Consolidated Financial Statements, Reports, Supplementary Information, and Schedule Required by the Uniform Guidance

Sisters of Charity of Leavenworth Health System, Inc.
Years Ended December 31, 2019 and 2018
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Financial Statements, Reports, Supplementary Information and Schedule Required by the Uniform Guidance

Years Ended December 31, 2019 and 2018

Contents

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Report of Independent Auditors

Management and the Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

We have audited the accompanying consolidated financial statements of Sisters of Charity Leavenworth Health System, Inc. (SCL Health), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCL Health as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Adoption of Accounting Standards Update 2016-02, *Leases (Topic 842)*

As discussed in Note 2 to the consolidated financial statements, SCL Health changed its method for accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update 2016-02, *Leases (Topic 842)*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to April 28, 2020. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2019, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020 on our consideration of SCL Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCL Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCL Health's internal control over financial reporting and compliance.

Ernst + Young LLP

April 28, 2020, except for the schedule of
expenditures of federal awards for which the
date is September 22, 2020

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Balance Sheets

	December 31	
	2019	**2018**
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 215.0**	$ 228.5
Current portion of investments	**159.0**	205.7
Accounts receivable:		
Patient	**291.6**	290.9
Pledges receivable, net and other	**69.2**	45.6
Third-party settlements	**3.9**	5.0
Inventory	**51.4**	50.4
Prepaids and other assets	**55.5**	47.0
Total current assets	**845.6**	873.1
Investments, net of current portion	**1,980.9**	1,603.6
Assets limited as to use:		
Self-insured risks	**49.5**	45.8
Trustee-held funds	**13.8**	13.0
	63.3	58.8
Land, buildings, and equipment, net	**2,140.2**	2,118.8
Other assets:		
Investments in joint ventures	**29.5**	26.3
Pledges receivable, net	**2.5**	2.6
Operating lease right-of-use assets	**55.9**	–
Other assets	**31.7**	18.0
	119.6	46.9
Total assets	**$ 5,149.6**	$ 4,701.2

	December 31 2019	2018
	(In Millions)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 97.6**	$ 109.2
Accrued salaries, wages, and benefits	**131.3**	114.9
Accrued interest payable	**15.2**	25.1
Other accrued expenses	**29.4**	28.3
Third-party settlements	**54.6**	50.3
Current maturities of long-term obligations	**143.8**	179.4
Operating lease liability	**17.4**	–
Due to broker, net	**6.3**	15.2
Total current liabilities	**495.6**	522.4
Other non-current liabilities:		
Reserve for self-insured risks	**49.5**	45.8
Accrued swap liability	**16.0**	13.3
Long-term operating lease liability	**40.9**	–
Other liabilities	**48.0**	45.5
	154.4	104.6
Bonds payable, other notes, and capital lease obligations, net of current maturities	**1,153.2**	1,141.8
Total liabilities	**1,803.2**	1,768.8
Net assets:		
Net assets without donor restrictions:		
Attributable to SCL Health	**3,259.5**	2,857.8
Attributable to non-controlling interests	**1.4**	2.1
Total net assets without donor restrictions	**3,260.9**	2,859.9
Net assets with donor restrictions	**85.5**	72.5
Total net assets	**3,346.4**	2,932.4
Total liabilities and net assets	**$ 5,149.6**	$ 4,701.2

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31, 2019	2018
	(In Millions)	
Operating revenue		
Net patient service revenue	**$ 2,754.2**	$ 2,639.0
Other operating revenue	**90.6**	85.4
Total operating revenue	**2,844.8**	2,724.4
Operating expenses		
Salaries and wages	**1,167.9**	1,110.4
Associate benefits	**249.1**	256.9
Supplies	**506.9**	492.6
Other operating expenses	**543.5**	543.7
Depreciation and amortization	**176.8**	159.8
Interest	**52.6**	56.8
Total operating expenses	**2,696.8**	2,620.2
Income from continuing operations	**148.0**	104.2
Non-operating income (losses)		
Income tax expense	**(3.4)**	(1.6)
Investment income (loss), net	**249.4**	(78.4)
Loss on defeasance of debt	**(4.0)**	–
Total non-operating income (losses)	**242.0**	(80.0)
Excess of revenue over expenses	**390.0**	24.2
Less amounts attributable to non-controlling interests	**2.7**	2.8
Excess of revenue over expenses attributable to SCL Health	**$ 387.3**	$ 21.4

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31,	
	2019	2018
	(In Millions)	
Net assets without donor restrictions		
Excess of revenue over expenses	**$ 390.0**	$ 24.2
Gain from discontinued operations	**2.1**	5.4
Amortization of accumulated losses on interest rate swaps	**1.8**	1.8
Distributions to non-controlling interests	**(3.4)**	(2.8)
Pension-related benefit (charges) other than net periodic pension cost	**12.5**	(6.2)
Net assets released for capital acquisitions	**1.2**	6.3
Net asset reclassification	**(1.2)**	(11.6)
Change in accounting principle	**(2.4)**	–
Other	**0.4**	(1.2)
	401.0	15.9
Net assets with donor restrictions		
Contributions	**16.1**	19.2
Investment income (loss), net	**5.6**	(1.3)
Net assets released from restrictions	**(10.0)**	(18.3)
Net asset reclassification	**1.2**	11.6
Other	**0.1**	(1.0)
	13.0	10.2
Increase in net assets	**414.0**	26.1
Beginning net assets	**2,932.4**	2,906.3
Ending net assets	**$ 3,346.4**	$ 2,932.4

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2019	2018
	(In Millions)	
Operating activities		
Increase in net assets	**$ 414.0**	$ 26.1
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**176.3**	159.4
Change in accounting principle	**2.4**	–
Loss on defeasance of debt	**4.0**	–
Amortization of accumulated losses on interest rate swaps	**(1.8)**	(1.8)
Restricted contributions	**(16.1)**	(19.2)
Pension-related (benefit) charges other than net periodic pension costs	**(12.5)**	6.2
Net income from joint ventures	**(1.7)**	(4.8)
Net (gain) loss from disposal of assets	**(5.4)**	2.0
(Increase) decrease in accounts receivable	**(23.2)**	20.1
(Increase) decrease in investments and assets limited as to use	**(335.1)**	94.9
Increase in other assets	**(15.7)**	(6.9)
Increase (decrease) in liabilities	**4.5**	(13.1)
Net cash provided by operating activities	**189.7**	262.9
Investing activities		
Acquisition of land, buildings, and equipment	**(201.0)**	(230.6)
Proceeds from disposals of land, buildings, and equipment	**8.2**	0.9
(Contributions to) distributions from joint ventures	**(1.5)**	7.7
Net cash used in investing activities	**(194.3)**	(222.0)
Financing activities		
Restricted contributions	**16.1**	19.2
Proceeds from the issuance of long-term debt, net	**740.7**	–
Payments on bonds, notes, and capital leases obligations	**(765.7)**	(29.5)
Net cash used in financing activities	**(8.9)**	(10.3)
Net (decrease) increase in cash and cash equivalents	**(13.5)**	30.6
Beginning cash and cash equivalents	**228.5**	197.9
Ending cash and cash equivalents	**$ 215.0**	$ 228.5
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 66.3**	$ 59.1

See accompanying notes.

1. Organization

The Sisters of Charity of Leavenworth Health System, Inc. (SCL Health) is a Catholic ministry that operates as a Kansas not-for-profit corporation, headquartered in Denver, Colorado. Leaven Ministries is a canonical entity and the sponsor of SCL Health. The mission of SCL Health is to reveal and foster God's healing love by improving the health of the people and communities SCL Health serves, especially those who are poor and vulnerable.

The primary ministry of SCL Health is to witness the Gospel of Jesus by striving to provide high-quality health care in a spirit of justice and charity. Services are provided based on community need and available resources, with special concern for the poor and underserved. The ministry is carried out in many ways, including the provision of health care services at various locations.

SCL Health controls a group of related entities identified as Affiliates (collectively referred to as SCL Health). The following organizations comprise the Affiliates that are owned by or affiliated with SCL Health directly or indirectly through sole or shared corporate membership or management control. All Affiliates listed below are included in the accompanying consolidated financial statements. Restricted Affiliates is a defined term under the Master Trust Indenture (MTI). See Note 6 for discussion regarding the Restricted Affiliates.

