

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Saint Peter's Healthcare System, Inc.
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP



Saint Peter’s Healthcare System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2018 and 2017

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Report of Independent Auditors

The Board of Governors
Saint Peter's Healthcare System, Inc.

We have audited the accompanying consolidated financial statements of Saint Peter's Healthcare System, Inc. (the System), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Risk Assurance Company of Saint Peter's University Hospital (RAC), a wholly-owned subsidiary, which statements reflect total assets of \$24,031,000 and \$24,259,000 as of December 31, 2018 and 2017, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for RAC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Peter's Healthcare System, Inc. at December 31, 2018 and 2017, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 1 to the consolidated financial statements, the System changed its method of revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) resulting from Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB ASC resulting from ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets as of and for the year ended December 31, 2018, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



April 29, 2019

Saint Peter's Healthcare System, Inc.

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,854	\$ 15,824
Patient accounts receivable, less allowance for uncollectibles of \$14,500 and \$23,887 in 2018 and 2017, respectively	48,987	54,759
Assets whose use is limited, current portion	105,180	101,949
Supplies	5,013	6,060
Estimated third-party payor settlements, current portion	299	1,150
Other current assets	12,051	14,024
Total current assets	194,384	193,766
Assets whose use is limited, less current portion	37,697	37,485
Property, plant, equipment, and construction, net	197,641	200,151
Estimated third-party payor settlements, less current portion	246	44
Investments in joint ventures and other assets	6,511	5,708
	\$ 436,479	\$ 437,154
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt and lines of credit	\$ 11,413	\$ 18,292
Accounts payable	26,475	30,295
Accrued expenses and other liabilities	36,121	37,347
Accrued interest	4,066	4,183
Estimated third-party payor settlements, current portion	2,795	2,778
Total current liabilities	80,870	92,895
Long-term debt, less current portion	146,965	148,382
Estimated third-party payor settlements, less current portion	1,599	2,251
Accrued pension liability	129,274	135,449
Other liabilities	24,225	22,845
Total liabilities	382,933	401,822
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	47,498	27,760
Net assets with donor restrictions	6,048	7,572
Total net assets	53,546	35,332
	\$ 436,479	\$ 437,154

See accompanying notes.

Saint Peter's Healthcare System, Inc.

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

	Year Ended December 31	
	2018	2017
Revenue, gains, and other support:		
Net patient service revenue	\$ 458,334	\$ 460,101
Provision for bad debts	–	(15,327)
Net patient service revenue less provision for bad debts	<u>458,334</u>	444,774
Other operating revenue	30,266	30,627
Net assets released from restriction	1,502	3,165
Total revenue, gains, and other support	<u>490,102</u>	478,566
Expenses:		
Salaries and wages	229,950	233,883
Resident and physician fees	11,594	16,451
Employee benefits	53,728	50,148
Supplies and other	141,615	145,348
Governmental taxes, fees, and assessments	3,893	3,304
Interest	9,528	9,627
Depreciation and amortization	24,726	22,438
Total expenses	<u>475,034</u>	481,199
Income (loss) from operations	15,068	(2,633)
Severance costs	(6)	(5,377)
Abandonment of equipment	–	(6,981)
Information technology settlement	–	7,300
Equity in net earnings of joint ventures and other income	906	1,061
Gain on sale of property, plant, and equipment	677	–
Non-operating net periodic pension cost	(1,396)	(3,643)
Excess (deficiency) of revenue over expenses	<u>15,249</u>	(10,273)
Net change in unrealized gains and losses on investments	(3,582)	3,263
Change in pension liability to be recognized in future periods	4,086	(10,602)
Donated equipment and other	3,998	6,201
Increase (decrease) in net assets without donor restrictions before discontinued operations	<u>19,751</u>	(11,411)
Loss from discontinued skilled nursing facility	(13)	(606)
Increase (decrease) in net assets without donor restrictions	<u>19,738</u>	(12,017)

Continued on next page.

Saint Peter's Healthcare System, Inc.

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

	Year Ended December 31	
	2018	2017
Increase (decrease) in net assets without donor restrictions	\$ 19,738	\$ (12,017)
Net assets with donor restrictions:		
Restricted gifts and contributions and related items, net	(22)	875
Net assets released from restriction	(1,502)	(3,165)
Decrease in net assets with donor restrictions	(1,524)	(2,290)
Increase (decrease) in net assets	18,214	(14,307)
Net assets at beginning of year	35,332	49,639
Net assets at end of year	\$ 53,546	\$ 35,332

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2018	2017
Operating activities		
Increase (decrease) in net assets	\$ 18,214	\$ (14,307)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,726	22,438
Net change in unrealized gains and losses on investments	3,582	(3,263)
Equity in net earnings of joint ventures	(906)	(1,061)
Donated equipment	(3,998)	(6,201)
Gain on disposal of discontinued skilled nursing facility	-	(1,200)
Gain on sale of equipment	(677)	-
Changes in operating assets and liabilities:		
Patient accounts receivable, net	5,772	6,522
Supplies and other assets	2,230	3,410
Accounts payable, accrued expenses, and other liabilities	(3,783)	2,985
Estimated third-party payor settlements, net	14	81
Accrued pension liability	(6,175)	812
Net cash provided by operating activities	38,999	10,216
Investing activities		
Cash received from joint ventures	894	1,081
Net (purchases) sales of assets whose use is limited	(7,025)	3,729
Purchases of property, plant, equipment, and construction, net	(15,212)	(22,867)
Proceeds from disposal of discontinued skilled nursing facility, excluding amount held in escrow	-	1,200
Net cash used in investing activities	(21,343)	(16,857)
Financing activities		
Draws on line of credit	-	9,225
Repayments of line of credit	(7,675)	(1,550)
Proceeds from issuance of long-term debt	7,952	4,778
Payments on long-term debt and capital lease obligations	(10,902)	(10,725)
Net cash (used in) provided by financing activities	(10,625)	1,728
Net increase (decrease) in cash and cash equivalents	7,030	(4,913)
Cash and cash equivalents, beginning of year	15,824	20,737
Cash and cash equivalents, end of year	\$ 22,854	\$ 15,824
Supplemental disclosure of non-cash investing and financing activities and cash flow information		
Assets acquired under capitalized lease obligations	\$ 2,110	\$ 58
Cash paid for interest, net of amounts capitalized	\$ 9,744	\$ 9,758

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

Saint Peter's Healthcare System, Inc. (the System) is a nonprofit corporation. The Diocese of Metuchen of the State of New Jersey (the Diocese) is the sponsor of the System and, as provided in the System's bylaws, certain powers are reserved to the Bishop of the Diocese. The System's accompanying consolidated financial statements include the following entities: Saint Peter's University Hospital (the Hospital), an acute care 478 licensed bed teaching hospital located in New Brunswick, New Jersey; Saint Peter's Health & Management Services Corporation (Management Services); Saint Peter's Foundation (the Foundation); Margaret McLaughlin McCarrick Care Center (the Care Center); Saint Peter's Properties Corporation (Properties); Risk Assurance Company of Saint Peter's University Hospital (RAC); Saint Peter's Solar Energy Solutions, Inc. (Solar Energy Solutions); Gianna Physician Practice of New York, P.C. (Gianna NY PC); Saint Peter's Healthcare System Physician Associates, P.C. (Physician Associates PC); The National Gianna Center for Women's Health and Fertility, Inc. (National Gianna); Saint Peter's Advanced Care, P.C. (Advanced Care); Saint Peter's Specialty Physicians, P.C. (Specialty Physicians); and Park Avenue Collections Corporation (Park Avenue) (Park Avenue had no operations during 2018 or 2017).

All intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

Other unconsolidated entities, for which the System records its interest or investment, include CARES Surgicenter, LLC (CARES); New Brunswick Cardiac Cath Lab, LLC (Cardiac Cath); New Brunswick CK Leasing, LLC (Cyber Knife joint venture); New Brunswick Affiliated Hospitals (NBAH); Holy Redeemer Healthcare System (Holy Redeemer); and Sovereign Oncology of New Brunswick, LLC (a radiation oncology joint venture). The System terminated its participation in the Sovereign Oncology of New Brunswick, LLC joint venture effective January 31, 2018. The System accounts for its investments in CARES, Cardiac Cath and the radiation oncology joint venture (through January 31 2018) on the equity method of accounting (see Note 5), because the System does not control the operations of the investees. The System accounts for its investments in Cyber Knife, Holy Redeemer and NBAH on the cost basis of accounting. The investment in NBAH is fully reserved.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Significant Accounting Policy

A summary of the significant accounting policies follows:

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as estimates for collections on accounts receivable for services to patients, estimated settlements with third-party payors, medical malpractice insurance liabilities and pension benefit liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents: The System considers all highly liquid investments with a maturity of three months or less at date of purchase, other than amounts held in the assets whose use is limited investment portfolio, to be cash equivalents. The carrying amount of cash and cash equivalents reported on the consolidated balance sheets approximates fair value. The System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Receivables for Patient Care: Patient accounts receivable for which the System receives payment under cost reimbursement, prospective payment formulae, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the System (see Note 3).

Prior to January 1, 2018, the amount of the allowance for uncollectibles was based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectibles resulted from the provision for bad debts. Accounts written off as uncollectible were deducted from the allowance for uncollectibles. As a result of the adoption of ASU 2014-09, beginning on January 1, 2018, the majority of the provision for bad debts as previously recorded is considered an implicit price concession and therefore, is shown as a direct reduction to net patient service revenue as opposed to as provision for bad debts. As

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

such, beginning on January 1, 2018, additions to the allowance for uncollectibles result only from a delinquency of patient accounts that were considered collectible at the time patient care was provided.

Assets Whose Use is Limited: Assets whose use is limited represent assets whose use is restricted for specific purposes through internal designation, by donors or under terms of bond indenture agreements or trust agreements, as well as investments held by RAC (see Note 4). Assets whose use is limited investments consist of marketable securities and alternative investments. Marketable securities are recorded at fair value as determined by reference to quoted market prices. Alternative investments consist of interests in funds of funds investments structured as limited partnerships and commingled funds. Alternative investment interests are reported based upon net asset values derived from the application of the equity method of accounting. Board designated assets are available for current use subject to approval by the System's Board.

All assets whose use is limited investments are classified as other than trading securities. Unrealized gains and losses on assets whose use is limited, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the excess (deficiency) of revenue over expenses on the accompanying consolidated statements of operations and changes in net assets. Investment income and realized gains and losses on net assets without donor restrictions are recorded as other operating revenue. Investment income derived from investments related to net assets with donor restrictions is also recorded as other operating revenue unless the income or gain or loss is restricted by donor or law. Investment return is reported net of investment expenses.

Supplies: Supplies are carried at the lower of cost or net realizable value determined using the first-in, first-out method, or market method. Supplies are used in the provision of patient care and are not held for sale.

Deferred Financing Costs: Deferred financing costs were incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided on the effective interest method extending over the remaining term of the applicable indebtedness.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Plant, Equipment, and Construction: Property, plant, equipment, and construction that were purchased by the System are carried at cost. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Donated assets are recorded at fair market value at the date of donation. Annual provisions for depreciation and amortization of property, plant, and equipment are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the related lease for equipment held under capital lease obligations.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of: The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Classification of Net Assets: The System separately accounts for and reports net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors. Resources arising from the results of operations or assets set aside by the System's Board are not considered to be donor restricted.

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time frame or purpose, or have been restricted by donors as permanent endowments to be maintained in perpetuity. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction.

The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanent endowment contributions and net assets, as enacted by the State of New Jersey in 2009. The System annually expends the income distributed from the related assets according to donor stipulations.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Excess (Deficiency) of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess (deficiency) of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess (deficiency) of revenue over expenses include the net change in unrealized gains and losses on investments, unless the unrealized losses are deemed to be other than temporary, donated equipment and other, the change in pension liability to be recognized in future periods, and the loss from discontinued operations. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within income (loss) from operations.

Discontinued Operations: During November 2015, the Board of Governors, with no disapproval from the Vatican, approved the sale of the Care Center to an unrelated entity. The sale was approved by the New Jersey Attorney General in December 2015 and finalized on February 1, 2016. Proceeds from the sale were received in 2016 for approximately \$12,000 less approximately \$1,200 held temporarily as an escrow reserve. The escrow was released in July 2017. This transaction met the criteria to be reported as a discontinued operation initially in 2016. A loss related to the sale of approximately \$564 is reported within discontinued operations in 2017. The System incurred losses from the operations of the discontinued skilled nursing facility of \$13 and \$42 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes: The System parent entity, the Hospital, the Care Center, Management Services, the Foundation, and National Gianna are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Properties is a not-for-profit corporation as described in Section 501(c)(2) of the Code and is also exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. These entities are also exempt from state and local taxes. RAC is not subject to taxes on income or gains under the Cayman Islands tax concessions law except for a tax on dividends on domestic equities. Additionally, Gianna NY PC and Physician Associates PC received their tax exemption determinations in 2018.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Solar Energy Solutions, Advanced Care, Specialty Physicians, and Park Avenue are for-profit entities and, as such, are subject to federal, state, and local income taxes. The provision for income taxes associated with these entities is not material to the System's consolidated results of operations and is included in supplies and other expenses on the consolidated statements of operations and changes in net assets. Solar Energy Solutions, Advance Care, and Specialty Physicians had federal and state net operating loss carryforwards of approximately \$28,000 and \$29,000 at December 31, 2018 and 2017, respectively, which begin to expire in 2023 for federal purposes and 2029 for state purposes.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. As of and for the year ended December 31, 2018, the System has made reasonable estimates of the provision for income taxes, the compensation excise tax, and the effects, if any, on existing deferred tax balances based on accounting guidance included in Accounting Standards Codification 740, *Income Taxes*. The System will continue to refine its calculations in future periods as additional regulations and guidance are issued by the IRS.

Related-Party Transactions: The entities comprising the System provide various inter-entity services to their affiliated entities and the System parent company. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the System eliminate in consolidation.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 became effective for the System for annual reporting periods beginning after December 15, 2017. The System adopted ASU 2014-09 effective January 1, 2018 for its consolidated financial statements. The System adopted ASU 2014-09 following the modified retrospective method. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain (representing approximately \$17,494 for the year ended December 31, 2018) previously reported through December 31, 2017 as net patient service revenue and the provision for bad debts in the System's consolidated statements of operations no longer meets the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession (see Note 3). Additionally, the provision for bad debts, when applicable, will now be presented as an expense item rather than a reduction to net patient service revenue. Other aspects of the System's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures are reflected in Note 3. The adoption of ASU 2014-09 did not significantly affect other revenue activity.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, the System will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. The System has not completed the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs are required to classify net assets as net assets with donor restrictions or without donor restrictions. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the System for annual periods beginning after December 15, 2017. The System adopted ASU 2016-14 effective for its consolidated financial statements as of and for the year ended December 31, 2018.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers are required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the System

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The System early adopted ASU 2017-07 effective for its consolidated financial statements as of and for the quarter ended March 31, 2018. The adoption of ASU 2017-07 required the System to present the components of net periodic benefit cost related to its defined benefit plan other than service cost (aggregate of approximately \$1,396 and \$3,643 for 2018 and 2017, respectively) as a separate line item excluded from the subtotal for operating income (loss) on the accompanying consolidated statements of operations and changes in net assets. Net periodic pension cost was previously reported within employee benefits expense on the consolidated statements of operations and changes in net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for the System for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The System is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements. Subsequent to adoption, the System's assets and liabilities are expected to increase by an initially estimated amount of approximately \$15,400 to reflect the System's right to use certain assets and the corresponding liabilities associated with operating leases, with no significant impact to net assets or the performance indicator.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The standard should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. ASU 2018-08 applies to all entities that make or receive contributions and is effective for the System for fiscal years beginning after June 15, 2018 including interim periods within those years. Early adoption is permitted. The System is in the process of evaluating the impact of ASU 2018-08 on its consolidated financial statements.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other -Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement 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 (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in Accounting Standards Codifications Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the System for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The System is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU No. 2018-09, *Codification Improvements*, ASU No. 2018-13, *Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)-Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU No. 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)-Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU No. 2018-09 may result in additional assets included in an entity's fair value disclosure table, if among other criteria, net asset value has public visibility. ASU No. 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU No. 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU No. 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU No. 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU No. 2018-09: fiscal years beginning after December 15, 2018; ASU No. 2018-13: fiscal years beginning after December 15, 2019; and ASU No. 2018-14: fiscal years ending after December 15, 2021. The System has not completed the process of evaluating the impact of these ASUs on its consolidated financial statements.

