



**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Financial Statements and  
Consolidating Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Directors  
Catholic Health Services of Long Island:

We have audited the accompanying consolidated financial statements of Catholic Health Services of Long Island, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Health Services of Long Island as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



### **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*KPMG LLP*

New York, New York  
April 16, 2018

**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Balance Sheets

December 31, 2017 and 2016

(In thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 182,278	207,674
Investments	600,885	529,122
Assets limited or restricted as to use	24,674	23,979
Patient <b>accounts receivable</b> , less allowance for uncollectible accounts of \$50,505 in 2017 and \$47,987 in 2016	287,519	287,063
<b>Contributions receivable</b> , net	4,625	3,752
<b>Other receivables</b>	35,571	26,875
Inventories	31,241	30,508
Prepaid expenses and other	22,963	22,059
Total current assets	1,189,756	1,131,032
Assets limited or restricted as to use:		
Board designated and other	66,480	79,156
Donor-restricted funds	48,939	43,103
Funded depreciation	358,576	294,683
Trustee held and other agreements	133,936	150,122
Captive assets	102,874	86,449
Total assets limited or restricted as to use	710,805	653,513
Less assets limited or restricted as to use and required for current liabilities	24,674	23,979
Total assets limited or restricted as to use, net	686,131	629,534
Contributions receivable, net of current portion	7,974	9,414
Other assets, net	29,727	29,502
Insurance claims receivable	168,274	171,252
Property, plant, and equipment, net	813,061	791,081
Total assets	\$ 2,894,923	2,761,815

<b>Liabilities and Net Assets</b>	<b>2017</b>	<b>2016</b>
Current liabilities:		
Current portion of long-term debt	\$ 35,622	34,809
Accounts payable and accrued expenses	209,809	198,944
Accrued salaries, related withholdings, and benefits	164,446	154,773
Current portion of other self-insured liabilities	31,379	32,607
Current portion of estimated third-party payor liabilities	55,377	63,084
Other liabilities	28,174	19,837
Total current liabilities	<u>524,807</u>	<u>504,054</u>
Long-term debt, net of current portion	432,863	468,967
Estimated third-party payor liabilities, net of current portion	32,095	34,788
Other self-insured liabilities, net of current portion	117,633	126,872
Estimated malpractice liabilities	275,633	250,855
Other long-term liabilities	64,768	60,787
Total liabilities	<u>1,447,799</u>	<u>1,446,323</u>
Net assets:		
Unrestricted:		
Catholic Health Services of Long Island	1,384,034	1,257,471
Noncontrolling interests	1,543	1,752
Total unrestricted	<u>1,385,577</u>	<u>1,259,223</u>
Temporarily restricted	57,459	52,204
Permanently restricted	4,088	4,065
Total net assets	<u>1,447,124</u>	<u>1,315,492</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 2,894,923</u>	<u>2,761,815</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Statements of Operations

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Unrestricted revenues, gains, and other support:		
Net patient services revenue before bad debts	\$ 2,473,332	2,405,949
Provision for bad debts, net	<u>(25,899)</u>	<u>(37,747)</u>
Net patient services revenue	2,447,433	2,368,202
Investment income, net	60,836	20,589
Contributions, net	6,073	14,053
Other revenue	137,593	118,445
Net assets released from restrictions used for operations	<u>1,637</u>	<u>2,142</u>
Total revenues, gains, and other support	<u>2,653,572</u>	<u>2,523,431</u>
Expenses:		
Salaries	1,320,975	1,219,029
Employee benefits	388,704	378,309
Supplies and other expenses	693,054	635,972
Insurance	57,679	59,127
Depreciation and amortization	101,690	101,465
Interest	<u>19,507</u>	<u>19,936</u>
Total expenses	<u>2,581,609</u>	<u>2,413,838</u>
Operating income before nonoperating gains (losses)	71,963	109,593
Nonoperating gains (losses):		
Net unrealized gains on investments	47,483	29,385
Other nonoperating gains, net	—	957
Income attributable to noncontrolling interests	<u>(1,191)</u>	<u>(1,250)</u>
Excess of revenues, gains, and other support over expenses	118,255	138,685
Other changes in unrestricted net assets:		
Postretirement benefit plan changes other than net periodic benefit cost	710	825
Net assets released from restrictions used for purchases of property, plant, and equipment	7,431	2,408
Grant income for purchases of property, plant, and equipment	<u>167</u>	<u>311</u>
Increase in unrestricted net assets	\$ <u>126,563</u>	\$ <u>142,229</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2017 and 2016

