 31, 2022 and 2021, respectively, and are included in movable equipment. The accumulated depreciation related to computer software is $124,931 and $121,462 at December 31, 2022 and 2021, respectively. The amount depreciated for the years ended December 31, 2022 and 2021, related to computer software costs is $3,469 and $8,495, respectively, and is included in depreciation expense and amortization in the consolidated statements of operations and changes in net assets.

Select property and equipment purchased prior to year-end are excluded from the additions to property and equipment in the consolidated statements of cash flows, as cash payment was not made at the end of the year. These excluded additions at December 31, 2022 and 2021, are $7,555 and $21,066, respectively.

(In Thousands)

5. Long-Term Debt

The following is a summary of the System's long-term debt at December 31:

	2022	2021
Hospital Facilities Revenue Bonds, Series 1996, with fixed rates ranging from 5.50% to 6.25%, due in installments from 2009 through 2026, net of unamortized bond discount of $98 ($155 in 2021) and unamortized issuance costs of $55 ($86 in 2021)	**$ 21,618**	$ 26,265
Hospital Facilities Revenue Bonds, Series 2011A, with a variable rate of 0.51% at December 31, 2021, due in installments from 2012 through 2022, net of unamortized issuance costs of $0 ($2 in 2021)	**–**	9,823
Hospital Facilities Revenue Bonds, Series 2011B, with a variable rate of 4.28% (0.72% at December 31, 2021), due in installments from 2027 through 2047, net of unamortized issuance costs of $123 ($131 in 2021)	**93,452**	93,444
Hospital Facilities Revenue Bonds, Series 2012, with fixed rates ranging from 4.75% to 5.25%, due in installments from 2023 through 2047, net of unamortized bond premium of $824 ($876 in 2021) and unamortized issuance costs of $296 ($315 in 2021)	**93,867**	93,901
Hospital Facilities Revenue Bonds, Series 2016, with a fixed rate of 4.00%, due in installments from 2042 through 2047, net of unamortized bond premium of $2,413 ($2,522 in 2021) and unamortized issuance costs of $727 ($760 in 2021)	**101,686**	101,762
Hospital Facilities Revenue Bonds, Series 2019, with a fixed rate of 5.00%, due in installments from 2023 through 2049, net of unamortized bond premium of $16,775 ($18,197 in 2021) and unamortized issuance costs of $1,125 ($1,185 in 2021)	**215,650**	217,011
Hospital Facilities Revenue Bonds, Series 2021, with fixed rates ranging from 3.00% to 5.00%, due in installments from 2023 through 2051, net of unamortized bond premium of $25,826 ($28,357 in 2021) and unamortized issuance costs of $1,212 ($1,277 in 2021)	**197,254**	199,720
Total Hospital Facilities Revenue Bonds	**723,527**	741,926
Other notes payable	**2,238**	4,559
	725,765	746,485
Less current portion of long-term debt	**(12,843)**	(18,425)
	$ 712,922	$ 728,060

(In Thousands)

5. Long-Term Debt (continued)

The following is a schedule of aggregate future minimum payments for principal repayment (inclusive of discount or premium amortization and debt issuance costs) for all long-term debt based on scheduled maturities:

2023	$ 16,606
2024	15,759
2025	15,935
2026	16,317
2027	16,479
Thereafter through 2052	644,669
	$ 725,765

Unamortized debt issuance costs of $3,538 and $3,756 at December 31, 2022 and 2021, respectively, represent costs related to the issuance of hospital facilities revenue bonds and are included as a reduction of long-term debt. The issuance costs are being amortized over the terms of the related long-term debt at amounts approximating the effective interest method.

Interest payments of $24,163 and $22,569 were made during the years ended December 31, 2022 and 2021, respectively.

In February 2021, the System issued $172,640 in Hospital Facilities Improvement and Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). The Series 2021 Bonds were sold at a premium of $30,609 and had $1,336 of associated bond issuance costs. The proceeds from the sale of the Series 2021 Bonds will be used to finance the cost of certain healthcare facilities and refund previously issued tax-exempt bond obligations. Certain proceeds from the Series 2021 Bonds were used to refund County of Butler, Ohio Hospital Facilities Revenue Bonds, Series 2011 Bonds, in the amount of $155,430. As a result of the refund, a loss on early extinguishment of debt of $4,554 was recorded during the year ended December 31, 2021.

The Series 2011B Hospital Facilities Revenue Bonds are subject to redemption clauses and are held by RBC Capital Markets through a private placement agreement. The Series 2011B commitment expires March 1, 2026, and, accordingly, the Series 2011B Hospital Facilities Revenue Bonds are classified as long-term debt based on the scheduled amortization.

5. Long-Term Debt (continued)

Outstanding long-term debt insured under municipal bond insurance policies is $21,618 and $26,265 at December 31, 2022 and 2021, respectively. Under the terms of these policies, the insurer guarantees the System's payment of principal and interest. The Obligated Group is liable for all long-term debt issued under an Obligated Group Master Trust Indenture and has pledged gross revenue as security to the bondholders. The Obligated Group is subject to certain covenants under its Master Trust Indenture. The System is in compliance with these covenants at December 31, 2022 and 2021.

KAH had a line of credit with a limit of $100,000 at both December 31, 2022 and 2021, to provide working capital for various operations. Interest was payable monthly on any outstanding balance. The balance outstanding was $0 at both December 31, 2022 and 2021.