Reclassifications: Certain reclassifications have been made to the 2017 amounts previously reported in order to conform to the current year presentation. These reclassifications had no impact on the previously reported net assets.

2. Charity Care and Community Benefits

The System provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

In accordance with its mission and philosophy, the System commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community.

For the year ended December 31, 2018 and for services provided subsequent to the adoption of ASU 2014-09 on January 1, 2018, for patients who were determined by the System to have the ability to pay but did not, the expected uncollected amounts are classified as an implicit price concession which reduces net patient service revenue (\$17,494 in 2018). For patient services provided prior to December 31, 2017, prior to the adoption of ASU 2014-09, for patients who were determined by the System to have the ability to pay but did not, the uncollected amounts were classified as provision for bad debts (\$15,327 in 2017).

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Charity Care and Community Benefits (continued)

Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies, or staff time volunteered on behalf of the community.

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics, and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students, and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the estimated cost of community benefits provided to both the indigent and the broader community follows:

	Year Ended December 31	
	2018	2017
Community benefits provided to the indigent:		
Charity care provided	\$ 20,896	\$ 19,987
Unpaid cost of public programs, Medicaid, and other indigent care programs	9,773	7,896
Community benefits provided to the broader community:		
Non-billed services for the community	3,864	4,606
Education and research provided for the community	4,754	5,513
Estimated cost of community benefits	\$ 39,287	\$ 38,002

The costs of charity care and other community benefit activities are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Charity Care and Community Benefits (continued)

The estimated cost of community benefit was 8.6% and 8.3% of total Hospital operating expenses in 2018 and 2017, respectively.

The System receives payments from the New Jersey Health Care Subsidy Funds for charity care, and such amounts totaled approximately \$3,423 and \$3,477 for the years ended December 31, 2018 and 2017, respectively.

3. Net Patient Service Revenue

Accounts Receivable and Net Patient Service Revenue

For Periods Commencing January 1, 2018

Effective January 1, 2018 upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, the System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the System's standard charges. The System determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

for contractual allowances and discounts are based on contractual agreements, the System's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the System determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the System's historical collection experience for applicable patient portfolios. Under the System's policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient.

Generally, the System bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the System's outpatient and ambulatory care centers. The System measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient service.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the System's in-house patients occurs within days or weeks after the end of the reporting period.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2018, changes in the System's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the year ended December 31, 2018 was not significant.

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue for the years ended December 31, 2018 recognized in the period from these major payor sources, based on primary insurance designation, is as follows:

Medicare	\$ 105,454
Medicaid	75,637
Commercial carriers and managed care organizations	274,275
Self-pay	<u>2,968</u>
	<u>\$ 458,334</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the self-pay category above.

Net patient service revenue for the year ended December 31, 2018 by line of business is as follows:

Hospital	\$ 418,628
Physician services	<u>39,706</u>
	<u>\$ 458,334</u>

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

The System has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

At December 31, 2018, accounts receivable is comprised of the following components:

Patient receivables	\$ 43,375
Contract assets	<u>5,612</u>
	<u>\$ 48,987</u>

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the System may not have the right to bill.

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant for the year ending December 31, 2018.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

For Periods Through December 31, 2017

Prior to the adoption of ASU 2014-09, the System recognized patient service revenue at the estimated net realizable amounts associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below) and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. For uninsured and under-insured patients who did not qualify for charity care, the System recognized revenue on the basis of charges. Under the System's policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to an amount which would be billed to a commercially insured patient.

Patient service revenue for the year ended December 31, 2017, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows:

Third-party payors	\$ 451,193
Self-pay	8,908
	<u>\$ 460,101</u>

Deductibles, copayments and coinsurance under third-party payment programs within the third-party payors amounts above are the patient's responsibility and the System considers these amounts in its determination of the provision for bad debts based on collection experience.

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is reported in the allowance for doubtful accounts.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

The System's allowance for uncollectibles totaled \$23,887 at December 31, 2017. The allowance for doubtful accounts for self-pay patients was approximately 93% of self-pay accounts receivable as of December 31, 2017. Overall, the total of self-pay discounts and write-offs did not change significantly for the year ended December 31, 2017. The System has not experienced significant changes in write-off trends and has not changed its charity care policy in the year ended December 31, 2017.

Third-Party Payment Programs

The System has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the System have been audited and settled for years through 2015 at December 31, 2018.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The System is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the System for years through 2016 have been audited and settled.

Other Third-Party Payors: The System also has entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

Medicare and Medicaid cost reports, which serve as the basis for final settlement with these programs, have been audited by the applicable fiscal intermediary and settled through years noted above, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlements. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

Revenue from Medicare, Medicaid and their corresponding managed care programs accounted for approximately 39.5% and 38.3% of the System's net patient service revenue for the years ended December 31, 2018 and 2017, respectively. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been or will be enacted by the federal and state governments, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System. Additionally, certain payors' payment rates for various years have been appealed by the System for cost report year 2006 through 2017. If the appeals are successful, additional income applicable to those years could be realized.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. Other than the matter described below, the System is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance in all material respects with applicable laws and regulations. In addition, certain contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

In December 2018, the System, jointly with the New Brunswick Cardiac Cath Lab, LLC (Cardiac Cath), submitted a preliminary letter to the Office of Counsel to the Inspector General, United States Department of Health and Human Services (the OIG) through the OIG's Self-Disclosure Protocol (the Protocol), notifying the OIG of certain physician compensation matters that potentially violate the Federal Civil Monetary Penalties Law (CMPL), the Anti-kickback statute, and/or the Stark Law and requesting acceptance into the Protocol. In January 2019, the System and Cardiac Cath received notification that they had been accepted into the Protocol. On March 28, 2019, the System and Cardiac Cath filed a detailed review of their investigation in accordance with the Protocol. The OIG Protocol was established to encourage providers to voluntarily identify, disclose and resolve certain matters involving Federal health care programs under the OIG's civil monetary penalties authorities. The OIG's Protocol indicates that a provider's good faith participation in the Protocol can potentially mitigate the provider's exposure under the OIG's civil monetary penalties authorities.

At December 31, 2018, and as of the issuance of the accompanying consolidated financial statements, the amount of potential obligations to (or other actions that may be taken by) the OIG and/or others in connection with the referenced self-disclosure is unknown. Corrective actions relating to the matters discussed in the March 2019 letter have been taken and a preliminary allowance estimate has been established.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

State and Other Funding

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide. Effective January 1, 2014, the State of New Jersey replaced the Hospital Relief Subsidy Fund with the Delivery System Reform Incentive Payment Pool (the Pool). The Pool is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria, with adjustments to the Pool allocations processed prospectively. The following state and other funding amounts have been included in the System's net patient service revenue:

	Year Ended December 31	
	2018	2017
State:		
Delivery System Reform Incentive Payments	\$ 3,192	\$ 5,229
Charity Care (<i>Note 2</i>)	3,423	3,477
Graduate Medical Education	5,873	5,761
Federal:		
Graduate Medical Education	4,121	3,525
	\$ 16,609	\$ 17,992

The System expects to receive approximately \$2,164 in Charity Care subsidies for distributions scheduled through June 30, 2019. Charity Care subsidies subsequent to June 30, 2019 are presently unknown.

In addition to direct Graduate Medical Education funding received from the federal and state Medicare and Medicaid programs, the System also receives a portion of its Medicare rate for indirect medical education costs.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited

Liquidity and Availability

As of December 31, 2018, the System has a working capital surplus of \$113,514 and average days cash on hand of 98.3 (based on normal expenditures).

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

Cash and cash equivalents	\$ 22,854
Patient accounts receivable, net	48,987
Physician services receivable, net	1,621
Assets whose use is limited which are available for general expenditures:	
Board designated	93,014
Donor restricted – health care programs	1,458
	<u>\$ 167,934</u>

The System has certain board designated and donor-restricted assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the table above. The System has other assets for donor-restricted purposes, held under board indenture and for the professional and general liability captive insurance program, which are not readily available for general expenditures. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short term money market funds. The money market funds at December 31, 2018 totaled \$15,000.