(In thousands)

	<u>Unrestricted</u>					
	<u>Catholic Health Services of Long Island</u>	<u>Noncontrolling interests</u>	<u>Total</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, December 31, 2015	\$ 1,115,242	1,670	1,116,912	41,567	4,065	1,162,544
Excess of revenues, gains, and other support over expenses	138,685	—	138,685	—	—	138,685
Investment gains including unrealized gains, net	—	—	—	1,796	—	1,796
Restricted contributions, net	—	—	—	13,391	—	13,391
Net assets released from restrictions used for operations	—	—	—	(2,142)	—	(2,142)
Postretirement benefit plan changes other than net periodic benefit cost	825	—	825	—	—	825
Net assets released from restrictions for purchases of property, plant, and equipment	2,408	—	2,408	(2,408)	—	—
Grant income for purchases of property, plant, and equipment	311	—	311	—	—	311
Distributions to noncontrolling shareholders	—	(1,168)	(1,168)	—	—	(1,168)
Income attributable to noncontrolling interests	—	1,250	1,250	—	—	1,250
Increase in net assets	<u>142,229</u>	<u>82</u>	<u>142,311</u>	<u>10,637</u>	<u>—</u>	<u>152,948</u>
Net assets, December 31, 2016	<u>1,257,471</u>	<u>1,752</u>	<u>1,259,223</u>	<u>52,204</u>	<u>4,065</u>	<u>1,315,492</u>
Excess of revenues, gains, and other support over expenses	118,255	—	118,255	—	—	118,255
Investment gains including unrealized gains, net	—	—	—	4,366	—	4,366
Restricted contributions, net	—	—	—	9,957	23	9,980
Net assets released from restrictions used for operations	—	—	—	(1,637)	—	(1,637)
Postretirement benefit plan changes other than net periodic benefit cost	710	—	710	—	—	710
Net assets released from restrictions for purchases of property, plant, and equipment	7,431	—	7,431	(7,431)	—	—
Grant income for purchases of property, plant, and equipment	167	—	167	—	—	167
Distributions to noncontrolling shareholders	—	(1,400)	(1,400)	—	—	(1,400)
Income attributable to noncontrolling interests	—	1,191	1,191	—	—	1,191
Increase (decrease) in net assets	<u>126,563</u>	<u>(209)</u>	<u>126,354</u>	<u>5,255</u>	<u>23</u>	<u>131,632</u>
Net assets, December 31, 2017	\$ <u>1,384,034</u>	<u>1,543</u>	<u>1,385,577</u>	<u>57,459</u>	<u>4,088</u>	<u>1,447,124</u>

See accompanying notes to consolidated financial statements.

**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase in net assets	\$ 131,632	152,948
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	101,466	96,703
Distributions to noncontrolling shareholders	1,400	1,168
Inherent contribution on acquisition of property	—	(1,238)
Amortization of deferred financing costs	793	745
Amortization of intangible assets	224	4,762
Provision for bad debts, net	25,899	37,747
Net realized and unrealized gains on investments	(91,707)	(32,312)
Investment income on restricted assets, net	(2,388)	(688)
Postretirement benefit plan changes other than net periodic benefit cost	(710)	(825)
Grant income for purchases of property, plant, and equipment	(167)	(311)
Restricted contributions	(10,274)	(11,558)
Changes in asset and liability accounts:		
Patient accounts receivable, net	(26,355)	(81,573)
Other operating assets	(5,795)	(4,336)
Other operating liabilities	23,681	41,342
Estimated third-party payor liabilities	(10,400)	8,442
Other self-insured and malpractice liabilities	14,311	33,746
Net cash provided by operating activities	<u>151,610</u>	<u>244,762</u>
Cash flows from investing activities:		
Purchases of property and equipment	(123,446)	(89,703)
Increase in accounts payable due to capital purchases	9,885	307
Proceeds from sale of investments and assets limited or restricted as to use	625,473	688,139
Purchases of investments and assets limited or restricted as to use	<u>(662,821)</u>	<u>(796,581)</u>
Net cash used in investing activities	<u>(150,909)</u>	<u>(197,838)</u>