6. Interest Rate Swap Agreements

The System has entered into derivative transactions in the form of interest rate swap agreements, which it uses to manage the relative amounts of its fixed and variable rate long-term debt exposure and lower its overall borrowing costs. The interest rate swap agreements are contracts between the System and a third-party (counterparty) that provide for economic payments between parties based on changes in notional amounts and defined interest rates. The risk of interest rate swap agreements is estimated and managed on an ongoing basis by the System. The interest rate swap agreements provide counterparty credit risk. This is the risk that the contractual obligations of the counterparty will not be fulfilled. Certain collateralization requirements mitigate credit risk associated with the System's interest rate swap agreements.

(In Thousands)

6. Interest Rate Swap Agreements (continued)

The following schedule includes the notional and valuation amounts (parenthetical amounts represent liabilities) of the System's interest rate swap agreements at December 31:

Interest Rate Swap Agreements	Transaction Type	Interest Rate	Termination Date	Notional Amount 2022	Notional Amount 2021	Valuation Amount 2022	Valuation Amount 2021
October 2005	Pay fixed	SIFMA	2022	**$ –**	$ 9,825	**$ –**	$ 3
March 2006	Pay fixed	LIBOR	2026	**21,770**	26,505	**(600)**	(2,429)
October 2007	Pay fixed	LIBOR	2047	**94,240**	94,240	**(11,173)**	(32,707)
December 2008	Pay variable	SIFMA/ LIBOR	2022	**–**	9,825	**–**	(96)
May 2012	Pay variable	SIFMA	2026	**20,140**	20,140	**(22)**	215
May 2012	Pay variable	SIFMA	2026	**20,545**	20,545	**(120)**	111
May 2012	Pay variable	SIFMA	2026	**23,970**	23,970	**49**	333
May 2012	Pay variable	SIFMA	2026	**28,685**	28,685	**(140)**	206
May 2019	Pay variable	SIFMA	2025	**21,770**	26,505	**351**	706
						$ (11,655)	$ (33,658)

All changes in the fair value of the System's interest rate swap agreements are recognized in other income (loss) in the consolidated statements of operations and changes in net assets. The following is the detail of gain on interest rate swap agreements for the years ended December 31:

	2022	2021
Unrealized gains, net	**$ 22,812**	$ 8,447
Hedge de-designation impact	**4**	19
Settlements/realized losses	**(3,161)**	(5,012)
	$ 19,655	$ 3,454

Net payments from the counterparty of $3,983 and $5,579 for the years ended December 31, 2022 and 2021, respectively, are excluded from gain on interest rate swap agreements and included as a decrease in interest expense on the consolidated statements of operations and changes in net assets.

6. Interest Rate Swap Agreements (continued)

All the System's interest rate swap agreements include provisions that require collateralization of the market value of the interest rate swap agreements that exceed certain thresholds. The amount required for collateral is determined monthly based on the current market value of the interest rate swap agreements. All the System's interest rate swap agreements outstanding at December 31, 2022 and 2021, were issued pursuant to a single International Swaps and Derivatives Association, Inc. (ISDA) agreement with a single counterparty. Therefore, all interest rate swap agreements are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the System. Collateral of $0 and $1,619 was required at December 31, 2022 and 2021, respectively, and is recorded within trustee-held assets in assets who use is limited in the consolidated balance sheets, if necessary.

7. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for current assets and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be recorded at fair value on a recurring basis and, therefore, are not disclosed in the accompanying table under ASC 820.

(In Thousands)

7. Fair Value Measurements (continued)

The following tables represent the financial instruments measured at fair value, by asset class on the consolidated balance sheets, under the fair value hierarchy at December 31:

	2022				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Assets					
Cash and cash equivalents	**$ 21,867**	**$ –**	**$ –**	**$ –**	**$ 21,867**
Marketable securities:					
Money market funds	**54,213**	**–**	**–**	**–**	**54,213**
Marketable debt securities:					
Municipal debt securities	**–**	**23,768**	**–**	**–**	**23,768**
U.S. government debt securities	**14,976**				**14, 976**
U.S. government agency debt securities		**21,425**	**–**	**–**	**21,425**
Corporate asset-backed securities	**–**	**889**	**–**	**–**	**889**
Corporate debt securities	**–**	**39,453**	**–**	**–**	**39,453**
Domestic equity securities	**21,259**				**21,259**
Mutual funds:					
Equity	**56,806**	**–**	**–**	**–**	**56,806**
Total marketable securities	**147,254**	**85,535**	**–**	**–**	**232,789**
Assets whose use is limited:					
Money market funds	**7,208**	**–**	**–**	**–**	**7,208**
Marketable debt securities:					
U.S. government debt securities	**378**	**–**	**–**	**–**	**378**
U.S. government agency debt securities	**–**	**274**	**–**	**–**	**274**
Corporate debt securities	**–**	**1,357**	**–**	**–**	**1,357**
Domestic equity securities	**3,010**	**–**	**–**	**–**	**3,010**
Mutual funds:					
Equity	**2,554**	**–**	**–**	**–**	**2,554**
Debt	**1,550**	**–**	**–**	**–**	**1,550**
Common collective trust funds:					
Domestic equity	**–**	**–**	**–**	**401,279**	**401,279**
International equity	**–**	**–**	**–**	**146,972**	**146,972**
Fixed income	**–**	**–**	**–**	**382,483**	**382,483**
Total assets whose use is limited	**14,700**	**1,631**	**–**	**930,734**	**947,065**
Retirement plans assets	**47,818**	**–**	**–**	**–**	**47,818**
Total assets at fair value	**$ 231,639**	**$ 87,166**	**$ –**	**$ 930,734**	**$ 1,249,539**
Liabilities					
Interest rate swap agreements liability	**$ –**	**$ –**	**$ 11,655**	**$ –**	**$ 11,655**
Total liabilities at fair value	**$ –**	**$ –**	**$ 11,655**	**$ –**	**$ 11,655**