Additionally, the System maintains a \$10,000 line of credit, as described in Note 7(c). As of December 31, 2018 there was no balance outstanding on the line of credit.

As of December 31, 2018, the System was in compliance with all financial debt covenants.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited (continued)

Assets whose use is limited, primarily at fair value, are maintained for the following purposes:

	December 31	
	2018	2017
Assets held as designated by Board of Trustees of the Hospital	\$ 93,014	\$ 89,724
Assets held as designated by donors	5,394	5,458
Assets held under bond indenture	22,192	22,163
Assets held by RAC (Note 10)	22,277	22,089
Total assets whose use is limited	142,877	139,434
Less current portion	105,180	101,949
Non-current portion	\$ 37,697	\$ 37,485

Refer to Note 12 for the composition by asset type for investments reported at fair value. The System's holdings of alternative investments and commingled funds within assets whose use is limited totaled approximately \$5,953 and \$9,324 at December 31, 2018 and 2017, respectively. These investments are measured based on the equity method of accounting as described in Note 1.

Assets held by a trustee under bond indenture agreements are maintained for the following purposes:

	December 31	
	2018	2017
Debt service interest fund	\$ 4,106	\$ 4,243
Debt service principal fund	2,665	2,524
Debt service reserve fund	15,421	15,396
	\$ 22,192	\$ 22,163

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited (continued)

Investment income, included in other operating revenue, consists of the following:

	Year Ended December 31	
	2018	2017
Interest and dividend income	\$ 2,877	\$ 3,001
Realized gains and losses	(217)	433
Total investment income reported in other operating revenue (<i>Note 15</i>)	\$ 2,660	\$ 3,434

The System's gross unrealized losses and fair value of individual securities, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2018 and 2017, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
U.S. government obligations (12 securities)	\$ 321	\$ (2)	\$ 2,824	\$ (20)	\$ 3,145	\$ (22)
Corporate bonds/fixed income (64 securities)	7,549	(109)	9,621	(136)	17,170	(245)
Mortgage and asset-backed securities (102 securities)	10,046	(170)	29,215	(427)	39,261	(597)
Mutual funds – equities (17 securities)	13,637	(538)	–	–	13,637	(538)
Total	\$ 31,553	\$ (819)	\$ 41,660	\$ (583)	\$ 73,213	\$ (1,402)
December 31, 2017						
U.S. government obligations (16 securities)	\$ 6,603	\$ (57)	\$ 7,331	\$ (50)	\$ 13,934	\$ (107)
Corporate bonds/fixed income (44 securities)	11,689	(69)	3,819	(25)	15,508	(94)
Mortgage and asset-backed securities (92 securities)	29,730	(247)	25,276	(365)	55,006	(612)
Mutual funds – equities (1 securities)	396	(6)	–	–	396	(6)
Total	\$ 48,418	\$ (379)	\$ 36,426	\$ (440)	\$ 84,844	\$ (819)

At December 31, 2018 and 2017, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Other Assets

Included within investment in joint ventures and other assets on the accompanying consolidated balance sheets are the System's joint venture investments, including CARES and Cardiac Cath which are equity method investments (aggregate balance of approximately \$1,700 at December 31, 2018 and 2017). CARES leases and operates an ambulatory surgery center located in a building owned by the Hospital. Cardiac Cath leases a portion of the CARES building to operate a low-risk outpatient cardiac catheterization laboratory. In 2018 and 2017, the System collected distributions from these joint ventures of approximately \$578 and \$1,081, respectively, and recorded gains of \$590 and \$1,061, respectively.

The following is a condensed summary of financial information of CARES and Cardiac Cath:

	CARES		Cardiac Cath	
	December 31		December 31	
	2018	2017	2018	2017
Total assets	\$ 3,228	\$ 3,339	\$ 2,570	\$ 2,287
Total liabilities	513	727	965	721
Total equity	2,715	2,612	1,605	1,566

In 2018, the System collected distributions from the Cyber Knife joint venture of approximately \$316 (none in 2017).

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Property, Plant, Equipment, and Construction

Property, plant, equipment, and construction consist of the following:

	December 31	
	2018	2017
Land	\$ 8,152	\$ 8,663
Buildings, building service equipment, and improvements	332,343	315,853
Fixed equipment	9,071	9,115
Major movable equipment	241,339	238,897
	590,905	572,528
Less accumulated depreciation and amortization	396,890	382,723
	194,015	189,805
Construction-in-progress	3,626	10,346
	\$ 197,641	\$ 200,151

Depreciation expense was \$24,509 and \$22,211 in 2018 and 2017, respectively. Useful lives of depreciable assets range from 3 to 40 years.

During 2018, the System wrote off approximately \$9,800 of fully depreciated assets.

During 2017, the System finalized the implementation of an integrated electronic medical record and patient billing system. A significant portion of the software costs associated with this implementation were provided by the vendor at no charge in order to replace a previous medical record system from the same vendor that will no longer be supported. As a result, the System recognized a gain of \$7,300 for the upgraded software provided at no charge and an impairment loss of \$6,981 for the abandonment of the net book value of the previously installed system.

During 2018 and 2017, the System received grants related to certain energy upgrade projects. Approximately \$3,017 and \$2,068 related to the energy resilient project in 2018 and 2017 (see Note 7), respectively, were recognized as well as \$1,500 in 2017 related to a lighting efficiency project within donated equipment and other in the accompanying statements of operations and changes in net assets.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit

Long-term debt and line of credit consist of the following:

	December 31	
	2018	2017
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2011 Revenue and Refunding Bonds, which bear interest at rates between 5.00% and 6.25% due in varying maturities through July 1, 2035 (a)	\$ 78,785	\$ 82,845
NJHCFFA Series 2007 Revenue Bonds, which bear interest at rates between 5.25% and 5.75% due in varying maturities through July 1, 2037 (a)	60,265	61,235
Other loans (b)	15,253	13,372
Line of credit advances (c)	–	7,675
Mortgages payable with interest between 3.25% and 5.25% payable in monthly installments of principal and interest through December 1, 2031	3,406	2,530
Capital lease obligations, with interest rates ranging from 1.95% to 4.50% and payments through 2023	2,858	1,425
	160,567	169,082
Less unamortized original issue discount	568	609
Less unamortized deferred financing costs	1,621	1,799
Less current portion	11,413	18,292
	\$ 146,965	\$ 148,382

(a) In August 2011, the Hospital and the Care Center, collectively the Saint Peter's University Hospital Obligated Group (the Obligated Group), closed on the Series 2011 Revenue and Refunding Bonds (the Series 2011 Bonds) in the amount of \$100,640 issued by the NJHCFFA on behalf of the Obligated Group. The proceeds of the Series 2011 Bonds were used for (i) the current refunding of all of the outstanding Series F Revenue Bonds, Series 2000A Revenue Bonds, and Series 2000B Bonds; (ii) the payment or reimbursement of the costs of certain capital expenditures relating to the renovation of portions of the Hospital's facilities and the acquisition and installation of various equipment to be used by the Hospital at its facilities (approximately \$5,500); (iii) the funding of the Debt Service Reserve Fund relating to the Series 2011 Bonds; and (iv) the payment of the costs of issuance of the Series 2011 Bonds.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

In December 2007, the Obligated Group closed on the Series 2007 Revenue Bonds (the Series 2007 Bonds) with the NJHCFFA in the amount of \$65,175, the proceeds of which were used to (i) refund a portion of the outstanding principal amount of the St. Peter's Medical Center Issue, Series F; (ii) pay or reimburse the costs of the construction and renovation of certain portions of the Hospital's facilities and the acquisition of various capital equipment; (iii) pay capitalized interest on a portion of the Series 2007 Bonds; (iv) fund the Debt Service Reserve Fund related to the Series 2007 Bonds; and (v) pay or reimburse the costs of issuance of the Series 2007 Bonds.

The Series 2011 and Series 2007 Bonds were issued in the name of the Obligated Group. Each of the Series 2011 and Series 2007 Bonds is collateralized by a pledge of the revenue of the Obligated Group and the assets held under bond indenture pursuant to the Master Trust Indenture (the Indenture). Under the terms of the Indenture, the Obligated Group is required to maintain a Debt Service Reserve Fund in an amount equal to one year's principal and interest for the Series 2011 and Series 2007. At December 31, 2018 and 2017, the Obligated Group was in compliance with this requirement.