**CATHOLIC HEALTH SERVICES OF LONG ISLAND**

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	\$ (36,084)	(32,927)
Restricted contributions	10,274	11,558
Change in contributions receivable	(1,442)	(4)
Distributions to noncontrolling shareholders	(1,400)	(1,168)
Grant income for purchases of property, plant, and equipment	167	311
Investment income on restricted assets, net	<u>2,388</u>	<u>688</u>
Net cash used in financing activities	<u>(26,097)</u>	<u>(21,542)</u>
Net (decrease) increase in cash and cash equivalents	(25,396)	25,382
Cash and cash equivalents at beginning of year	<u>207,674</u>	<u>182,292</u>
Cash and cash equivalents at end of year	\$ <u><u>182,278</u></u>	\$ <u><u>207,674</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 19,787	20,130

See accompanying notes to consolidated financial statements.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

### (1) Organization

Catholic Health System of Long Island, Inc. (d/b/a Catholic Health Services of Long Island) (CHSLI or CHS) is a New York not-for-profit corporation organized to serve as the coordinating body of an integrated network of providers. CHS, as a ministry of the Catholic Church, continues Christ's healing mission, promotes excellence in care, and commits itself to those in need. CHS affirms the sanctity of life, advocates for the poor and underserved, and serves the common good. CHS conducts its healthcare practice, business, education, and innovation with justice, integrity, and respect for the dignity of each person. CHS is sponsored by the Roman Catholic Diocese of Rockville Centre (Diocese).

#### **CHS Hospitals**

- Good Samaritan Hospital Medical Center (Good Samaritan)
- Mercy Medical Center (Mercy)
- St. Catherine of Siena Medical Center (St. Catherine)
- St. Charles Hospital (St. Charles)
- St. Francis Hospital (St. Francis)
- St. Joseph Hospital (St. Joseph; formerly, New Island)

#### **CHS Organizations**

##### *Nursing Homes*

- Good Samaritan Nursing Home
- Our Lady of Consolation Geriatric Care Center (Consolation)
- St. Catherine of Siena Nursing Home

##### *Insurance*

- Good Samaritan Self Insurance Against Malpractice
- RVC Insurance Company, Inc. (the Captive)

##### *Continuing Care Entities*

- Catholic Home Care
- CHS Home Support Services
- Good Shepherd Hospice
- Maryhaven Center of Hope (Maryhaven)
- Maryhaven School Corporation
- Maryhaven Transportation Services
- Riverhead Hostel Holding Corporation
- Wisdom Gardens Housing Development Fund, Inc.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

- MCH-Wisdom, LLC
  - Wisdom Gardens Limited Partnership
- Foundations and Other Entities*
- The Center of Hope Foundation
  - CHS Services, Inc.
  - CHS Physician Partners
  - Good Samaritan Hospital Foundation
  - Good Shepherd Hospice Foundation
  - Mercy Medical Center Foundation
  - Our Lady of Consolation Foundation
  - St. Catherine of Siena Medical Center Foundation
  - St. Charles Hospital Foundation
  - St. Francis Hospital Foundation
  - St. Francis Hospital Research & Educational Corporation, Inc.
- Professional Corporations*
- Advanced Rehabilitation Medicine, PLLC
  - Cardiac EKG Interpretations, P.C.
  - Long Island Emergency Medical Care, P.C.
  - Long Island Regional Arthritis & Osteoporosis Care, P.C.
  - Mercy Internal Medicine P.C.
  - Radiology Consultants of Long Island, PLLC
  - Samaritan Emergency Medical Services, P.C.
  - Samaritan Medical Services, P.C.
  - Samaritan Pediatric Services, P.C.
  - Southwest Suffolk Medical, P.C.
  - St. Francis Cardiac Prevention Services, P.C. (d/b/a NY Surgical Partners)
  - St. Francis Cardiovascular Physicians, P.C.