Restricted Affiliates	Location
Colorado	
SCL Health – Front Range, Inc. (d/b/a Lutheran Medical Center)	Denver, Colorado
Lutheran Medical Center Foundation	Wheat Ridge, Colorado
Good Samaritan Medical Center, LLC (GSMC)	Lafayette, Colorado
Good Samaritan Medical Center Foundation	Lafayette, Colorado
Saint Joseph Hospital, Inc. (SJH)	Denver, Colorado
St. Mary's Hospital & Medical Center, Inc.	Grand Junction, Colorado
Montana	
Holy Rosary Healthcare	Miles City, Montana
SCL Health Medical Group – Miles City, LLC	Miles City, Montana
St. James Healthcare	Butte, Montana
St. Vincent Healthcare	Billings, Montana

1. Organization (continued)

Other Affiliates	Location
Kansas	
St. Francis Health Center Foundation[1]	Topeka, Kansas
Caritas Clinics, Inc.	Leavenworth and Kansas City, Kansas
Marian Clinic, Inc.	Topeka, Kansas
Caritas, Inc. and Subsidiaries	Lenexa, Kansas
Colorado	
Saint Joseph Hospital Foundation	Denver, Colorado
SCL Health Medical Group – Denver, LLC	Denver, Colorado
St. Mary's Hospital Foundation	Grand Junction, Colorado
SCL Health Medical Group – Grand Junction, LLC	Grand Junction, Colorado
Platte Valley Medical Center (PVMC)	Brighton, Colorado
Platte Valley Medical Group	Denver, Colorado
Mount St. Vincent Home, Inc.	Denver, Colorado
SCL Home Health Solutions, LLC	Denver, Colorado
SCL Health Partners, LLC	Denver, Colorado
SCL Health Foundation	Denver, Colorado
Montana	
SCL Health Medical Group – Butte, LLC	Billings, Montana
SCL Health Medical Group – Billings, LLC	Billings, Montana
St. Vincent Healthcare Foundation, Inc.	Billings, Montana
St. James Healthcare Foundation, Inc.	Butte, Montana
Holy Rosary Healthcare Foundation, Inc.	Miles City, Montana
Grand Cayman, BWI	
Leaven Insurance Company, Ltd.	Georgetown, Grand Cayman, BWI

[1] Dissolved December 31, 2018

2. Summary of Significant Accounting Policies

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. Joint ventures are consolidated if SCL Health has the ability to control the entity through direct or indirect ownership of a majority voting interest or through management control.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments with a maturity of three months or less when purchased.

Accounts Receivable

Patient accounts receivable are reported at the amount that reflects the consideration to which SCL Health expects to be entitled in exchange for providing care, which is generally based on certain assumptions determined for each payor.

Inventory

Inventory consists primarily of medical supplies and pharmaceuticals and is stated at the lower of cost, generally on the first-in, first-out basis, or net realizable value.

Investments and Investment Earnings

Investments, including assets limited as to use, include assets set aside by SCL Health for future long-term purposes. SCL Health holds the majority of its investments in the Comprehensive Investment Program (CIP), an investment pool of funds in which a limited number of unaffiliated nonprofit entities also participate. SCL Health does not consolidate the entire investment pool of funds, as a portion of the investments represents the interests of other unconsolidated entities. Accordingly, SCL Health's investments recorded in the accompanying consolidated financial statements at fair value consist only of SCL Health's units of the CIP. Units are measured at fair value based upon the net asset value practical expedient. Investments held outside the CIP include direct investments in marketable debt and equity securities, mutual funds, and real estate, and have been recorded at fair value in the consolidated balance sheets.

Investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the specific-identification method. Investment income or loss related to donor-restricted investments is included in net assets with donor restrictions.

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use include trustee-held funds and self-insured risk funds. Trustee-held funds represent reserve funds required to be held under the U.S. Department of Housing and Urban Development (HUD) insured mortgage. Self-insured risk funds are set aside by SCL Health to satisfy insurance claims and other related expenditures.

Derivative Financial Instruments

SCL Health uses interest rate swap contracts in managing its capital structure. SCL Health recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The presentation of changes in the fair value (e.g., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

Prior to 2016, SCL Health's interest rate swaps were designated and qualified as cash flow hedges, and the effective portion of the gain or loss was reported as a component of net assets without donor restrictions, and subsequently reclassified into investment income (loss) in the period during which the cash flows of the hedged transaction were settled. Because SCL Health's interest rate swaps no longer qualify for hedge accounting, changes in the fair value are recorded in investment income (loss) and cumulative amounts included in net assets without donor restrictions are amortized over the life of the derivative into investment income (loss).

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost if purchased or if donated at fair value at the date of donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed when incurred. Interest incurred in connection with borrowings to finance major construction or expansion of facilities is capitalized during the construction period and subsequently amortized over the lives of the related assets. Depreciation expense is calculated using the straight-line method, which allocates the cost of tangible property equally over its estimated life. Buildings are depreciated over estimated useful lives of 5 to 80 years, land improvements over 2 to 50 years, and equipment over 2 to 30 years.

2. Summary of Significant Accounting Policies (continued)

As of December 31, land, buildings, equipment, and accumulated depreciation were as follows:

	2019	2018
	(In Millions)	
Land	**$ 168.5**	$ 161.0
Buildings	**2,320.7**	2,218.5
Land improvements	**171.4**	171.0
Equipment	**1,572.9**	1,618.2
Construction-in-progress	**68.8**	92.2
	4,302.3	4,260.9
Less accumulated depreciation	**2,162.1**	2,142.1
	$ 2,140.2	$ 2,118.8

Asset Impairment

SCL Health considers whether indicators of impairment are present or performs the necessary test to determine whether the carrying value of an asset, or group of assets, is appropriate. Impairment charges are recognized in income from continuing operations at the time the impairment is identified.

Investments in Joint Ventures

SCL Health accounts for investments in joint ventures using the equity or cost method, depending on the nature of the investment and extent of influence or ownership by SCL Health.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net assets without donor restrictions:* Net assets available for use in general operations and not subject to donor restrictions.
>
> *Net assets with donor restrictions:* Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

2. Summary of Significant Accounting Policies (continued)

Reclassifications of net assets with donor restrictions on the consolidated statements of changes in net assets represent donor changes or subsequent clarification of the intended purpose of previously recorded contributions or modifications based on donor direction.

Contributions, Bequests, and Grants

Donors' unconditional pledges to give cash and other assets are reported at fair value at the date the promise is received. Donors' conditional pledges to give, and indications of intentions to give, are reported at fair value at the date the condition is satisfied. All contributions, bequests, and grants without donor restrictions are included in excess of revenues over expenses. Contributions, bequests, and grants are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied (as to either time or purpose), 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. Resources restricted by donors for additions to land, buildings, and equipment whose purposes have been met are recorded as net assets released for capital acquisitions in the consolidated statements of changes in net assets.

Endowments

SCL Health is subject to the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), as separately enacted in Kansas, Colorado, and Montana. Collectively, these statutes establish requirements for the management, investment, and expenditure of endowed funds. SCL Health has adopted investment and spending policies for the endowments that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the various endowments' assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 reporting period. Actual results may differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Operating and Performance Indicators

SCL Health's primary mission is to meet the health care needs of its service areas through a broad range of general and specialized health care services, including inpatient, acute care, outpatient, physician, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Since substantially all resources are derived from providing health care services, similar to a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

Operating Indicator (income from continuing operations) – Includes all revenue, gains, and other support without donor restrictions; equity income or loss of unconsolidated health care subsidiaries; and expenses directly related to the recurring and ongoing health care operations during the reporting period. Other activities that result in gains or losses peripheral to SCL Health's primary mission are considered to be nonoperating. The operating indicator excludes income tax expense, investment income or losses (including changes in unrealized gains and losses on investments), losses on early extinguishment of debt, and gains and losses deemed by management to not be directly related to providing health care services, including contributions or costs associated with the acquisition and disposition of health care entities.

Performance Indicator (excess of revenues over expenses attributable to SCL Health) – Includes income from continuing operations and non-operating gains and losses. The performance indicator excludes the amortization of accumulated losses on interest rate swaps, income, or loss attributable to non-controlling interests of joint ventures, pension-related charges other than net periodic pension costs, contributions for capital expenditures, and the results of discontinued operations.