Under the terms of the Indenture and other agreements with the NJHCFFA, the Obligated Group is required to maintain certain financial ratios and be in compliance with other restrictive covenants as described in the respective agreements. At December 31, 2018 and 2017, the Obligated Group was in compliance with such financial covenants.

Subsequent to February 1, 2016, the Obligated Group consists of the Hospital only and the mortgage on the Care Center was released. Residual assets held by the Care Center which existed at that date were transferred to the Hospital in 2017 upon final disposition and, accordingly, are included in the Obligated Group.

- (b) At December 31, 2018 and 2017, the System has a loan to a utility company totaling \$3,693 and \$3,991, respectively, related to amounts borrowed for the installation of solar panels by Solar Energy Solutions. The loan is being repaid by tax credits that are purchased by the utility company. The tax credits are created when solar energy is produced.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

The System is in the process of completing an \$9,200 energy resilient project through the New Jersey Economic Development Authority (EDA). Using grant funding received from the U.S. Department of Housing and Urban Development, the EDA has set aside \$5,595 towards the cost of this project which will be provided to the System in form of a grant combined with a loan from the EDA of \$2,531 paid over 20 years at a 2% interest rate. The loan was initially approved by the EDA in 2017; the loan repayment amount has been revised based on applicability of grant funding. The project will also be funded by a \$1,000 loan payable over 10 years to a utility company. The System had drawn down approximately \$949 and \$897 of the \$1,000 loan as of December 31, 2018 and 2017, respectively.

During 2015, the System entered into an agreement for an equipment loan from a financial institution for approximately \$4,900 maturing in December 2020 with an interest rate of approximately 4.01% for the installation of information technology for an electronic health record and a new patient accounting system. The balance outstanding on this loan was approximately \$1,780 and \$2,623 at December 31, 2018 and 2017, respectively.

The System has other loans with financial institutions maturing in 2024 with interest rates ranging from approximately 3.50% to 4.50% to finance the construction of the interventional radiology and catheterization suites and the replacement of the System's power plant totaling \$6,300 and \$2,761 at December 31, 2018 and 2017, respectively.

- (c) The System obtained a \$10,000 line of credit with a bank in April 2015 which replaced a previous \$5,000 line of credit. At December 31, 2018, no balance was outstanding on the line (\$7,675 at December 31, 2017). The line is due on demand and expires in September 2019. Interest on the line is a variable rate based on LIBOR plus 3%.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

Scheduled principal payments on long-term debt and capital lease obligations, net of interest, for the next five years and thereafter are as follows:

	Series 2011 and 2007 Bonds	Other Loans	Capital Lease Obligations	Total
2019	\$ 5,280	\$ 5,362	\$ 771	\$ 11,413
2020	5,550	2,653	796	8,999
2021	5,830	1,434	775	8,039
2022	6,245	853	441	7,539
2023	6,570	549	75	7,194
Thereafter	109,575	7,808	–	117,383
	<u>\$ 139,050</u>	<u>\$ 18,659</u>	<u>\$ 2,858</u>	<u>\$ 160,567</u>

8. Retirement Plans

The System sponsors a non-contributory defined benefit retirement plan (the Plan) covering all eligible employees of affiliated organizations of the System. Plan benefits are based on years of service and employee compensation as defined in the plan document of affiliated organizations of the System.

The Plan was amended such that effective July 1, 2010, any employee hired after June 30, 2010, is not eligible to participate in the Plan. Additionally, active participation in the Plan is frozen for any employee who terminated employment before July 1, 2010, and is rehired after such date, and active participation in the Plan is frozen for any employee who terminated employment on or after July 1, 2010, unless he/she is rehired before the first anniversary of their termination. The System maintains a defined contribution plan for employees hired as of and subsequent to July 1, 2010. All existing eligible employees as of June 30, 2010 will remain as participants in the defined benefit plan and participate in the defined contribution plan. In February 2012, the System announced to participants of the Plan a plan freeze effective December 31, 2012.

The defined contribution plan established in 2011 provides for annual contributions for eligible employees of between 1% and 3% of pay based on the employee's years of service. Eligible employees begin to accrue benefits six months from their date of hire. The System funds the defined contribution expense on a current basis. Such expense was approximately \$8,476 and

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

\$8,790 in 2018 and 2017, respectively. Additionally, a defined contribution plan was established in 2014 for Physician Associates PC eligible employees with contribution expense of approximately \$247 and \$244 in 2018 and 2017, respectively. In 2019, the System froze all existing defined contribution plans and instituted a new 401(k) retirement plan effective April 2019.

The System recognizes on its consolidated balance sheets an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measures the defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the System's fiscal year, and recognizes changes in the funded status of a defined benefit postretirement plan in changes in net assets without donor restrictions in the year in which the changes occur. Amounts that are recognized as a component of changes in net assets without donor restrictions will be subsequently recognized as net periodic pension cost in future periods.

The underfunded status of the Plan as recognized on the System's consolidated balance sheets is as follows:

	December 31	
	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 339,101	\$ 304,965
Interest cost	12,648	13,104
Benefits paid	(9,280)	(8,578)
Actuarial (gain) loss	(28,362)	29,610
Benefit obligation at end of year	314,107	339,101
Change in plan assets:		
Fair value of plan assets at beginning of year	203,652	170,334
Actual return on plan assets	(13,266)	25,075
Employer contributions	4,000	13,946
Refund of PBGC premiums	-	3,130
Benefits paid	(9,280)	(8,578)
Administrative expenses and other	(273)	(255)
Fair value of plan assets at end of year	184,833	203,652
Accrued pension liability	\$ (129,274)	\$ (135,449)

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets are as follows:

	December 31	
	2018	2017
Projected benefit obligation	\$ 314,107	\$ 339,101
Accumulated benefit obligation	314,107	339,101
Fair value of plan assets	184,833	203,652

The actuarial (gain) loss of \$(28,362) and \$29,610, in 2018 and 2017, respectively, primarily relates to an increase in 2018 and a reduction in 2017 in the discount rate assumption.

During 2017, the System received a refund of previously paid Pension Benefit Guaranty Corporation premiums related to the period 1998 to 2011. The premiums refund totaled \$3,130 and was contributed to the Plan.

The unrecognized actuarial loss included in other changes in net assets without donor restrictions at December 31, 2018 and 2017 is approximately \$124,014 and \$128,100, respectively, of which \$3,544 is expected to be recognized in net periodic pension cost during the year ending December 31, 2019. The change in the pension liability to be recognized in future periods as reported on the accompanying consolidated statements of operations and changes in net assets totaled \$4,086 in 2018 and represents the change in these amounts from December 31, 2017 to 2018.

The following table provides the components of net periodic pension cost:

	Year Ended December 31	
	2018	2017
Interest cost	\$ 12,648	\$ 13,104
Expected return on plan assets	(14,537)	(12,690)
Recognized actuarial loss and administrative expenses	3,800	3,743
Net periodic pension cost	<u>\$ 1,911</u>	<u>\$ 4,157</u>

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The following assumptions were used in determining the benefit obligations and net periodic pension costs:

	December 31	
	2018	2017
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.41%	3.78%
Weighted average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	3.78%	4.36%
Expected long-term rate of return on plan assets	7.25%	7.25%

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.25% expected long-term rate of return on assets assumption at December 31, 2018 and 2017.

The Plan's investment policy is designed to achieve return on assets to match or exceed the actuarial required rate of return. The asset allocation guidelines and permissible ranges by asset category are listed below. Due to market conditions, the Plan's portfolio periodically falls out of the target ranges. At December 31, 2018, this was the case and the portfolio will be rebalanced during 2019 to be within the targets.