(In Thousands)

7. Fair Value Measurements (continued)

	2021				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Assets					
Cash and cash equivalents	$ 84,678	$ –	$ –	$ –	$ 84,678
Marketable securities:					
Money market funds	141,364	–	–	–	141,364
Marketable debt securities:					
Municipal debt securities	–	29,323	–	–	29,323
U.S. government agency debt securities	–	19,868	–	–	19,868
Corporate asset-backed securities	–	30,291	–	–	30,291
Corporate debt securities	–	79,191	–	–	79,191
Mutual funds:					
Equity	75,439	–	–	–	75,439
Total marketable securities	216,803	158,673	–	–	375,476
Assets whose use is limited:					
Money market funds	8,663	–	–	–	8,663
Marketable debt securities:					
U.S. government debt securities	418	–	–	–	418
U.S. government agency debt securities	–	361	–	–	361
Corporate debt securities	–	1,522	–	–	1,522
Domestic equity securities	28,174	–	–	–	28,174
Mutual funds:					
Equity	3,100	–	–	–	3,100
Debt	1,899	–	–	–	1,899
Common collective trust funds:					
Domestic equity	–	–	–	492,374	492,374
International equity	–	–	–	171,714	171,714
Fixed income	–	–	–	428,103	428,103
Total assets whose use is limited	42,254	1,883	–	1,092,191	1,136,328
Retirement plans assets	54,656	–	–	–	54,656
Total assets at fair value	$ 398,391	$ 160,556	$ –	$ 1,092,191	$ 1,651,138
Liabilities					
Interest rate swap agreements liability	$ –	$ –	$ 33,658	$ –	$ 33,658
Total liabilities at fair value	$ –	$ –	$ 33,658	$ –	$ 33,658

7. Fair Value Measurements (continued)

The following table represents financial instruments at fair value and at other than fair value that reconcile to the consolidated balance sheets of the System at December 31:

	2022			2021		
	Financial Instruments at Fair Value	Financial Instruments at Other Than Fair Value	Total	Financial Instruments at Fair Value	Financial Instruments at Other Than Fair Value	Total
Assets						
Retirement plan assets	**$ 47,818**	$ –	**$ 47,818**	$ 54,656	$ 5,536	$ 60,192

Cash and Cash Equivalents, Marketable Securities, and Assets Whose Use Is Limited

The System's cash and cash equivalents, marketable securities, and assets whose use is limited are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable debt securities, is based on quoting prices for securities with similar coupons, ratings, and maturities rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most U.S. government debt securities, domestic equity securities, mutual funds, and certain money market funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The System does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include U.S. government agency debt securities, municipal debt securities, corporate asset-backed securities, and corporate debt securities. Such financial instruments are generally classified within Level 2 for the fair market value hierarchy. Primarily all the System's marketable debt securities, including corporate asset-backed obligations, are actively traded, and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

(In Thousands)

7. Fair Value Measurements (continued)

Following is the summary of the inputs and techniques as of December 31, 2022 and 2021, used for valuing Level 2 securities in the portfolio:

Securities	Input	Technique
Municipal debt securities	Broker/dealer	Market
U.S. government agency debt securities	Broker/dealer	Market
Corporate asset-backed securities	Broker/dealer	Market/income
Corporate debt securities	Broker/dealer	Market/income

The CCTs are valued at net asset value (NAV), as a practical expedient, provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CCTs at December 31, 2022 and 2021, because the CCTs are audited and accounted for at fair value by the administrators of the respective CCTs. The underlying assets in the System's CCTs consist primarily of marketable debt and equity securities based on the respective fund administrator's investment strategy. There are no significant restrictions on the ability of the System to redeem any of the CCTs at December 31, 2022 or 2021.

Retirement Plans Assets

The retirement plans assets represent the assets associated with the Supplemental Retirement Allowance Plan, 457(b) Eligible Deferred Compensation Plan, and, as of December 31, 2021, the Grandview Defined Benefit Pension Plan discussed in Note 8. The retirement plans assets, excluding the Grandview Defined Benefit Pension Plan, are classified within Level 1 of the fair value hierarchy as the underlying assets generally consisting of mutual funds which primarily invest in marketable equity and debt securities.

Interest Rate Swap Agreements

The System participates in interest rate swap agreements to manage its exposure to fluctuations in interest rates and manage its overall long-term debt portfolio. The System's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the respective fixed rates and the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets

(In Thousands)

7. Fair Value Measurements (continued)

Association (SIFMA) yield curve adjusted for the spread between the LIBOR (or SIFMA) yield curve and the federal funds rate for collateralized portions of the liability. The valuation of the System's interest rate swap agreements is performed by the System's counterparty and validated using an independent third-party valuation, including the unobservable inputs used in the calculation. Management monitors the changes in the System's interest rate swap agreements period to period and ensures all significant changes are disclosed in the consolidated financial statements.