Non-controlling Interests in Subsidiaries

SCL Health attributed an excess of revenue over expenses of $2.7 million and $2.8 million for the years ended December 31, 2019 and 2018, respectively, to the non-controlling interests of joint ventures based on contractual terms and the ownership percentage of the non-controlling interests in certain of the consolidated subsidiaries. These amounts are reflected in net assets without donor restrictions in the accompanying consolidated balance sheets, net of distributions.

Income Taxes

SCL Health and its hospital, foundation, and clinic Affiliates have been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Income tax expenses in the accompanying consolidated statements of operations relate to unrelated business income tax of exempt organizations and income taxes of wholly owned for-profit entities.

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

SCL Health does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since SCL Health receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in the accompanying consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Reclassifications

Certain balances in the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets, net assets without donor restrictions, income from continuing operations, or excess of revenue over expenses.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842),* and has subsequently issued supplemental and/or clarifying ASUs, which are collectively referred to as Accounting Standards Codification (ASC) 842. ASC 842 requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated balance sheets. ASC 842 requires disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASC 842 was effective for SCL Health beginning January 1, 2019, and was adopted using a modified retrospective approach. SCL Health elected the package of practical expedients permitted under the transition guidance within the guidance, which, among other things, allowed SCL Health to carry forward the historical lease classification. The adoption of ASC 842 resulted in a decrease to net assets of $2.4 million as of January 1, 2019, and the recognition of operating lease assets and liabilities of approximately $58.5 million and $62.1 million as of January 1, 2019, respectively. The guidance did not materially impact SCL Health's consolidated statements of operations or cash flows for the year ended December 31, 2019. Expanded disclosures required by ASC 842 are included within Note 8.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. This ASU adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. SCL Health adopted this guidance effective January 1, 2019, which resulted in no material changes to the presentation of the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This ASU provides guidance on the presentation of service cost and other components of net periodic benefit cost in the consolidated statements of operations. The adoption of this ASU in 2019 did not have a material effect on the presentation of the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for SCL Health on January 1, 2020, and is not expected to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for SCL Health on January 1, 2022, with early adoption permitted. SCL Health is currently assessing the impact that ASU 2018-14 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for SCL Health for fiscal year 2021 with early adoption permitted. SCL Health is currently assessing the impact that ASU 2018-14 will have on its consolidated financial statements.

3. Charity Care

SCL Health has a mission to care for those who are poor and vulnerable and provides charity care to patients deemed to be either financially or medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets.

The cost to provide charity care measured using the consolidated cost to charge ratio was $41.1 million and $36.3 million for 2019 and 2018, respectively. The ratio of cost to charges is calculated based on SCL Health's total operating expenses less other operating revenue divided by gross patient service revenue.

In addition to traditional charity care services, SCL Health has a financial assistance policy that offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. SCL Health's financial assistance policy prohibits the use of collection practices that do not respect the dignity of its patients.

3. Charity Care (continued)

SCL Health benefits its communities in a variety of ways. To improve the health status of citizens in the communities served, it provides numerous community education programs that alert the public to various health problems and how they can be addressed. SCL Health offers health promotion and wellness programs and provides specific health care services and programs for senior citizens. Each of these programs helps contain the growth of community health care costs through prevention and positive intervention.

SCL Health addresses problems of the poor in the communities by providing services such as health fairs and screenings at no cost or at substantially reduced rates. It provides prenatal education classes especially for low-income persons and transportation for those who otherwise would have no access to medical services. SCL Health also supports organizations that provide other outreach programs for the poor, including the stand-alone clinics that serve only the medically underserved populations in their service areas.

SCL Health sponsors three stand-alone clinic affiliates (the Clinics) specifically for those individuals who have no other source of health care assistance. Generally, the Clinics do not serve persons with Medicare or any kind of private health insurance. Funding for the Clinics is generated from individual contributions, donations, foundations, grants, and in-kind services. The Clinics create access to health care for those individuals without access, provide channels for physicians to reach the poor, and make a difference in the communities where they are established.

4. Net Patient Service Revenue

Net patient service revenue generally relates to contracts with patients in which the performance obligations are to provide health care services to patients over a period of time. Revenue is estimated for patients who have not been discharged as of the reporting period based on actual charges incurred to date in relation to total expected charges. SCL Health believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The contractual relationship with patients also typically involves a third-party payor (Medicare, Medicaid, managed care plans, and commercial insurance companies), and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payors for the services provided to the related patients typically specify payment or reimbursement to SCL Health at other-than-standard charges.

Because all of its performance obligations relate to contracts with a duration of less than one year, SCL Health has elected to apply the optional exemption not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above are primarily related to inpatient services at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Net patient service revenue is reported at estimated amounts from patients, third-party payors, and others for services rendered and includes estimates of implicit price concessions and retroactive revenue adjustments due to audits, reviews, and investigations. Implicit price concessions relate primarily to uninsured patients and patients with co-pays, co-insurance and deductibles, and are estimated based on historical collection data. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

4. Net Patient Service Revenue (continued)

The primary sources of consolidated net patient service revenue include Medicare, state-administered Medicaid programs, contracted rate payors (including health maintenance organizations and preferred provider organizations), commercial insurers, self-paying patients, and other sources. Approximately 74.0% and 76.0% of SCL Health's net patient service revenue for the years ended December 31, 2019 and 2018, respectively, is derived from Affiliates doing business in the state of Colorado. The following information provides consolidated net patient service revenue by payor for the years ended December 31:

	2019		2018	
	(In Millions)			
Medicare	**$ 865.0**	**31%**	$ 845.4	32%
Medicaid	**251.7**	**9**	214.5	8
Managed care, commercial, and other	**1,565.1**	**57**	1,514.2	57
Self-pay	**72.4**	**3**	64.9	3
	$ 2,754.2	**100%**	$ 2,639.0	100%

Two of SCL Health's Affiliates, GSMC and SJH, have entered into provider services agreements with a Kaiser Permanente affiliate. The GSMC agreement specifies payment terms and termination conditions and exclusive designation for inpatient services based on a designated geographic service area. The SJH agreement specifies payment terms and conditions, annual rate inflators, and volume guarantees that provide for additional rate adjustments in the event Kaiser Permanente admission volumes increase or decrease from the specified baseline. Revenue from Kaiser Permanente represented approximately 20.7% and 21.9% of SCL Health's net patient service revenue for the years ended December 31, 2019 and 2018, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Centers for Medicare & Medicaid Services have made inquiries regarding certain reimbursements claimed by SCL Health. SCL Health has adopted internal organizational responsibility and compliance programs to address these concerns and seeks to proactively respond to these requests. SCL Health does not expect that the ultimate resolution of these inquiries will be material to its consolidated financial statements.

5. Investments and Assets Limited as to Use

SCL Health's investments and assets limited as to use as of December 31 are composed the following:

		2019		2018
		(In Millions)		
Cash and cash equivalents	$	**5.3**	$	5.3
U.S. government and agency obligations		**14.2**		12.5
Corporate debt		**5.1**		4.1
Mutual funds		**55.8**		50.0
Equities		**25.5**		23.3
Real estate		**14.8**		32.6
International mutual funds and other		**41.0**		35.9
Investments held in the CIP		**2,041.5**		1,704.4
	$	**2,203.2**	$	1,868.1

At December 31, the asset allocation percentages of the CIP, which represents the majority of SCL Health's investments, is as follows:

	2019	2018
Cash and cash equivalents	**1**	–
Domestic fixed income	**31**	32
Equities	**42**	38
Real return	**8**	11
Core hedge funds	**5**	6
Global infrastructure	**5**	5
Master limited partnership	**4**	4
Opportunistic funds	**4**	4
	100	100

Following are descriptions of each asset class held within the CIP:

Domestic fixed income: The fixed-income pool invests in a variety of fixed-income instruments ranging in duration from 0 to 30 years or more. The aggregate duration of the pool is generally five to seven years or less. The fixed-income pool may consist of pooled vehicles and/or separate accounts.