	Target	Permissible Range
Equities	42%	33% – 47%
Fixed income	15%	12% – 17%
Global asset allocation	10%	8% – 14%
Equity alternatives	16%	12% – 20%
Fixed-income alternatives	17%	12% – 22%

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The Plan's asset allocations by asset category are as follows:

	December 31	
	2018	2017
Equities	43%	45%
Fixed income	20	13
Global asset allocation	10	10
Equity alternatives	10	15
Fixed-income alternatives	17	17
	100%	100%

Assets invested in the Plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments (non-traditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Plan holds a limited partnership interest or an interest in an investment management company. The Plan's ownership structure does not provide for control over the related investees and the Plan's financial risk is limited to the carrying amount reported for each investee. Fair value for alternative investments is determined by the Plan for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

Refer to Note 12 for the composition at fair value of the defined benefit pension plan assets at December 31, 2018 and 2017.

The System received a favorable ruling from the Internal Revenue Service (IRS) dated August 14, 2013, to operate the Plan as a church plan, which exempts the System from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and its funding requirements. In 2013, the System was sued by certain plan participants claiming the Plan did not qualify as a church plan. Management defended the lawsuit and in June 2017, the U.S. Supreme Court in a unanimous decision upheld that the Plan is a church plan. Other issues related to this matter are still in litigation.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The accrued pension liability reported in the accompanying consolidated financial statements of \$129,274 and \$135,449 at December 31, 2018 and 2017, respectively, is actuarially determined in accordance with the accounting requirements for reporting in the financial statements of the plan sponsor, which differs from the determination of the accumulated plan benefits as reported in the Plan's financial statements.

During 2018 and 2017, the System contributed \$4,000 and \$13,946 to the Plan, respectively. The System plans to contribute \$5,000 to the Plan in 2019.

The following benefit payments under the Plan are expected to be paid:

2019	\$	11,691
2020		12,653
2021		13,614
2022		14,520
2023		15,327
2024–2028		87,379

9. Leases and Other Commitments and Contingencies

Rent expense under operating leases amounted to approximately \$3,777 and \$5,171 in 2018 and 2017, respectively, and is reported within supplies and other expense on the accompanying consolidated statements of operations and changes in net assets.

The future minimum rental payments required under the non-cancelable operating leases are as follows:

2019	\$	3,765
2020		3,078
2021		2,379
2022		1,590
2023		1,573
Thereafter		4,750

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Leases and Other Commitments and Contingencies (continued)

Various lawsuits and claims arising in the normal course of operations are pending or are on appeal against the System. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from the System's actions will not have a material adverse effect on the System's consolidated financial position or results of operations.

In relation to workers' compensation exposure, the System maintains a standby letter of credit in the amount of \$775 and is part of the \$10,000 line of credit in place to secure its self-insured workers' compensation program. There were no draws on the letter of credit in 2018 or 2017.

10. Medical Malpractice and General Liability Claims

As part of a structured and comprehensive risk management program, the System funds its risk of professional and general liability loss through RAC, a wholly-owned captive insurance company domiciled in the Cayman Islands.

RAC began accepting risk on January 1, 2004, and provides professional and general liability insurance protection for all entities within the System, including the Hospital, the Care Center, employed physicians and surgeons, the paramedical staff, and all affiliated corporations and divisions. Professional liability insurance is written as claims-made coverage while general liability is written on an occurrence basis. Prior to 2004, the Hospital purchased first-dollar primary and excess liability coverage in the commercial insurance market.

Currently, RAC issues policies with a maximum retention of \$3,000 for each medical incident or occurrence. RAC further retains, under a first excess or buffer policy, another \$2,000 for each medical incident with a \$2,000 aggregate retention. In addition, RAC issues an excess liability policy which provides separate limits towers of \$45,000 each. The first tower applies to professional liability claims; the second, to claims for all other liabilities. These excess limits are 100% reinsured by companies rated A or A+ by A.M. Best Company. The System has made, and will continue to make, adjustments to the structure, limits, and retentions of the captive program, as circumstances warrant.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Medical Malpractice and General Liability Claims (continued)

Reserves for loss and loss adjustment expense are set based on management's best estimate of liability and damages. At December 31, 2018 and 2017, undiscounted reserve amounts were \$9,861 and \$9,431, respectively, and are included within other liabilities on the accompanying consolidated balance sheets. These reserves are estimates of the ultimate value of loss and loss adjustment expenses for all claims made during respective policy years and are subject to changes in amounts of settlements, verdicts, frequency of claims, or other economic or legal factors. These undiscounted reserves are not offset by estimates of reinsurance claims. While management believes the reserves for losses and loss adjustment expenses are adequate, it also recognizes the variability inherent in the data used in estimating these liabilities and that the ultimate value of losses and loss adjustment expense may vary significantly from the estimated amounts included in the accompanying consolidated financial statements. These estimates are continually reviewed and are adjusted, as necessary. Estimated receivables for reinsurance recoveries recorded by RAC total \$1,754 and \$2,155 at December 31, 2018 and 2017, respectively, and are included within other current assets on the accompanying consolidated balance sheets.

In relation to claims insured through RAC, the Hospital recorded an estimated insurance recovery receivable and medical malpractice claim liability at December 31, 2018 and 2017 equal to RAC's liability estimates. Such amounts are recorded within other assets and other liabilities within the Hospital's balance sheets and eliminate in consolidation.

The System has estimated its liability for losses due to claims from medical incidents that have occurred subsequent to 2004 but have not yet been reported to be approximately \$1,877 and \$1,815 at December 31, 2018 and 2017, respectively, with such estimated liability discounted at a rate of 4% based on expected timing of future payments. These amounts are included within other liabilities on the accompanying consolidated balance sheets.

During 2017, the Hospital received a premium reduction credit from RAC totaling \$5,000 (none in 2018), that resulted from favorable loss experience. The premium reduction credit was recorded by the Hospital within other operating revenue on the Hospital's statements of operations and changes in net assets, and eliminates in consolidation.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Concentration of gross accounts receivable from patients and third-party payors are as follows:

	December 31	
	2018	2017
Medicare and Medicaid	17%	14%
Blue Cross	22	22
Patients	1	7
Commercial	5	3
Managed care	51	49
Other third-party payors	4	5
	100%	100%

12. Fair Value Measurements

The System utilizes various methods of calculating the fair value of its financial assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the System's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). The fair value hierarchy is comprised of three levels based on the source of inputs as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers non-performance risk in its assessment of fair value.

The following table presents the financial instruments carried at fair value, excluding assets invested in the System's defined benefit plan, as of December 31, 2018 and 2017, by caption on the consolidated balance sheets based upon the fair value hierarchy defined above:

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Cash and cash equivalents	\$ 22,854	\$ —	\$ —	\$ 22,854
Assets whose use is limited:				
Cash and cash equivalents	8,000	—	—	8,000
Fixed income:				
U.S. Treasury bills	6,885	—	—	6,885
Asset-backed securities	—	31,984	—	31,984
Corporate bonds	—	21,524	—	21,524
Mortgage-backed securities	7,784	15,226	—	23,010
Mutual funds:				
Fixed Income	2,021	—	—	2,021
Domestic	13,814	—	—	13,814
International	6,678	—	—	6,678
Real estate	147	—	—	147
Commodities	582	—	—	582
Assets held by RAC:				
Cash and cash equivalents	1,791	—	—	1,791
Fixed-asset fund	6,921	2,614	—	9,535
Domestic equities	2,016	8,937	—	10,953
Total assets whose use is limited	56,639	80,285	—	136,924
Total assets at fair value	\$ 79,493	\$ 80,285	\$ —	\$ 159,778

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Cash and cash equivalents	\$ 15,824	\$ —	\$ —	\$ 15,824
Assets whose use is limited:				
Cash and cash equivalents	13,419	—	—	13,419
Fixed income:				
U.S. Treasury bills	8,249	—	—	8,249
Asset-backed securities	—	28,762	—	28,762
Corporate bonds	—	12,958	—	12,958
Mortgage-backed securities	15,906	12,713	—	28,619
Mutual funds:				
Fixed Income	2,667	—	—	2,667
Domestic	8,275	—	—	8,275
International	4,128	—	—	4,128
Real estate	631	—	—	631
Commodities	313	—	—	313
Assets held by RAC:				
Cash and cash equivalents	1,819	—	—	1,819
Fixed-asset fund	5,885	3,489	—	9,374
Domestic equities	2,187	8,709	—	10,896
Total assets whose use is limited	63,479	66,631	—	130,110
Total assets at fair value	\$ 79,303	\$ 66,631	\$ —	\$ 145,934

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments of the defined benefit plan (see Note 8) as of December 31, 2018 and 2017, by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Cash and cash equivalents	\$ 2,466	\$ –	\$ –	\$ 2,466
Equity funds:				
Domestic	35,494	–	–	35,494
International	20,947	–	–	20,947
Fixed-income mutual fund	77,253	–	–	77,253
	<u>\$ 136,160</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 136,160</u>
Investments measured at net asset value:				
Equity alternatives				48,673
Total				<u>\$ 184,833</u>
December 31, 2017				
Cash and cash equivalents	\$ 1,064	\$ –	\$ –	\$ 1,064
Equity funds:				
Domestic	40,267	–	–	40,267
International	23,652	–	–	23,652
Fixed-income mutual fund	81,814	–	–	81,814
	<u>\$ 146,797</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 146,797</u>
Investments measured at net asset value:				
Equity alternatives				56,855
Total				<u>\$ 203,652</u>

Fair value for Level 1 assets is based upon quoted market prices.