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

Interest Rate Swap Agreement	Variable Rate Curve		Fixed Rate		Discount Rate	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
October 2005	**N/A**	SIFMA	**N/A**	3.99%	**N/A**	LIBOR curve
March 2006	**LIBOR**	LIBOR	**4.48%**	4.48%	**LIBOR curve**	LIBOR curve
October 2007	**LIBOR**	LIBOR	**3.57%**	3.57%	**LIBOR curve**	LIBOR curve
December 2008	**N/A**	SIFMA / LIBOR	**N/A**	N/A	**N/A**	LIBOR curve
May 2012	**SIFMA**	SIFMA	**5.00%**	5.00%	**N/A**	N/A
May 2012	**SIFMA**	SIFMA	**4.75%**	4.75%	**N/A**	N/A
May 2012	**SIFMA**	SIFMA	**5.00%**	5.00%	**N/A**	N/A
May 2012	**SIFMA**	SIFMA	**5.25%**	5.25%	**N/A**	N/A
May 2019	**SIFMA**	SIFMA	**5.50%**	5.50%	**N/A**	N/A

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreements, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although the System has determined that certain of the inputs used to value its interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the System or the counterparty. As a result, the System has determined that its interest rate swap

(In Thousands)

7. Fair Value Measurements (continued)

agreements in their entirety are classified in Level 3 of the fair value hierarchy. Increases (decreases) in any of those inputs, specifically assumptions related to the LIBOR or SIFMA curves, in isolation would result in higher (lower) fair value measurement that could be material to the consolidated financial statements. However, based on historical experience, the inputs, including the LIBOR and SIFMA curves, typically change gradually over time.

The following table is a roll forward of the amounts included in the consolidated balance sheets for interest rate swap agreements classified within Level 3 of the fair value hierarchy, as defined in Note 1:

Fair value at January 1, 2021	$ 42,175
Unrealized losses	24
Unrealized gains	(8,472)
Settlement gain	(69)
Fair value at December 31, 2021	33,658
Unrealized losses	**365**
Unrealized gains	**(23,178)**
Settlement loss	**810**
Fair value at December 31, 2022	**$ 11,655**

All realized and unrealized (gains) losses on interest rate swap agreements are included in the consolidated statements of operations and changes in net assets as other income (loss).

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

8. Retirement Plans

The System sponsors certain retirement plans, as defined in the following paragraphs, for the benefit of select employees. These retirement plans require the System to record assets and/or liabilities for the future benefit of these employees.

(In Thousands)

8. Retirement Plans (continued)

Amounts recorded in the consolidated balance sheets related to retirement plans are as follows at December 31:

	Retirement Plans Assets		Retirement Plan Liabilities	
	2022	**2021**	**2022**	**2021**
Supplemental Retirement Allowance Plan	**$ 2,964**	$ 3,571	**$ 2,964**	$ 3,571
457(b) Eligible Deferred Compensation Plan	**44,854**	51,085	**44,854**	51,085
Grandview Defined Benefit Pension Plan	**–**	5,536	**–**	–
	$ 47,818	$ 60,192	**$ 47,818**	$ 54,656

Kettering Medical Center Retirement Plan

On January 1, 1992, KAH initiated a defined contribution plan known as Kettering Medical Center Retirement Plan (the Kettering Plan). On January 1, 2001, the Kettering Plan, a church plan, was expanded to include Kettering Health Dayton System. The System provides a discretionary matching employer contribution for eligible employee contributions up to 25% of the first 4% of an employee's total pay. Employees must have completed 1,000 worked hours in an eligible year to qualify for the System's contributions. In 2022, the System recognized $30,501 ($32,139 in 2021) of expense related to the Kettering Plan, which is included in employee benefits in the consolidated statements of operations and changes in net assets.

Kettering Defined Benefit Retirement and Health Care Benefit Plans

Certain employees of Kettering Medical Center participated in noncontributory, defined benefit retirement and health care benefit plans (the Plans). The Plans were frozen effective December 31, 1991. The Plans are multi-employer plans administered by the General Conference of Seventh-day Adventists and cover substantially all full-time employees who were at least 20 years of age at December 31, 1991. The Plans are exempt from compliance with the Employee Retirement Income Security Act of 1974 (ERISA).

8. Retirement Plans (continued)

Contributions to the Plans are determined by the Plans' administrators and generally approximate funding levels recommended by consulting actuaries. Although there is no liability to Kettering Health Main Campus System upon withdrawal from the Plans, withdrawal by other participating entities would likely increase amounts assessed to Kettering Health Main Campus System and other remaining participants in future years. Management believes that any withdrawal liability will not have a material impact on the consolidated financial statements. Contributions are allocated to participating organizations based upon total employee hours paid in 1991. There were no contributions in 2022 or 2021.

Supplemental Retirement Plan

The Supplemental Retirement Allowance Plan is a nonqualified deferred compensation plan maintained for certain employees of the System and its affiliates. It is a defined contribution plan that provides periodic vesting opportunities through age 65 and is subject to forfeiture.