Equity: The equity pool consists of domestic, global, and international securities listed on the various stock exchanges located in the United States (NYSE, AMEX, and NASDAQ) and on the major exchanges around the world. The global and international equity securities domiciled in developed and emerging markets may expose SCL Health to currency risk as the equities may be denominated in the local currency of the market in which they trade. The domestic equity pool consists of pooled vehicles and/or separate accounts.

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

Real return: The real return pool consists of a variety of inflation-hedging strategies, including (but not limited to) public and private real estate, inflation-linked bonds, and commodities and commodity-linked equities. The real return pool consists of pooled vehicles only when custodial and administrative costs associated with separate accounts prove inefficient.

Core hedge funds: The hedged equity pool consists of managers whose long-term target is an equity-like return with substantially less volatility than the equity market. The underlying managers may use leverage and short-term securities in implementing their investment style. The hedged equity pool may utilize separate accounts but will generally consist of pooled vehicles, including mutual funds and limited partnerships.

Global infrastructure: Global infrastructure consists of equities listed on exchanges in the U.S., developed international, and emerging markets. However, exposure is generally more in developed economies due to stronger regulations and property rights. The exposure is generally a more defensive, low-volatility return stream given the companies in the portfolio own infrastructure vital to their particular region or industry. Common types of companies include, but are not limited to, toll roads, airports, public utilities, and broadcast towers.

Master Limited Partnership (MLP): MLPs are partnerships that derive greater than 90% of their income from real estate, natural resources, and commodities. They are traded on public exchanges like equity securities. This pool invests largely in commodity-related companies and generally consists of pooled vehicles but may include separate accounts when it is most efficient.

Opportunistic funds: The private equity/opportunistic pool consists of managers that seek to take advantage of specific opportunities, generally in the private markets. The pool will generally make investments with limited liquidity, sometimes known as lock-up funds. The opportunistic pool consists of pooled vehicles only and will usually be accessed through limited partnerships.

SCL Health's interest in the CIP represented 82% and 81%, respectively, of the total funds held at December 31, 2019 and 2018.

SCL Health's investments are exposed to various kinds and levels of risk. Fixed-income securities expose SCL Health to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. SCL Health's investments are diversified across a broad range of asset classes, durations, and funds to avoid concentrations of risk in any particular company, region, or industry.

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

Equity securities expose SCL Health to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is that risk associated with a company's operating performance. Liquidity risk, as previously defined, tends to be higher for foreign equities and equities related to small capitalization companies.

The real estate investments and opportunistic investments present similar risks to all of the traditional investments, with some additional risks. Due to the fact that these investments are invested in limited partnerships, private real estate investment trusts, insurance separate accounts, or other limited-access-type vehicles, pricing is infrequent. These investments may also employ leverage that may lead to additional risk of loss. Although these investments are diversified by region and property type, they may at times have concentrations in a particular region or property type, which may cause additional risk.

The real estate, hedge fund, and MLP investment managers have various restrictions and policies in place as it pertains to redemption requests, which can range from quarterly to semi-annual with a 45- to 90-day written notice. Redemptions are subject to available capital as fund managers continue to operate their investment strategy and balance the interest of all investors by allocating capital to invest in current holdings and complete new acquisition activity. In April 2019, SCL Health had given a full redemption notice to UBS, one of SCL Health's real estate investment fund managers, for its $50.4 million investment in the UBS Trumbull Property Fund (TPF). In 2019, the TPF manager paid out $7.9 million to SCL Health. Redemptions are calculated on a pro rata basis according to the ratio of SCL Health's units to the total units of all investors in the redemption pool. Redemption requests that are not fully honored will be executed in the following quarters until completed, and SCL Health will continue to participate as an investor in the fund with respect to its remaining units until fully redeemed. Opportunistic funds have restrictions on liquidity withdrawals. Interim liquidity in opportunistic funds is only available after the investments realize profits. As of December 31, 2019, SCL Health has committed $222.9 million to opportunistic funds and has funded $156.2 million of this commitment.

The composition of net investment income (loss) is as follows for the years ended December 31:

	2019	2018
	(In Millions)	
Interest and other investment income	**$ 44.8**	$ 33.1
Realized and unrealized gains (losses), net	**204.6**	(111.5)
	$ 249.4	$ (78.4)

6. Capital Structure

Long-term debt consists of the following:

	Annual Interest Rates	2019	2018
		(In Millions)	
Tax-exempt bond issues:			
2019, due through December 2040	4.00% to 5.00%	**$ 624.2**	$ –
2016, due through December 2045	Variable rate, 1.51% and 1.44%	**111.0**	222.0
2013, due through January 2044	4.00% to 5.50%	**300.0**	300.0
2011, due through January 2039	Variable rate, 2.04% and 1.84%	**54.1**	55.3
2010, due through January 2040	3.625% to 5.25%	**27.1**	670.1
Total under the SCL Health MTI		**1,116.4**	1,247.7
PVMC mortgage (HUD-insured)		**66.6**	70.9
Other notes payable		**2.1**	3.8
		1,185.1	1,322.1
Original issue premium, net		**120.2**	8.8
Unamortized debt issuance costs		**(8.3)**	(9.7)
Current maturities of long-term debt		**(143.8)**	(179.4)
		$ 1,153.2	$ 1,141.8

SCL Health is the sole member of an Obligated Group, of which the Restricted Affiliates are included under the terms of an MTI amended and restated as of October 1, 2019. Under the terms of the MTI, debt can be incurred for which the Obligated Group is jointly and severally liable. The Obligated Group has agreed to certain covenants, including, among other things, a specified debt service coverage ratio, a debt-to-capitalization ratio transaction test, and a restriction on certain types of additional indebtedness. The consolidated results of the Obligated Group and Restricted Affiliates are used to determine compliance with certain covenants of the MTI. As of December 31, 2019 and 2018, SCL Health was in compliance with all MTI covenants.

On October 10, 2019, SCL Health completed the conversion of the $111.0 million Colorado Series 2016B and 2016D variable-rate bonds from being backed by third-party Standby Purchase Agreements to being backed by SCL Health's liquidity.

On October 3, 2019, SCL Health issued the following fixed-rate refunding bonds: Colorado Series 2019A in the par amount of $400.7 million, Montana Series 2019A in the par amount of $125.4 million, and Colorado Series 2019B in the par amount of $98.1 million. Proceeds of the issuance were used to legally defease all or a portion of the outstanding amounts of the following bonds: Colorado Series 2010A and 2010B, Colorado Series 2016A and 2016C, Kansas Series 2010A, and Montana Series 2010A and 2010B.

On November 17, 2017, SCL Health established revolving lines of credit with Bank of America, N.A. and Wells Fargo Bank, N.A. totaling $200.0 million with three-year terms. As of December 31, 2019, there were no amounts outstanding balances drawn on the lines of credit.

6. Capital Structure (continued)

On May 1, 2005, PVMC entered into a $118.4 million loan agreement with Adams County, Colorado, to fund the costs of acquiring, constructing, and equipping a replacement hospital facility. PVMC's obligation to repay its debt under the loan agreement is evidenced by a Deed of Trust Note payable to the order of the trustee and secured by a mortgage on the PVMC's fee simple interest in land, buildings, and improvements, along with the PVMC's fixtures, furnishings, and equipment. The mortgage is insured by HUD acting by and through the Commissioner of the Federal Housing Administration under Section 242 of Title II of the National Housing Act and the regulations and rules thereunder. The financing arrangement through HUD requires the PVMC to comply with certain regulatory requirements, including maintenance of a mortgage reserve fund balance of $12.8 million. As of December 31, 2019, the mortgage reserve fund was at $13.8 million.