Level 2 assets maintained in the System's portfolio consist of certain fixed-income securities for which the fair value at each year-end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

Equity alternative financial instruments maintained by the Plan represent the Plan's investment in funds of funds and are valued as described in Note 8. Financial information used to evaluate the alternative investments is provided by the investment manager or general partner and includes fair

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The alternative investments may indirectly expose the Plan to securities lending, short sales of securities, and trading in futures and forwards contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which capital may be divested only at specified times. At December 31, 2018 and 2017, there were no commitments or liquidity restrictions.

The System uses primarily quoted market prices and other valuation considerations in estimating fair value of its bonds payable. The fair value of other long-term debt is based upon discounted cash flow analyses. The fair value of the System's long-term debt, excluding capital lease obligations, at December 31, 2018 and 2017 is approximately \$161,810 and \$162,207, respectively. Fair value of long-term debt is classified as Level 2 of the valuation hierarchy.

13. Net Assets with Donor Restrictions

Net assets with donor restriction are available for the following purposes:

	December 31	
	2018	2017
Health care programs	\$ 1,458	\$ 1,512
Children's fund	2,608	987
Health education	1,759	2,005
Chapel refurbishment	—	2,757
Purchase of equipment	223	311
	\$ 6,048	\$ 7,572

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

14. Functional Expenses

Operating expenses, by function and natural classification, are as follows:

	2018		
	Health Care Program Expenses	General and Administrative Expenses	Total Expenses
Salaries and wages	\$ 186,716	\$ 43,234	\$ 229,950
Resident and physician fees	10,076	1,518	11,594
Employee benefits	43,626	10,102	53,728
Supplies and other	87,036	54,579	141,615
Governmental taxes, fees, and assessments	2,872	1,021	3,893
Interest	9,035	493	9,528
Depreciation and amortization	24,318	408	24,726
	\$ 363,679	\$ 111,355	\$ 475,034
	2017		
	Health Care Program Expenses	General and Administrative Expenses	Total Expenses
Salaries and wages	\$ 190,586	\$ 43,297	\$ 233,883
Resident and physician fees	15,690	761	16,451
Employee benefits	40,864	9,284	50,148
Supplies and other	87,136	58,212	145,348
Governmental taxes, fees, and assessments	2,680	624	3,304
Interest	9,101	526	9,627
Depreciation and amortization	22,030	408	22,438
	\$ 368,087	\$ 113,112	\$ 481,199

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2018	2017
Grant revenue	\$ 2,329	\$ 2,499
Rental income	1,892	2,077
Electronic health records	306	790
Investment income (Note 4)	2,664	3,434
Child Protection Center revenue	1,971	1,842
Retail pharmacy cost sharing	5,122	3,529
Nursing services	1,745	1,711
Food services	1,976	2,179
Physician billing services	4,631	4,751
Ambulance services	642	679
Solar energy credits	928	964
Adult day care	154	709
Outreach laboratory fees	368	337
Research studies	486	730
Purchasing rebates	437	459
Other	4,615	3,937
	\$ 30,266	\$ 30,627

16. Subsequent Events

Subsequent events have been evaluated through April 29, 2019 which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Note 3 and 8 and below, no other subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Effective April 1, 2019, the sole membership of National Gianna was transferred from the System to an unrelated entity for no consideration. Additionally, amounts due from National Gianna to the System were forgiven as of December 31, 2018.

Supplementary Information

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet
(In Thousands)

December 31, 2018

	Saint Peter's University Hospital & Subsidiaries			Saint Peter's Health & Management Services						Saint Peter's Healthcare System, Inc	Saint Peter's Foundation	National Gianna	SPHCS Physician Associates	Saint Peter's Advanced Care	Saint Peter's Specialty Physicians	Consolidating and Eliminating Entries	Total Saint Peter's Health Care System	
	Obligated Group Saint Peter's University Hospital	Consolidating and Eliminating Entries	Total Saint Peter's University Hospital & Subs	Care Center	Properties	SP Solar Energy Solutions	SP Health & Mgmt Services	Gianna Phys Practice NY	Consolidating and Eliminating Entries									Total Saint Peter's Health & Management Services
Assets																		
Current assets:																		
Cash and cash equivalents	\$ 19,166	\$ -	\$ -	\$ 19,166	\$ 62	\$ 443	\$ 4	\$ -	\$ 29	\$ -	\$ 538	\$ 1,591	\$ 604	\$ 486	\$ 469	\$ -	\$ -	\$ 22,854
Patient accounts receivable, net	48,987	-	-	48,987	-	-	-	-	-	-	-	-	-	-	-	-	-	48,987
Assets whose use is limited, current portion	99,786	-	-	99,786	-	-	-	-	-	-	-	-	5,140	254	-	-	-	105,180
Supplies	5,013	-	-	5,013	-	-	-	-	-	-	-	-	-	-	-	-	-	5,013
Estimated third-party payer settlements, current portion	299	-	-	299	-	-	-	-	-	-	-	-	-	-	-	-	-	299
Due from related parties, current portion	4,067	-	-	4,067	-	-	-	-	312	-	312	77,647	-	-	3,599	-	-	79,558
Other current assets	8,098	1,754	-	9,852	-	4	7	-	29	40	1,182	469	63	412	-	33	(85,625)	12,051
Total current assets	185,416	1,754	-	187,170	62	447	11	-	370	890	80,420	6,213	803	4,480	-	33	(85,625)	194,384
Assets whose use is limited, less current portion	15,420	22,277	-	37,697	-	-	-	-	-	-	-	-	-	-	-	-	-	37,697
Property, plant, equipment and construction, net	184,761	-	-	184,761	-	3,285	7,507	-	-	10,792	-	1	-	2,087	-	-	197,641	
Estimated third-party payer settlements less current portion	246	-	-	246	-	-	-	-	-	-	-	-	-	-	-	-	246	
Beneficial interest in Foundation	5,933	-	-	5,933	-	-	-	-	-	-	-	-	-	-	-	-	(5,933)	-
Due from related parties, noncurrent	2,153	-	-	2,153	-	-	-	-	-	-	-	-	-	-	-	-	(2,153)	-
Investments in joint ventures and other assets	20,354	-	(15,761)	4,593	-	-	-	2,234	-	2,234	-	184	-	-	-	-	(500)	6,511
	\$ 414,283	\$ 24,031	\$ (15,761)	\$ 422,553	\$ 62	\$ 3,732	\$ 7,518	\$ 2,234	\$ 370	\$ 13,916	\$ 80,420	\$ 6,398	\$ 803	\$ 6,567	\$ -	\$ 33	\$ (94,211)	\$ 436,479
Liabilities and net assets																		
Current liabilities:																		
Current portion of long-term debt and line of credit	\$ 11,034	\$ -	\$ -	\$ 11,034	\$ -	\$ 58	\$ 321	\$ -	\$ -	\$ 379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,413
Accounts payable	23,201	366	-	23,567	-	-	-	-	-	-	2,385	-	-	523	-	-	-	26,475
Accrued expenses and other liabilities	30,254	-	-	30,254	76	8	-	-	80	164	4,086	282	2	1,248	27	56	2	36,121
Accrued interest	4,066	-	-	4,066	-	-	-	-	-	-	-	-	-	-	-	-	-	4,066
Estimated third-party payer settlements, current portion	2,795	-	-	2,795	-	-	-	-	-	-	-	-	-	-	-	-	-	2,795
Due to related parties	10,192	-	-	10,192	-	215	2,578	629	3,411	6,833	68,927	183	312	61,953	2,330	3,001	(153,731)	80,870
Total current liabilities	81,542	366	-	81,908	76	281	2,899	629	3,491	7,376	75,398	465	314	63,724	2,357	3,057	(153,729)	80,870
Long-term debt, less current portion	141,829	-	-	141,829	-	1,763	3,373	-	-	5,136	-	-	-	-	-	-	-	146,965
Estimated third-party payer settlements, less current portion	1,599	-	-	1,599	-	-	-	-	-	-	-	-	-	-	-	-	-	1,599
Accrued pension liability	124,252	-	-	124,252	-	-	-	-	-	-	5,022	-	-	-	-	-	-	129,274
Other liabilities	24,225	9,861	(9,861)	24,225	-	-	-	-	-	-	-	-	-	-	-	-	-	24,225
Total liabilities	373,447	10,227	(9,861)	373,813	76	2,044	6,272	629	3,491	12,512	80,420	465	314	63,724	2,357	3,057	(153,729)	382,933
Net assets:																		
Net assets without donor restrictions	34,160	13,804	(5,900)	42,064	(14)	1,688	1,246	1,605	(3,121)	1,404	-	1,167	(50)	(57,157)	(2,357)	(3,024)	65,451	47,498
Net assets with donor restrictions	6,676	-	-	6,676	-	-	-	-	-	-	-	4,766	539	-	-	-	(5,933)	6,048
Total net assets	40,836	13,804	(5,900)	48,740	(14)	1,688	1,246	1,605	(3,121)	1,404	-	5,933	489	(57,157)	(2,357)	(3,024)	59,518	53,546
	\$ 414,283	\$ 24,031	\$ (15,761)	\$ 422,553	\$ 62	\$ 3,732	\$ 7,518	\$ 2,234	\$ 370	\$ 13,916	\$ 80,420	\$ 6,398	\$ 803	\$ 6,567	\$ -	\$ 33	\$ (94,211)	\$ 436,479