457(b) Eligible Deferred Compensation Plan

The purpose of the 457(b) Eligible Deferred Compensation Plan (the 457(b) Plan) is to enable eligible employees, as defined by the 457(b) Plan documents, to enhance their retirement security by permitting them to enter into agreements with the System to defer a portion of their compensation and receive benefits generally at separation of employment, retirement, death, or in the event of financial hardship due to unforeseeable emergencies.

The 457(b) Plan meets the requirements of Section 457(b) of the IRC, as amended. In addition, the 457(b) Plan meets the definition of a "church plan" and, as a result, is exempt from ERISA and from certain requirements of the IRC.

8. Retirement Plans (continued)

Grandview Defined Benefit Pension Plan

Kettering Health Dayton System sponsored a defined benefit pension plan (the Grandview Plan) that covered substantially all its employees on record as of December 31, 2000. Effective January 1, 2001, the Grandview Plan was frozen, and, as a result, no service cost was incurred during the years ended December 31, 2022 or 2021. On July 1, 2021, the Grandview Plan was terminated. A lump sum benefit payment option was offered to participants. The lump sum offering window closed in April 2022. In June 2022, the remaining assets of the Grandview Plan were used to purchase annuities to support the remaining obligation. As a result of the termination and liquidation, the System recognized $14,531 as a loss on the settlement of the Grandview Plan for the year ended December 31, 2022, which is included in other, primarily investment (loss) income in the consolidated statement of operations and changes in net assets.

The benefits were based on years of service and compensation during employment, subject to maximum limitations. When applicable, The System's funding policy was to contribute amounts to the Grandview Plan at least equal to the minimum ERISA funding requirements. No contributions were required as a part of the termination in 2022. The System contributed $4,900 to the Grandview Plan in 2021.

(In Thousands)

8. Retirement Plans (continued)

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

	2022	2021
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 49,945**	$ 54,042
Interest cost	**641**	1,181
Actuarial loss	**(2,690)**	(2,090)
Benefits paid	**(47,896)**	(3,188)
Benefit obligation at end of year	**–**	49,945
Change in plan assets		
Fair value of plan assets at beginning of year	**55,481**	49,986
Actual return on plan assets	**(7,585)**	3,783
Employer contributions	**–**	4,900
Benefits paid	**(47,896)**	(3,188)
Fair value of plan assets at end of year	**–**	55,481
Over funded status	**$ –**	$ 5,536

The System recognized in its consolidated balance sheets the overfunded status of the Grandview Plan, measured as the difference between the fair value of plan assets and the benefit obligation until liquidation in 2022. The System recognized the change in the funded status of the Grandview Plan in the year in which the change occurred through net assets without donor restrictions.

There was no difference between the projected benefit obligation and accumulated benefit obligation at December 31, 2021. There is no longer any projected benefit obligation or accumulated benefit obligation upon liquidation of the Grandview Plan in 2022.

(In Thousands)

8. Retirement Plans (continued)

Included in net assets without donor restrictions are the following amounts that had not yet been recognized in net periodic pension benefit for the Grandview Plan as of December 31, 2021:

Net actuarial loss	$	8,669
Accumulated excess of employer contributions over net periodic pension expense		(14,205)
	$	(5,536)

The net actuarial loss was amortized as a component of net periodic pension expense (benefit) only if losses exceeded 10% of the greater of the projected benefit obligation or the fair value of plan assets.

The following amounts related to Grandview Plan activity have been recognized as an increase in net assets without donor restrictions for the years ended December 31:

		2022		**2021**
Net actuarial gain (loss)	**$**	**–**	$	2,878
Amortization or recognition of net actuarial loss		**8,530**		1,060
	$	**8,530**	$	3,938

The following table summarizes the components of net periodic pension expense (benefit), which is included in employee benefits on the consolidated statements of operations and changes in net assets, for the Grandview Plan for the years ended December 31:

		2022		**2021**
Interest cost	**$**	**641**	$	1,181
Expected return on plan assets		**(809)**		(2,997)
Amortization of net actuarial loss		**243**		1,061
	$	**75**	$	(755)

(In Thousands)

8. Retirement Plans (continued)

The following table summarizes the weighted average assumptions used to determine the projected benefit obligation for the Grandview Plan as of December 31, 2021:

Discount rate	2.65%
Mortality table	MP-2021

The following table summarizes the weighted average assumptions used to determine net periodic pension expense (benefit) for the years ended December 31:

	2022	**2021**
Discount rate	**2.25%**	2.25%
Expected return on plan assets	**N/A**	6.00

In selecting the expected long-term return on plan assets, the System historically considered the average rate of earnings on the funds invested or to be invested to provide for the benefit obligation of the Grandview Plan. This included considering the Grandview Plan's asset allocation and the expected returns likely to be earned over the life of the Grandview Plan.

The following is a summary of the fair value of the Grandview Plan's plan assets by category at December 31, 2021:

Money market funds	$ 1,308
Marketable debt securities:	
Corporate debt securities	53,593
Foreign debt securities	580
	$ 55,481

(In Thousands)

8. Retirement Plans (continued)

The strategic allocation of the Grandview Plan's assets crossed three defined financial asset classes providing the most significant determinant of long-term investment returns and asset value stability. Asset allocation decisions were based on the returns and risks relative to the liability, an approach commonly referred to as liability-driven investing.