Scheduled principal repayments on long-term debt (excluding original issue premium) are as follows:

Years Ending December 31	Scheduled	Scheduled With Variable Rate Classified as Current
	(In Millions)	
2020	$ 32.8	$ 143.8
2021	27.3	27.3
2022	30.4	30.4
2023	29.8	29.8
2024	31.2	31.2
Thereafter	1,033.6	922.6
	$ 1,185.1	$ 1,185.1

7. Derivative Instruments

SCL Health has entered into three interest rate swaps, which qualified for hedge accounting treatment until May 12, 2016. Details of the interest rate swaps are outlined below:

Notional amount	$15,465,000	$60,000,000	$15,465,000
Fixed annual payment rate	3.789%	4.215%	3.18%
Variable receiver rate	SIFMA rate	SIFMA rate	68% of LIBOR
Termination date	December 1, 2023	December 1, 2031	December 1, 2023
Reset	Weekly	Weekly	Monthly
Settlement	Monthly	Monthly	Monthly
Classification	Economic hedge	Economic hedge	Economic hedge
Fair value at December 31, 2019	$(0.8) million	$(14.2) million	$(1.0) million
Fair value at December 31, 2018	$(0.8) million	$(11.4) million	$(1.1) million

7. Derivative Instruments (continued)

Amortization of the accumulated loss on the three swaps was $1.8 million for the years ended December 31, 2019 and 2018. The fair value of the swaps is recorded in other non-current liabilities at December 31, 2019 and 2018. The unrecognized accumulated loss on the three swaps was $16.0 million and $17.8 million at December 31, 2019 and 2018, respectively.

8. Leases

SCL Health leases real estate and medical equipment primarily under operating leases. SCL Health determines if an arrangement contains a lease at contract inception. Lease assets and liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of SCL Health's leases do not provide an implicit rate of return, SCL Health has made a policy election to use a risk-free rate based on the daily treasury yield curve corresponding to the lease term at lease commencement, to determine the present value of the lease payments.

Many of SCL Health's leases include escalation clauses, renewal options and/or termination options that are factored into the lease payments. For the purpose of calculating lease assets and liabilities, lease terms include options to extend or terminate when it is reasonably certain that those options will be exercised. SCL Health has made an accounting policy election not to separate lease and non-lease components when calculating lease assets and liabilities. A policy election has also been made to not apply the guidance to leases with terms of 12 months or less at inception; expenses for those short-term leases are recognized on a straight-line basis over the lease term. Finance leases are immaterial to the consolidated financial statements and have been excluded from the disclosures below.

Operating lease assets and liabilities at December 31 are as follows:

	2019
	(In Millions)
Leased assets	
Operating lease right-of-use assets	**$ 55.9**
Lease liabilities	
Current operating lease liability	**17.4**
Operating lease liability	**40.9**
	$ 58.3

8. Leases (continued)

The following table summarizes the future maturity and weighted average remaining lease term and discount rate of operating lease liabilities.

Years Ending December 31	Scheduled
	(In Millions)
2020	$ 18.5
2021	14.7
2022	10.3
2023	5.7
2024	3.6
Thereafter	8.9
Total operating lease payments	$ 61.7
Less imputed interest	(3.4)
Total operating lease liabilities	$ 58.3
Weighted-average remaining lease term	4.7 years
Weighted-average discount rate	2.4%

Operating lease expense of $20.4 million was recorded within other operating expenses for the year ended December 31, 2019. Cash paid for amounts included in the measurement of operating lease liabilities of $21.1 million is included within operating cash flows for the year ended December 31, 2019.

9. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurement,* establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of SCL Health's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed-income, equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

> *Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

9. Fair Value Measurements (continued)

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of assumptions a market participant would utilize to determine fair value.

The CIP's investments include equities, various fixed-income securities, and alternative investments as detailed in Note 5. As of December 31, 2019, 55% of the CIP's underlying investments were classified as Level 1, 23% as Level 2, and 22% are reported at net asset value. As of December 31, 2018, 50% of the CIP's underlying investments were classified as Level 1, 25% as Level 2, and 25% are reported at net asset value.

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs as of December 31, 2019:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In Millions)			
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	**$ 5.3**	**$ 5.3**	**$ –**	**$ –**
U.S. government and agency obligations	**14.2**	**0.1**	**14.1**	**–**
Corporate debt	**5.1**	**–**	**5.1**	**–**
Real estate	**14.8**	**–**	**–**	**14.8**
Mutual funds	**55.8**	**55.8**	**–**	**–**
Equities	**25.5**	**25.5**	**–**	**–**
Investments and assets limited as to use reported at fair value	**120.7**	**86.7**	**19.2**	**14.8**
Investments and assets limited as to use reported at net asset value	**2,082.5**			
	$ 2,203.2			
Liabilities				
Obligations under swap contracts	**$ 16.0**	**$ –**	**$ 16.0**	**$ –**

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2018:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In Millions)			
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	$ 5.3	$ 5.3	$ –	$ –
U.S. government and agency obligations	12.5	–	12.5	–
Corporate debt	4.1	–	4.1	–
Real estate	32.6	–	–	32.6
Mutual funds	50.0	50.0	–	–
Equities	23.3	23.3	–	–
Investments and assets limited as to use reported at fair value	127.8	78.6	16.6	32.6
Investments and assets limited as to use reported at net asset value	1,740.3			
	$ 1,868.1			
Liabilities				
Obligations under swap contracts	$ 13.3	$ –	$ 13.3	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities related to fixed-income securities were determined through bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads. Estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party services where quoted market values are not available. Level 2 investments also include corporate fixed-income, government bonds, and mortgage and asset-backed securities.

9. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates approximate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) and Securities Industry and Financial Markets Association (SIFMA) discount curves in order to reflect the credit value adjustment for non-performance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to December 31, 2019. Level 3 includes real estate with fair value determined using recent appraisals and purchase data.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and pledges receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The methods described above may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, while SCL Health 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 reporting date.

The following table is a rollforward of the financial assets classified within Level 3 of the valuation hierarchy defined above.

	Investments *(In Millions)*
Fair value at January 1, 2018	$ 39.2
Acquisitions	–
Dispositions	(6.6)
Unrealized gains	–
Fair value at December 31, 2018	32.6
Acquisitions	**–**
Dispositions	**(0.5)**
Unrealized losses	**(17.3)**
Fair value at December 31, 2019	$ **14.8**

10. Retirement Plans

Defined-Contribution Plans

SCL Health sponsors a defined-contribution retirement plan (the Defined-Contribution Plan), which is a 401(k) defined-contribution retirement plan that covers substantially all associates. Employer contributions to the plan are based on a percentage of eligible compensation for participating associates and a percentage of participating associates' contributions. SCL Health funded $38.6 million and $46.7 million related to the Defined-Contribution Plan and recognized those amounts in associate benefits expense during 2019 and 2018, respectively.

SCL Health participates in a supplemental executive retirement plan (SERP) under which the organization contributes to certain associates' retirement accounts. The Compensation Committee determines those associates who are eligible to participate in the SERP. SCL Health recognized $3.8 million and $4.0 million of associate benefits expense related to the SERP during 2019 and 2018, respectively. The SERP liability at December 31, 2019, was $10.4 million, of which $2.4 million is included in accrued salaries, wages, and benefits, and $8.0 million is included in other liabilities on the consolidated balance sheets. The SERP liability at December 31, 2018, was $8.3 million, of which $2.2 million is included in accrued salaries, wages, and benefits, and $6.1 million is included in other liabilities on the consolidated balance sheets.

Defined-Benefit Plans

SCL Health historically participated in two defined-benefit retirement plans. The first plan relates to SCL Health – Front Range, Inc. (fka Exempla, Inc.). Prior to January 1, 1998, the predecessor to SCL Health – Front Range, Inc. sponsored a defined-benefit pension plan (the SCL Health – Front Range Plan) that covered substantially all of its associates. The benefits were based on years of service and associates' final average compensation. Benefits under the plan have been frozen. SCL Health's funding policy for this plan is to contribute annually the minimum amount under the requirements of the Employee Retirement Income Security Act of 1974, as amended. Contributions are currently intended to provide for benefits attributed to services rendered through January 1, 1998.

The second plan is a single plan with multiple-employer participants that was frozen in 1996 for all participating associates except certain associates of St. James Healthcare. On January 1, 2015, this plan merged with the SCL Health – Front Range Plan, to form a single plan known as the SCL Health Consolidated Retirement Plan (the Plan).

10. Retirement Plans (continued)

The following sets forth the Plan's actuarially determined funded status as of December 31. The accrued pension asset at December 31, 2019, is included in other assets on the consolidated balance sheets. The accrued pension liability at December 31, 2018, is included in other liabilities on the consolidated balance sheets.