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

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

Year Ended December 31, 2018

	Saint Peter's University Hospital & Subsidiaries			Saint Peter's Health & Management Services						Saint Peter's Healthcare System, Inc.						Total Saint Peter's Health Care System			
	Obligated Group Saint Peter's University Hospital	RAC	Consolidating and Eliminating Entries	Total Saint Peter's University Hospital & Subs	Care Center	Properties	SP Solar Energy Solutions	SP Health & Mgmt Services	Gianna Phys Practice NY	Consolidating and Eliminating Entries	Total Saint Peter's Health & Management Services	Saint Peter's Healthcare System, Inc	Saint Peter's Foundation	National Gianna	Saint Peter's Physician Associates		Saint Peter's Advanced Care	Saint Peter's Specialty Physicians	Consolidating and Eliminating Entries
Revenue, gains and other support:																			
Net patient service revenue	\$ 446,764	\$ -	\$ -	\$ 446,764	\$ -	\$ -	\$ -	\$ -	\$ 225	\$ -	\$ 225	\$ -	\$ -	\$ -	\$ 11,194	\$ 26	\$ 125	\$ -	\$ 458,334
Other operating revenue, net	25,893	4,377	(3,867)	26,403	-	176	928	3	441	-	1,548	45,229	1,018	291	1,206	81	-	30,266	
Net assets released from restriction	25	-	-	25	-	-	-	-	-	-	-	-	1,050	427	-	-	-	1,502	
Total revenue, gains and other support	472,682	4,377	(3,867)	473,192	-	176	928	3	666	-	1,773	45,229	2,068	718	12,400	107	125	490,102	
Expenses:																			
Salaries and wages	216,759	-	-	216,759	-	4	51	-	591	-	646	21,469	42	-	12,503	75	(75)	(21,469)	229,950
Resident and physician fees	9,989	-	-	9,989	-	-	-	-	13	-	13	152	-	-	1,440	-	-	-	11,594
Employee benefits	51,144	-	-	51,144	-	1	10	-	135	-	146	4,267	8	-	2,430	-	-	(4,267)	53,728
Supplies and other	143,802	3,721	(3,867)	143,656	-	32	211	-	199	-	442	18,838	2,009	564	5,441	92	-	(29,427)	141,615
Governmental taxes, fees, and assessments	3,868	-	-	3,868	-	25	-	-	-	-	25	-	-	-	-	-	-	-	3,893
Interest	8,974	-	-	8,974	-	61	493	-	-	-	554	-	-	-	-	-	-	-	9,528
Depreciation and amortization	23,920	-	-	23,920	-	69	408	-	-	-	477	-	-	-	329	-	-	-	24,726
Total expenses	458,456	3,721	(3,867)	458,310	-	192	1,173	-	938	-	2,303	44,726	2,059	564	22,143	167	(75)	(55,163)	475,034
Income (loss) from operations	14,226	656	-	14,882	-	(16)	(245)	3	(272)	-	(530)	503	9	154	(9,743)	(60)	200	9,653	15,068
Severance costs	(6)	-	-	(6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6)
Equity in net earnings of joint ventures and other income	1,043	-	-	1,043	-	-	-	590	-	-	590	-	-	-	-	-	-	(727)	906
Gain on sale of equipment	350	-	-	350	-	313	-	-	-	-	313	-	-	-	14	-	-	-	677
Non-operating net periodic pension cost	(1,367)	-	-	(1,367)	-	-	(1)	-	(1)	-	(2)	(503)	(1)	-	(26)	-	-	503	(1,396)
Equity transfer to affiliate	-	-	-	-	-	-	-	(727)	-	-	(727)	-	-	-	-	-	-	727	-
Excess (deficiency) of revenue over expenses	14,246	656	-	14,902	-	297	(246)	(134)	(273)	-	(356)	-	8	154	(9,755)	(60)	200	10,156	15,249
Net change in unrealized gains and losses on investments	(2,011)	(1,303)	-	(3,314)	-	-	-	-	-	-	-	-	(268)	-	-	-	-	-	(3,582)
Change in pension liability to be recognized in future periods	4,086	-	-	4,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,086
Donated equipment and other	3,998	-	-	3,998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,998
Increase (decrease) in net assets without donor restrictions before discontinued operations	20,319	(647)	-	19,672	-	297	(246)	(134)	(273)	-	(356)	-	(260)	154	(9,755)	(60)	200	10,156	19,751
Loss from discontinued skilled nursing facility	-	-	-	-	(13)	-	-	-	-	-	(13)	-	-	-	-	-	-	-	(13)
Increase (decrease) in net assets without donor restrictions	20,319	(647)	-	19,672	(13)	297	(246)	(134)	(273)	-	(369)	-	(260)	154	(9,755)	(60)	200	10,156	19,738
Net assets with donor restrictions:																			
Restricted gifts and contributions and related items, net	16	-	-	16	-	-	-	-	-	-	-	-	(167)	129	-	-	-	-	(22)
Net change in beneficial interest in Foundation	(1,477)	-	-	(1,477)	-	-	-	-	-	-	-	-	(1,050)	(427)	-	-	-	1,477	-
Net assets released from restriction	(25)	-	-	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,502)
(Decrease) in net assets with donor restrictions	(1,486)	-	-	(1,486)	-	-	-	-	-	-	-	-	(1,217)	(298)	-	-	-	1,477	(1,524)
Increase (decrease) in net assets	18,833	(647)	-	18,186	(13)	297	(246)	(134)	(273)	-	(369)	-	(1,477)	(144)	(9,755)	(60)	200	11,633	18,214
Net assets at beginning of year	22,003	14,451	(5,900)	30,554	(1)	1,391	1,492	1,739	(2,848)	-	1,773	-	7,410	633	(47,402)	(2,297)	(3,224)	47,885	35,332
Net assets at end of year	\$ 40,836	\$ 13,804	\$ (5,900)	\$ 48,740	\$ (14)	\$ 1,688	\$ 1,246	\$ 1,605	\$ (3,121)	\$ -	\$ 1,404	\$ -	\$ 5,933	\$ 489	\$ (57,157)	\$ (2,357)	\$ (3,024)	\$ 59,518	\$ 53,546

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