The following is a summary of the Grandview Plan's plan assets measured at fair value on a recurring basis based on the fair value hierarchy at:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 1,058	$ –	$ 250	$ 1,308
Marketable debt securities:				
Corporate debt securities	–	53,593	–	53,593
Foreign debt securities	–	–	580	580
	$ 1,058	$ 53,593	$ 830	$ 55,481

The fair value methodologies for money market funds and marketable debt securities included in Levels 1 and 2 of the fair value hierarchy above are consistent with the inputs described in Note 7.

9. Commitments and Contingencies

Litigation

The System is involved in litigation arising in the ordinary course of business. It is not possible to determine the eventual outcome of any presently unresolved litigation. However, in the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect to the system's consolidated financial position or results of operations.

(In Thousands)

9. Commitments and Contingencies (continued)

General and Professional Liability

The System is self-insured for professional and general liability losses through an irrevocable trust. Losses from asserted claims and unasserted claims identified under the System's incident reporting system are accrued based on estimates that incorporate the System's historical experience as well as other considerations, including the nature of each claim or incident. An accrual has been made for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system. An actuary has been engaged to determine the appropriate liability to be recorded. The liability for all identified and unidentified claims was estimated as the present value of the future claim payments using a discount rate of 4.67% and 0.84% at December 31, 2022 and 2021, respectively. In the opinion of management, the reserve for professional and general liability losses is adequate to provide for any liabilities arising from these claims within the self-insurance retention levels.

10. Leases

The System has operating and finance leases for real estate, personal property, and equipment.

The following table presents the components of net lease expense for the years ended December 31:

	2022	2021
Operating lease expense	**$ 10,758**	$ 11,569
Finance leases:		
Amortization of right-of-use assets	**2,399**	1,227
Interest on finance lease liabilities	**567**	479
Total finance lease expense	**2,966**	1,706
Short-term and variable lease expense	**6,216**	4,670
Less sublease income	**(810)**	(841)
Net lease expense	**$ 19,130**	$ 17,104

(In Thousands)

10. Leases (continued)

The following table presents the components of the System's right-of-use assets, net and liabilities related to leases and their classification in the consolidated balance sheets at December 31:

		2022	2021
Assets:			
Operating leases	Operating lease right-of-use assets, net	**$ 46,013**	$ 44,343
Finance leases	Property and equipment, net	**5,032**	4,936
Total lease right-of-use assets, net		**$ 51,045**	$ 49,279
Liabilities:			
Current:			
Operating leases	Other accrued liabilities	**$ 9,435**	$ 8,069
Finance leases	Other accrued liabilities	**1,468**	1,269
Non-current:			
Operating leases	Operating lease liabilities, net of current portion	**37,862**	36,177
Finance leases	Other long-term liabilities	**6,488**	6,836
Total lease liabilities		**$ 55,253**	$ 52,351

Other information related to leases for the years ended December 31, is as follows:

	2022	2021
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 9,615**	$ 11,240
Operating cash flows from finance leases	**2,623**	1,256
Right-of-use assets obtained in exchange for new lease obligations		
Operating leases	**7,367**	3,490
Finance leases	**2,495**	652
Weighted average remaining lease term (in years)		
Operating leases	**7.04**	7.58
Finance leases	**6.45**	7.65
Weighted average discount rate		
Operating leases	**2.23%**	1.98%
Finance leases	**5.61%**	5.70%

(In Thousands)

10. Leases (continued)

The aggregate future lease payments for operating and finance leases as of December 31, 2022, are as follows:

	Operating	Finance
2023	$ 10,358	$ 1,867
2024	8,299	1,774
2025	6,933	1,297
2026	5,858	1,298
2027	4,598	1,045
Thereafter	15,028	2,438
Total lease payments	51,074	9,719
Less interest	3,777	1,763
Total lease liabilities	47,297	7,956
Less current portion	9,435	1,468
Long-term lease liabilities	$ 37,862	$ 6,488

11. Functional Expenses

The tables below present expenses by both their nature and function for the years ended December 31:

	2022			
	Healthcare Services	**Education**	**General and Administrative**	**Total**
Salaries and wages	**$ 1,063,759**	**$ 10,835**	**$ 112,859**	**$ 1,187,453**
Employee benefits	**181,307**	**3,150**	**19,236**	**203,693**
Supplies and other	**546,037**	**2,333**	**78,169**	**626,539**
Purchased services	**209,925**	**2,428**	**91,046**	**303,399**
Depreciation	**107,600**	**747**	**14,455**	**122,802**
Interest	**533**	**–**	**20,656**	**21,189**
	$ 2,109,161	**$ 19,493**	**$ 336,421**	**$ 2,465,075**

(In Thousands)

11. Functional Expenses (continued)

	2021			
	Healthcare Services	Education	General and Administrative	Total
Salaries and wages	$ 954,690	$ 10,073	$ 150,818	$ 1,115,581
Employee benefits	178,108	2,881	28,137	209,126
Supplies and other	514,917	3,191	68,373	586,481
Purchased services	189,772	1,893	75,691	267,356
Depreciation	102,440	498	18,481	121,419
Interest	606	–	18,673	19,279
	$ 1,940,533	$ 18,536	$ 360,173	$ 2,319,242

(In Thousands)

12. Financial Assets and Liquidity

As a business-oriented not-for-profit that is not solely dependent on donor contributions, the capital needs of the System and operating budgets are coordinated so that anticipated cash needs are provided by current cash flow from operations. The table below represents financial assets and liquidity resources available for general expenditures within one year from the consolidated balance sheet date at December 31:

	2022	2021
Financial assets:		
Cash and cash equivalents	**$ 21,867**	$ 84,678
Marketable securities	**232,789**	375,476
Current portion of assets whose use is limited	**5,293**	5,146
Patient accounts receivable	**262,080**	292,253
Other receivables	**59,884**	26,485
Assets limited as to use	**941,772**	1,131,182
Total financial assets	**1,523,685**	1,915,220
Liquidity resource:		
Unused bank lines of credit	**100,000**	100,000
Less amounts not available within one year or not designated for general expenditures:		
Donor or agency restricted	**(21,130)**	(20,080)
Trustee-held assets	**(2,809)**	(4,770)
Financial assets not available for use within one year	**(23,939)**	(24,850)
Financial assets and liquidity resources available for general expenditures within one year	**$ 1,599,746**	$ 1,990,370

The System defines general expenditures as the normal expenditures related to operations of the System, excluding capital expenditures.

13. COVID-19 Pandemic

The global viral outbreak caused by coronavirus disease 2019 (COVID-19) resulted in a national public health emergency. There have been resulting effects in the economy generally and the health care industry specifically that have and will continue to impact the System's financial condition. During 2022 and 2021, the U.S. government issued legislation to authorize funding to healthcare providers to prevent, prepare for, and respond to COVID-19, and to reimburse the recipient for healthcare-related expenses and lost revenues attributable to COVID-19. Additionally, funds were available to reimburse providers for COVID-19-related treatment of uninsured patients. The System has recognized revenue from payments received under these pieces of legislation when related conditions have been substantially met.

Provider Relief Funds

Payments from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and American Rescue Plan Act of 2021 (ARP) Provider Relief Funds were intended to compensate health care providers for expenses or lost revenues that are attributable to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funds to reimburse expenses or losses that other sources are obligated to reimburse.

The System received $28,222 from the Department of Health and Human Services (HHS) as part of the Provider Relief Funds during the year ended December 31, 2021, of which $14,882 and $13,340 was recognized as other revenue in the consolidated statements of operations and changes in net assets for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, $300 and $15,237, respectively, is recorded as a refundable advance in other accrued liabilities on the consolidated balance sheets. Certain terms and conditions under the CARES Act and ARP are subject to further refinement and changes. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund programs. If unable to attest to or comply with current or future terms and conditions, the ability of the System to retain some or all the distributions received may be impacted.

13. COVID-19 Pandemic (continued)

Medicare Accelerated and Advance Payment Program

The System received $151,663 in advance payments from CMS in 2020 as part of the Medicare Accelerated and Advance Payments Program. CMS began recouping the advance payment one year after receipt of the payment, and any remaining balance due 29 months after receipt would be repaid subject to interest on the outstanding balance. A total of $94,406 was recouped and recognized as net patient service revenue during the year ended December 31, 2022. The remaining balance is $0 at December 31, 2022. A total of $57,257 was recouped and recognized as net patient service revenue during the year ended December 31, 2021. A total of $75,548 was estimated to be recouped within one year of December 31, 2021, and was recorded as a contract liability in other accrued liabilities on the consolidated balance sheets at December 31, 2021. The remaining $18,858 was recorded as a contract liability in other long-term liabilities on the consolidated balance sheets at December 31, 2021, and was recouped early during the year ended December 31, 2022.

Employer Payroll Tax Deferral

The CARES Act allowed for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with half of the deferred amount due December 31, 2021, and the remaining half due December 31, 2022. The System began deferring payment of its share of the social security payroll tax in April 2020 and $15,562 and $15,680 of payments were made during the years ended December 31, 2022 and 2021, respectively. There is no remaining balance at December 31, 2022. As of December 31, 2021, the System had deferred $15,562, which was recorded in payroll-related liabilities on the consolidated balance sheets.

(In Thousands)

14. U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education as of and for the year ended December 31, 2022.

Net assets with donor restrictions	**$ 22,154**
Net assets with donor restrictions – restricted in perpetuity	7,192
Net assets with donor restrictions – annuities	190
Net assets with donor restrictions – other for purpose or time	14,772
Property and equipment, net (including construction-in-progress and finance leases)	**1,214,738**
Property and equipment, net – pre-implementation (includes finance leases)	538,932
Property and equipment, net – post-implementation without outstanding debt for original purpose	601,735
Construction-in-progress	74,071
Operating lease right-of-use asset, net	**46,013**
Lease right-of-use asset pre-implementation	37,210
Lease right-of-use asset post-implementation	8,803
Lease right-of-use liability	**55,253**
Lease right-of-use liability pre-implementation	44,762
Lease right-of-use liability post-implementation	10,491
Goodwill and intangible assets, net	**13,316**
Net post-employment and retirement benefits	**47,818**
Long-term debt – for long-term purposes (includes current portion)	**725,765**
Long-term debt for long term-purposes pre-implementation	311,369
Long-term debt for long term-purposes post-implementation	414,396

15. Subsequent Events

The System has evaluated and disclosed any subsequent events through April 14, 2023, which is the date the consolidated financial statements were issued and made publicly available.