	2019	2018
	(In Millions)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 319.5**	$ 349.2
Service cost	**0.4**	0.3
Interest cost	**12.0**	10.9
Actuarial loss (gain)	**31.7**	(17.3)
Benefits paid	**(38.4)**	(23.6)
Projected benefit obligation at end of year	**325.2**	319.5
Change in plan assets		
Fair value of plan assets at beginning of year	**314.7**	348.6
Actual return on plan assets	**53.4**	(7.1)
Contributions	**6.1**	0.7
Benefits paid	**(38.4)**	(23.6)
Expenses paid	**(2.6)**	(3.9)
Fair value of plan assets at end of year	**333.2**	314.7
Accrued pension asset (liability)	**$ 8.0**	$ (4.8)

The actuarial loss of $31.7 million for the year ended December 31, 2019, was primarily driven by the change in the discount rate, which increased the pension benefit obligation (PBO) liability by $34.1 million. The actuarial gain of $17.3 million for the year ended December 31, 2018, was primarily driven by the change in the discount rate, which decreased the PBO liability by $22.0 million.

Included in net assets without donor restrictions at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2019	2018
	(In Millions)	
Unrecognized actuarial losses	**$ 111.2**	$ 124.4
Unrecognized prior service costs	**(0.5)**	(1.1)
	$ 110.7	$ 123.3

10. Retirement Plans (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions include the following:

	2019	2018
	(In Millions)	
Unrecognized actuarial (gains) losses	**$ (4.1)**	$ 10.6
Amortization of actuarial losses	**(9.0)**	(4.9)
Amortization of prior service costs	**0.6**	0.5
	$ (12.5)	$ 6.2

Components of net periodic pension (benefit) cost include the following:

	2019	2018
	(In Millions)	
Service cost	**$ 0.4**	$ 0.3
Interest cost	**12.0**	10.9
Expected return on plan assets	**(17.5)**	(19.4)
Expected administrative expenses	**2.6**	2.6
Amortization of prior service cost	**(0.6)**	(0.5)
Amortization of actuarial losses	**4.2**	4.9
Settlement expense	**4.8**	–
Net periodic pension cost (benefit)	**$ 5.9**	$ (1.2)

For the year ended December 31, 2019, the $0.4 million service cost was recognized in associate benefits and the remaining $5.5 million was recognized in investment income (loss) on the consolidated statements of operations. For the year ended December 31, 2018, the $1.2 million benefit was recognized in associate benefits on the consolidated statements of operations. The prior service cost and actuarial losses included in net assets without donor restrictions and expected to be recognized in net periodic pension benefit during the year ending December 31, 2020, are $5.0 million.

10. Retirement Plans (continued)

Weighted-average assumptions used to determine the PBO as of December 31 are as follows:

	2019	2018
Discount rate	**3.10%**	4.28%
Expected long-term rate of return	**4.79%**	5.51%
Rate of increase in future compensation levels (age graded)	**10% to 1%**	10% to 1%

Weighted-average assumptions used to determine pension benefit cost for the year ended December 31 are as follows:

	2019	2018
Discount rate PBO	**4.28%**	3.61%
Discount rate service cost	**4.75%**	4.03%
Expected return on plan assets	**5.51%**	5.91%
Rate of increase in future compensation levels (age graded)	**10% to 1%**	10% to 1%

Plan Assets

The expected return on plan assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the portfolio. The investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk.

The target and actual asset allocation percentages by asset category are as follows:

Asset Category	2019 Target Allocation	Actual Allocation 2019	Actual Allocation 2018
Cash	**2**	**3**	2
Fixed income	**75**	**74**	76
Global equity	**14**	**14**	12
Real return	**9**	**9**	10
	100	**100**	100

As described in Notes 2 and 5, SCL Health's investments, which include investments held for its retirement plans, are composed of its pro rata share of the CIP's funds and are recorded at net asset value.

10. Retirement Plans (continued)

Expected Benefit Payments

Expected benefits payments to participants, excluding lump-sum distributions, are as follows (in millions):

2020	$ 24.4
2021	24.2
2022	23.9
2023	23.6
2023	23.1
2025–2029	$ 105.3

11. Endowment

At December 31, 2019, SCL Health's endowment consists of approximately 100 individual funds established by donors to provide funding for specific activities. The endowment also includes certain net assets without donor restrictions that have been designated by the Board of Directors.

Management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, SCL Health retains in perpetuity the original value of the initial and subsequent gift amounts (including promises to give at fair value) donated to the endowments and any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. SCL Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policies of the institution

11. Endowment (continued)

At December 31, 2019 and 2018, SCL Health had the following endowment net asset composition by fund and type:

	Without Donor Restriction	With Donor Restriction	Total
		(In Millions)	
December 31, 2019			
Board designated endowment funds	**$ 18.1**	**$ –**	**$ 18.1**
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	**–**	**36.5**	**36.5**
Accumulated investment losses	**2.4**	**5.2**	**7.6**
	$ 20.5	**$ 41.7**	**$ 62.2**
December 31, 2018			
Board designated endowment funds	$ 19.7	$ –	$ 19.7
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	–	34.1	34.1
Accumulated investment gains	(0.6)	(1.3)	(1.9)
	$ 19.1	$ 32.8	$ 51.9

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). SCL Health has interpreted UPMIFA to require spending from underwater endowments to cease until the original corpus balance is restored. At December 31, 2019, funds with original gift values of $1.3 million, fair values of $1.2 million, and deficiencies of $0.1 million were reported in net assets with donor restrictions. At December 31, 2018, funds with original gift values of $4.8 million, fair values of $4.5 million, and deficiencies of $0.3 million were reported in net assets with donor restrictions.

Risk Objectives and Risk Parameters

To satisfy its long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds is invested to seek growth of principal over time.

11. Endowment (continued)

Spending Policy

SCL Health uses an endowment spending-rate formula to determine the maximum amount to spend from the endowments each year, excluding those endowments deemed to be underwater, each year. The rate, approved by the Philanthropic Impact Committee, is applied to the average fair value of the endowment investments for the prior three years at December 31 of each year to determine the spending amount for the coming year. During 2019, the spending rate maximum was 5% of the moving average market value. In establishing this policy, SCL Health considered the long-term expected return on the endowments and set the rate with the objective of maintaining the purchasing power of the endowments over time.

Donor intent, as specifically stated in the endowment agreement, takes precedence over UPMIFA standards or SCL Health's spending policies. If the endowment agreement uses general terminology such as "retain principal" or "spend only income" then spending will follow the SCL Health spending policy.

Changes in endowment net assets for the years ended December 31, 2019 and 2018, were as follows:

	Without Donor Restriction	With Donor Restriction	Total
		(In Millions)	
December 31, 2019			
Endowment net assets, beginning of year	**$ 19.1**	**$ 32.8**	**$ 51.9**
Contributions	**–**	**1.9**	**1.9**
Net investment loss	**2.5**	**5.2**	**7.7**
Distributions pursuant to spending-rate policy of donor agreement	**(1.0)**	**(1.0)**	**(2.0)**
Other transfers and changes	**(0.1)**	**2.8**	**2.7**
Endowment net assets, end of year	**$ 20.5**	**$ 41.7**	**$ 62.2**
December 31, 2018			
Endowment net assets, beginning of year	$ 29.5	$ 21.1	50.6
Contributions	–	1.9	1.9
Net investment income	(0.6)	(1.2)	(1.8)
Distributions pursuant to spending-rate policy of donor agreement	(1.3)	(1.0)	(2.3)
Other transfers and changes	(8.5)	12.0	3.5
Endowment net assets, end of year	$ 19.1	$ 32.8	$ 51.9

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31.

	2019	2018
	(In Millions)	
Subject to expenditure for specified purpose:		
Mom and baby/pediatrics	**$ 9.6**	$ 8.4
Charity care	**5.3**	1.8
Community health and wellness	**4.1**	3.7
Cardiovascular	**4.1**	4.0
Associate education	**4.0**	3.6
Oncology and cancer care	**3.7**	3.7
Capital projects	**2.4**	2.6
Hospice and palliative care	**0.6**	0.5
Other	**10.0**	11.4
	43.8	39.7
Subject to endowment spending policy:		
Greatest need	**8.7**	9.1
Associate education	**6.1**	5.2
Mom and baby/pediatrics	**5.4**	4.4
Hospice and palliative care	**4.7**	4.0
Cardiovascular	**1.8**	1.1
Oncology and cancer care	**1.5**	0.7
Community health and wellness	**1.4**	1.0
Spiritual care	**1.2**	1.0
Other	**10.9**	6.3
	41.7	32.8
	$ 85.5	**$ 72.5**

12. Net Assets With Donor Restrictions (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time or other events specified by the donors as follows for the years ended December 31.