The accompanying consolidated financial statements include the accounts of all of the CHS Hospitals and all related CHS organizations. All significant intercompany accounts and transactions have been eliminated in consolidation.

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting.

#### (b) Use of Estimates

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

#### (c) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase, excluding amounts limited or restricted as to use.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

### **(d) Investments and Assets Limited or Restricted as to Use**

Investments in equity securities with readily determinable fair values and all investments in debt securities are classified as trading securities and are measured at fair value in the accompanying consolidated balance sheets. Alternative investments (nontraditional, not readily marketable asset classes) are reported at net asset value (NAV). Because of the inherent uncertainty in these valuations, those estimated values may significantly differ from the values that would have been used had a ready market for the investments existed.

Assets limited or restricted as to use include assets set aside by CHS for future long-term purposes, such as capital improvements, assets restricted by donors, trusts and other agreements, and assets set aside for malpractice and other captive-related insurance expenditures. Amounts required to meet current liabilities of CHS have been classified as current assets in the accompanying consolidated balance sheets.

Net investment income (including net realized and unrealized gains and loss, interest, and dividends) is included in excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law.

### **(e) Net Patient Accounts Receivable and Net Patient Services Revenues**

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors. Such receivables do not bear interest.

The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management periodically assesses the adequacy of this allowance based upon historical collection and write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible patient accounts receivable. After satisfaction of amounts due from insurance, CHS follows established guidelines for placing certain patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by CHS policy. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. CHS does not have any off-balance-sheet credit exposure related to its patient accounts receivable.

CHS records net patient services revenue in the period in which services are performed. CHS has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established rates and per diem payments.

Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations, and excluding estimated amounts that may be considered uncollectible. The differences between the estimated and actual adjustments are recorded as a part of

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

net patient services revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

**(f) Charity Care**

As an integral part of its mission, CHS provides care to all patients regardless of their ability to pay for services rendered. CHS records as charity care the care provided to patients who meet certain criteria, under its charity care policy, without charge or at amounts less than CHS' established rates. Because CHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**(g) Inventories**

Inventories are stated at the lower of cost (determined on a first-in, first-out method) or market.

**(h) Related-Party Transactions**

Certain CHS entities provide services and advances to other CHS entities. Most of these receivables associated with the services provided and advances are noninterest bearing and due on demand. Certain advances accrue interest and have stated repayment periods. The related party receivables and payables and related interest expense and income are eliminated in consolidation, as are any reserves created after evaluation of the related party's ability to repay.

**(i) Contributions**

Unconditional promises to give cash and other assets to CHS are reported at fair value at the date the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

**(j) Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost when purchased and at estimated fair value when donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets (ranging from 3 to 40 years). Equipment under capital lease obligations is amortized utilizing the straight-line basis over the lesser of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Leases are classified as either capital leases or operating leases in accordance with the terms of the underlying lease agreements. Equipment acquisitions qualifying as capital leases are recorded as assets and the related obligations as liabilities at the present value of future minimum lease payments. Lease

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

payments under operating leases are charged directly to rental expense and are included in supplies and other expenses in the accompanying consolidated statements of operations.

### **(k) Estimated Malpractice Costs**

The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. As of December 31, 2017 and 2016, amounts recorded within estimated malpractice liabilities in the accompanying consolidated balance sheets are effectively undiscounted.