Supplementary Information

Kettering Health

Consolidating Balance Sheet – Assets
(In Thousands)

December 31, 2022

	Obligated Group	Other Entities	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 15,341	$ 6,526	$ –	$ 21,867
Marketable securities	232,789	–	–	232,789
Current portion of assets whose use is limited	5,293	–	–	5,293
Net patient accounts receivable	224,171	47,752	(9,843)	262,080
Other receivables	46,208	15,910	(2,234)	59,884
Inventories	33,460	12,912	–	46,372
Prepaid expenses and other current assets	163	17,731	–	17,894
Total current assets	557,425	100,831	(12,077)	646,179
Assets whose use is limited:				
Board designated	914,459	3,374	–	917,833
Donor or agency restricted	69	21,061	–	21,130
Trustee-held assets	–	2,809	–	2,809
Total assets whose use is limited	914,528	27,244	–	941,772
Retirement plans assets	–	47,818	–	47,818
Intrasystem financing receivables	469,868	–	(469,868)	–
Operating lease right-of-use assets, net	31,118	14,895	–	46,013
Property and equipment, net	869,500	345,238	–	1,214,738
Other long-term assets	14,057	25,554	–	39,611
Total assets	$ 2,856,496	$ 561,580	$ (481,945)	$ 2,936,131

Kettering Health

Consolidating Balance Sheet – Liabilities and Net Assets
(In Thousands)

December 31, 2022

	Obligated Group	Other Entities	Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 68,315	$ 75,787	$ (2,234)	$ 141,868
Payroll-related liabilities	39,598	64,624	–	104,222
Other accrued liabilities	21,514	81,492	(9,843)	93,163
Accrued interest	11,295	–	–	11,295
Estimated amounts due to third-party payors	23,350	688	–	24,038
Current portion of long-term debt	11,314	1,529	–	12,843
Total current liabilities	175,386	224,120	(12,077)	387,429
Accrued retirement plan liabilities	-	47,818	–	47,818
Professional self-insurance liability	35,933	31,859	–	67,792
Operating lease liabilities, net of current portion	26,725	11,137	–	37,862
Intrasystem financing liabilities	-	469,868	(469,868)	–
Interest rate swap agreements liability	11,655	-	–	11,655
Other long-term liabilities	8,164	9,569	–	17,733
Long-term debt, net of current portion	712,374	548	–	712,922
Total liabilities	970,237	794,919	(481,945)	1,283,211
Net assets (deficit):				
Without donor restrictions	1,886,259	(255,493)	–	1,630,766
With donor restrictions	-	22,154	–	22,154
Total net assets (deficit)	1,886,259	(233,339)	–	1,652,920
Total liabilities and net assets (deficit)	$ 2,856,496	$ 561,580	$ (481,945)	$ 2,936,131

Kettering Health

Consolidating Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2022

	Obligated Group	Other Entities	Eliminations	Consolidated
Revenue:				
Net patient service revenue	$ 1,910,600	$ 466,084	$ (84,705)	$ 2,291,979
Other revenue	129,021	409,539	(371,158)	167,402
Total revenue	2,039,621	875,623	(455,863)	2,459,381
Expenses:				
Salaries and wages	613,012	614,096	(39,655)	1,187,453
Employee benefits	132,961	70,233	499	203,693
Supplies and other	487,344	139,953	(758)	626,539
Purchased services	503,720	214,844	(415,165)	303,399
Depreciation	85,464	37,338	–	122,802
Interest	20,910	1,063	(784)	21,189
Total expenses	1,843,411	1,077,527	(455,863)	2,465,075
Excess of revenue over expenses (expenses over revenue) before support allocation and other income (loss)	196,210	(201,904)	–	(5,694)
Support allocation	(37,261)	37,261	–	–
Excess of revenue over expenses (expenses over revenue) before other income (loss)	158,949	(164,643)	–	(5,694)
Other income (loss):				
Gain (loss) on interest rate swap agreements	19,655	–	–	19,655
Other, primarily investment (loss)	(179,592)	(16,804)	–	(196,396)
Other (loss) income, net	(159,937)	(16,804)	–	(176,741)
Excess of revenue over expenses (expenses over revenue)	(988)	(181,447)	–	(182,435)

Continued on next page.

Kettering Health

Consolidating Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended December 31, 2022

	Obligated Group	Other Entities	Eliminations	Consolidated
Net assets without donor restrictions				
Excess of (expenses over revenue) revenue over expenses	$ (988)	$ (181,447)	$ –	$ (182,435)
Net assets released from restrictions for capital	449	130	–	579
Transfer (to) from affiliate	(140,084)	140,084	–	–
Change in plan assets and benefit obligation of pension plan	8,530	-	–	8,530
Other changes, net	(4)	(503)	–	(507)
(Decrease) increase in net assets without donor restrictions	(132,097)	(41,736)	–	(173,833)
Net assets with donor restrictions				
Contributions and investment income	405	1,720	–	2,125
Net assets released from restrictions for capital	(46)	(533)	–	(579)
Net assets released from restrictions for operations	(359)	(767)	–	(1,126)
(Decrease) increase in net assets with donor restrictions	–	420	–	420
(Decrease) increase in net assets	(132,097)	(41,316)	–	(173,413)
Net assets (deficit) at beginning of year	2,018,356	(192,023)	–	1,826,333
Net assets (deficit) at end of year	$ 1,886,259	$ (233,339)	$ –	$ 1,652,920

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