	2019	2018
	(In Millions)	
Subject to expenditure for specified purpose:		
Community health and wellness	**$ 2.2**	$ 1.9
Charity care	**1.0**	1.2
Mom and baby/pediatrics	**1.0**	1.4
Associate education	**0.6**	2.4
Oncology and cancer care	**0.6**	1.3
Behavioral health	**0.5**	–
Cardiovascular	**0.1**	1.4
Intensive care unit	**–**	0.9
Other	**3.7**	6.8
	9.7	17.3
Endowment distributions	**0.3**	1.0
	$ 10.0	**$ 18.3**

13. Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31:

	2019	2018
	(In Millions)	
Cash and cash equivalents	**$ 215.0**	$ 228.5
Patient accounts receivable	**291.6**	290.9
Investments, less amounts due to broker	**2,133.6**	1,794.1
	$2,640.2	$2,313.5

As part of the liquidity management plan, SCL Health's strategy is to structure its financial assets to be available for general operating expenses, current liabilities, and other obligations as they become due. Amounts in excess of daily cash requirements are invested in short-term obligations. SCL Health has access to public and private debt markets and maintains a $200.0 million line of credit to cover any shortfalls in liquidity.

14. Insurance Coverage

SCL Health provides an insurance program for various insurable risks. SCL Health obtains insurance through Leaven Insurance Company, Ltd. (Leaven), a wholly owned subsidiary and captive insurance company, as well as third-party insurers and other self-insured methods.

Aggregate excess umbrella coverage of $100.0 million and excess claims-made basis professional and general liability coverage of $100.0 million are obtained through Leaven, which cedes these risks to third-party commercial reinsurers located in the United States and Bermuda. General liability coverage provides for a self-insured retention of $1.0 million per claim up to an annual aggregate of $3.0 million. Professional liability coverage provides for a self-insured retention of $2.0 million per medical incident, $20.0 million annual aggregate (shared by all insureds), and a buffer layer of insurance is purchased from Leaven with limits of $3.0 million per medical incident, $5.0 million annual aggregate. SCL Health (excluding PVMC) self-insures and funds its obligations for workers' compensation. In connection therewith, SCL Health (excluding PVMC) has obtained excess workers' compensation insurance coverage from outside carriers for individual claims in excess of $750,000. PVMC is insured through Colorado Hospital Association Trust in a guaranteed cost program with a $2,500 deductible per claim. Expenses for professional and general liability and workers' compensation coverage totaled $19.7 million and $20.8 million for the years ended December 31, 2019 and 2018, respectively, and have been included in other operating expenses in the accompanying consolidated statements of operations. The reserves at December 31, 2019, include $8.4 million in other accrued expenses and $49.5 million in the reserve for self-insured risks on the consolidated balance sheets. The reserves at December 31, 2018, include $8.1 million in other accrued expenses and $45.8 million in the reserve for self-insured risks on the consolidated balance sheets.

SCL Health offers an associate benefit package to all eligible associates and their dependents. The majority of these benefits are self-insured and are provided through the SCL Health Employee Benefit Plan (the Benefit Plan). Contributions to the Benefit Plan are made in amounts determined in accordance with the recommendations of an independent actuary based on past claims experience and other factors. During 2019 and 2018, $117.1 million and $120.6 million, respectively, were charged to associate benefits expenses in the accompanying consolidated statements of operations. The loss reserves recorded for the estimated self-insured Benefit Plan, including estimates of the ultimate costs for both reported claims and claims incurred but not reported, totaled $13.7 million and $13.9 million at December 31, 2019 and 2018, respectively, and represent a current liability within other accrued liabilities.

SCL Health is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

15. Relationship with National Jewish Health

On June 25, 2014, SCL Health signed a joint operating agreement (JOA) with National Jewish Health (NJH). Under the terms of the JOA, SJH and NJH manage and operate their respective clinical operations as a combined business enterprise. SCL Health and NJH each retain ownership of their respective assets, liabilities, equity, revenues, and expenses of their businesses. However, the income/loss of the combined clinical operations is shared 75% with SCL Health and 25% with NJH. The combined clinical operations of the JOA resulted in SCL Health sharing $9.3 million and $12.0 million with NJH for the years ended December 31, 2019 and 2018, respectively. These amounts are reported in other revenue in the accompanying consolidated statements of operations. Additionally, SCL Health recorded a $1.5 million and an $8.4 million payable at December 31, 2019 and 2018, respectively, which is included within accounts payable on the consolidated balance sheets.

On October 16, 2019, SCL Health entered into a guaranty of NJH's obligations (the NJH Guaranty) relating to a new outpatient health center to be constructed on NJH's campus in Denver, Colorado. NJH's payments will be used to pay debt service through 2050 on bonds issued by the Colorado Health Facilities Authority in the par amount of $72.0 million ($72.0 million outstanding at December 31, 2019), which will finance the construction of the building. The NJH Guaranty is not secured by an obligation under the MTI.

16. Commitments and Contingencies

SCL Health has a commitment of $135.7 million to various construction projects in progress. As of December 31, 2019, SCL Health has spent $113.9 million on these projects and has reflected this in land, buildings, and equipment, net.

The affiliation agreement with PVMC includes an investment commitment of $210.0 million over ten years ending in 2025. Expenditures that meet the commitment include, but are not limited to, capital expenditures and costs related to developing new service lines and recruiting physicians. Over $60.0 million of the commitment had been satisfied at December 31, 2019.

17. Subsequent Events

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects that could negatively impact SCL Health's financial condition, including significant stock market exchange volatility, supply disruptions, and both internal decisions and government mandates to defer elective procedures and other medical treatments as the broader economic impact of COVID-19 develops. The ultimate impact of these matters to SCL Health and its financial condition is presently unknown. The accompanying consolidated financial statements as of and for the year ended December 31, 2019, do not reflect the effects of these subsequent events.

In response to these events, SCL Health drew $200.0 million on its revolving lines of credit during March 2020 to backstop the variable rate demand bond self-liquidity program and to provide operational flexibility in support of the COVID-19 outbreak.

17. Subsequent Events (continued)

In April 2020, SCL Health received $31.5 million from the Public Health and Social Services Emergency Fund as part of the Coronavirus Aid, Relief, and Economics Security (CARES) Act. These funds are considered a grant and will not be repaid. Additionally, SCL Health received $183.2 million in advanced payments from Centers for Medicare and Medicaid (CMS). This is an advance payment that will be recaptured by CMS over the next year. SCL Health continues to explore options for financial relief from its commercial insurance coverage as well as federal and state programs.

SCL Health evaluated events and transactions occurring subsequent to December 31, 2019 through April 28, 2020, the date of issuance of the accompanying consolidated financial statements.

Reports Required by the Uniform Guidance

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

Management and the Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Sisters of Charity of Leavenworth Health System, Inc. (SCL Health), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCL Health's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCL Health's internal control. Accordingly, we do not express an opinion on the effectiveness of SCL Health's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

April 28, 2020

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

Management and the Board of Directors
Sisters of Charity of Leavenworth Health System, Inc.

Report on Compliance for Major Federal Program

We have audited Sisters of Charity of Leavenworth Health System, Inc.'s (SCL Health) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on SCL Health's major federal program for the year ended December 31, 2019. SCL Health's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, SCL Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

SCL Health's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. SCL Health's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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

Ernst & Young LLP

September 22, 2020

Supplementary Information

Sisters of Charity of Leavenworth Health System, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity-Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Mortgage Insurance Hospitals	14.128		$ 70,950,226	$ –
Total U.S. Department of Housing and Urban Development			70,950,226	–
U.S. Department of Health and Human Services				
Aging Cluster:				
Passed through from Area Agency on Aging,				
Mesa County Department of Human Services:				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	14-11-13	15,810	–
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	13-11-15;13-11-17	227,995	–
Nutrition Services Incentive Program	93.053	13-11-15;13-11-17	93,481	–
Total Aging Cluster			337,286	–
Other Programs:				
Passed through from Area Agency on Aging,				
Mesa County Department of Human Services:				
National Family Caregiver Support, Title III, Part E	93.052	19-11-17; 20-11-17	75,229	–
Telehealth Programs	93.211		48,623	–
Passed through from Colorado Department of Public Health and Environment:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	FHLA 202000001029	20,966	–
Nurse Education, Practice Quality and Retention Grants	93.359		578,662	–
Passed through from State of Montana:				
Innovative State and Local Public Health Strategies to Prevent and Manage Diabetes and Heart Disease and Stroke	93.435	65-1202190	3,000	–
Passed through from Colorado Department of Public Health and Environment:				
Well-Integrated Screening and Evaluation For Women Across the Nation	93.436	15 FHLA 77062	18,070	–
Passed through from Signal Behavioral Health Network:				
Opioid STR	93.788	84-1362495	16,560	–
Passed through from Colorado Department of Public Health and Environment:				
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	75-0140-0-1-551	52,591	–
Passed through from University of Cincinnati:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	008822-134086	14,681	–

Sisters of Charity of Leavenworth Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity-Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
U.S. Department of Health and Human Services (continued)				
Other Programs (continued):				
Passed through from Montana Health And Research Education Foundation:				
National Bioterrorism Hospital Preparedness Program	93.889	Unknown	$ 41,964	$ –
Passed through from Colorado Department of Public Health and Environment:				
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	14-11-13	63,869	–
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		70,797	–
Passed through from Colorado Department of Public Health and Environment:				
HIV Care Formula Grants	93.917	73-0350-0-1-550	58,154	–
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918		350,676	–
Passed through from the University of Montana:				
PPHF Geriatric Education Centers	93.969	8160001713	19,995	–
Total U.S. Department of Health and Human Services			1,771,123	–
Corporation for National and Community Service				
Foster Grandparent/Senior Companion Cluster:				
Foster Grandparent Program	94.011		444,685	–
Senior Companion Program	94.016		125,308	–
Total Foster Grandparent/Senior Companion Cluster			569,993	–
Total Corporation for National and Community Services			569,993	–
Total Expenditures of Federal Awards			$ 73,291,342	$ –

See accompanying notes to Schedule of Expenditures of Federal Awards.

1. Single Audit Reporting Entity

Sisters of Charity of Leavenworth Health System, Inc. (SCL Health) includes expenditures in its schedule of expenditures of federal awards (the Schedule) for all federal programs administered by the entities included in SCL Health's reporting entity used for its consolidated financial statements.

2. Basis of Presentation

The Schedule has been presented on the accrual basis of accounting. Accordingly, expenditures are recorded when incurred rather than when paid. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the consolidated financial statements.

3. Indirect Costs

Indirect costs were based on applicable U.S. Department of Health and Human Services negotiated rates or sponsor – specified (capped) rates. SCL Health did not use the 10% de minimis cost rate allowed by the Uniform Guidance.

4. U.S. Housing and Urban Development Mortgage Reserve Fund

Platte Valley Medical Center is required to establish and maintain a mortgage reserve fund in accordance with its U.S. Housing and Urban Development regulatory agreement in the amount of at least $12.8 million. As of December 31, 2019, the fair value of mortgage reserve fund was at $13.7 million.

5. Mortgage insurance Hospitals Program – Loan Balance at December 31, 2019

As of December 31, 2019, the outstanding loan balance for the Mortgage Insurance Hospitals Program is $66,615,801.

Schedule Required by the Uniform Guidance

Sisters of Charity of Leavenworth Health System, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditors' report issued on compliance for major federal program:	CFDA 14.128 Mortgage Insurance Hospitals – Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	Yes		No

Identification of major federal program:

CFDA Number	Name of Federal Program or Cluster
14.128	Mortgage Insurance Hospitals

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

Section II – Financial Statement Findings

None identified.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2019-001:
Federal program information:
U.S. Department of Housing and Urban Development
CFDA: 14.128, Mortgage Insurance Hospitals
SCL Health location: Platte Valley Medical Center (Brighton, CO)

Criteria or specific requirements (including statutory, regulatory, or other citation):

Platte Valley Medical Center must comply with all clauses in the regulatory agreement entered into with HUD under section 242 of the National Housing Act.

Clause 9(a) of the regulatory agreement states, "if the Mortgagor has any business or activity other than the project and operation of the mortgaged property, it shall maintain all income and other funds of the project segregated from any other funds of the Mortgagor and segregated from any funds or any other corporation or person. Income and other funds of the project shall be expended only for the purposes of the project and in connection with the mortgaged property." Clause 9(h) of the regulatory agreement states, "receipts of the project shall be deposited in the name of the project in a bank, whose deposits are insured. Such funds shall be withdrawn only in accordance with the provisions of this agreement for expenses of the project. Funds of the project shall be immediately deposited in the project bank account and failing to do so is in violation of this agreement such funds shall be deemed to be held in trust."

Condition:

On October 1, 2015, SCL Health executed an affiliation agreement with Brighton Community Hospital Association d/b/a/ Platte Valley Medical Center and became the controlling entity of Platte Valley Medical Center. Platte Valley Medical Center is a consolidated entity of SCL Health. Effective June 1, 2017, Platte Valley Medical Center fully integrated with SCL Health's accounting and financial systems, and most project funds were pooled into SCL Health concentration accounts, thus violating Clause 9(a) and 9(h) of the regulatory agreement.

Cause:

Platte Valley Medical Center violated Clause 9(a) and 9(h) of the regulatory agreement.

Effect or potential effect:

A violation of any clause in the regulatory agreement could cause HUD to give written notice to Platte Valley Medical Center and HUD may declare a default under the regulatory agreement.

Questioned Costs:

None.

Section III – Federal Award Findings and Questioned Costs (continued)

Context:

Effective June 1, 2017, Platte Valley Medical Center's integration into SCL Health's accounting and financial systems resulted in most project funds related to the mortgaged property not being segregated from the funds of SCL Health, which is in violation of clauses in the regulatory agreement entered into with HUD under section 242 of the National Housing Act.

Identification as a repeat finding:

Finding No. 2018-001

Recommendation:

Platte Valley Medical Center should continue to work with HUD on steps to take to ensure that violation is corrected to the satisfaction of HUD.

Views of the responsible officials and planned corrective actions:

Management has been in communication with HUD and executed an amendment to the loan agreement with HUD in May 2020, which will correct this violation.

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Corrective Action Plan

Finding No. 2019-001

Individual Responsible: Kyle Engman, Vice President, Chief Accounting Officer
Resolution Date: May 15, 2020

As a result of Platte Valley Medical Center's (Platte Valley) affiliation and integration with SCL Health, Platte Valley is in violation of certain clauses of the regulatory agreement, primarily relating to pooling cash with SCL Health affiliates. Effective May 15, 2020, management executed an amendment to the regulatory agreement with the U.S. Department of Housing and Urban Development which will remedy this violation.

SCL Health

Sisters of Charity of Leavenworth Health System, Inc.
Summary Schedule of Prior Audit Findings

Financial Statement Findings – Year Ended December 31, 2018
None identified.

Financial Statement Findings – Year Ended December 31, 2017
None identified.

Federal Award Findings and Questioned Costs – Year Ended December 31, 2018
Finding No. 2018-001

In response to the 2017 audit finding related to Platte Valley Medical Center pooling its cash with SCL Health, management has worked closely with their contacts at HUD to reach an amendment to the agreement that would remedy the violation. In May 2020, an agreement was reached and the regulatory agreement with HUD was amended.

Federal Award Findings and Questioned Costs – Year Ended December 31, 2017
Finding No. 2017-001

In response to the 2017 audit finding related to Platte Valley Medical Center pooling its cash with SCL Health, management drafted proposed amendments to the regulatory agreement that would remedy the noncompliance. These amendments were shared with HUD in late 2017, unfortunately HUD did not approve them. Because the centralization of cash accounts and operations is vital to the scalability and success of the Platte Valley Medical Center operations, management will continue its current operations and processes. SCL Health will continue to make timely payments on the loan and comply with the other provision of the regulatory agreement until an agreement is reached with HUD or the loan is paid off in its entirety.