### **(l) Estimated Self-Insured Liabilities**

The CHS Hospitals, excluding St. Joseph, were self-insured for certain claims, including workers' compensation, through the Protective Self-Insurance Program (PSIP) of the Diocese for outstanding claims through year ended December 31, 2011. During 2012, the CHS Hospitals, excluding St. Joseph, entered into an arrangement with a commercial carrier in which a \$500 per-claim stop-loss coverage is provided for workers' compensation claims. In August 2015, St. Joseph entered into an arrangement with a commercial carrier in which a \$250 per-claim stop-loss coverage is provided for workers' compensation claims. The other CHS entities are insured through the New York State Insurance Fund. CHS has coverage for general liability, property, and other lines of coverage through a combination of commercial policies and through the Captive. Additionally, under the CHS health insurance program, all CHS entities are self-insured for employee medical and related costs. The provisions for estimated self-insured claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

It is the policy of CHS to record estimated workers' compensation self-insured liabilities and related insurance claims receivable on a discounted basis based on the expected timing of future estimated claim payments and recoveries, using a risk-free rate.

### **(m) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Generally, the donors of these assets restrict the income earned on related investments for a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income from permanently restricted net assets is generally restricted for a specific purpose.

### **(n) Performance Indicator**

The consolidated statements of operations include excess of revenues, gains, and other support over expenses as the performance indicator. Other changes in unrestricted net assets, which are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice include grant income for purchases of property, plant, and equipment; postretirement benefit plan changes other than net periodic benefit cost; and net assets released from restrictions used for purchases of property, plant, and equipment.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

### **(o) Operating and Nonoperating Activities**

CHS' primary mission is to meet the healthcare needs in its market area through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, home healthcare, hospice, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities, which are peripheral to CHS' primary mission, are considered to be nonoperating. Nonoperating activities include net unrealized gains on investments, other nonoperating gains, net, and income attributable to noncontrolling interests.

### **(p) Impairment of Long-Lived Assets, Goodwill, and Intangible Assets**

Long-lived assets, such as property, plant, and equipment, and definite-lived intangible assets are reviewed 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted 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.

Goodwill and intangible assets are evaluated for impairment annually or more frequently if circumstances require. A qualitative assessment is performed to determine whether there are events or circumstances that indicate it is more likely than not that the reporting unit's fair value is less than its carrying amount.

No impairment was recognized in 2017 or 2016.

### **(q) Income Taxes**

CHS and most of its subsidiaries are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. CHS accounts for uncertain tax positions in accordance with the Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements, using a threshold of more likely than not of being sustained.

In December 2017, H.R. 1, *Tax Cuts and Jobs Act*, was signed into law impacting several sections of the Internal Revenue Code. CHS is currently analyzing the impact of these changes on the consolidated financial statements. The changes may affect areas related to charitable giving, excise tax on executive compensation, unrelated business income and taxable subsidiaries.

### **(r) New Accounting Pronouncements and Adoption of New Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition criteria, including guidance specific to the healthcare industry. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects consideration to which the entity expects to be entitled for those goods or services. This ASU provides entities the option of applying a full or modified retrospective approach upon adoption. ASU 2014-09 is effective for fiscal

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years beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. CHS does not expect the adoption of ASU 2014-09 to have a material impact on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounting for under the equity method. The new standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2018. CHS is evaluating the impact of ASU 2016-01 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and requires lessees to recognize most leases on the balance sheet via a right-of-use assets and a lease liability, and additional qualitative and quantitative disclosures. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and mandates a modified transition period. CHS is evaluating the impact of ASU 2016-02 on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changes how Not-for-Profit entities report net asset classes, expenses, and liquidity in their financial statements. The guidance is effective for fiscal years beginning after December 15, 2017. CHS does not expect the adoption of ASU 2016-14 to have a material impact on the consolidated financial statements.

In March, 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 is intended to improve the presentation of net periodic pension and postretirement benefit by requiring that, among other things, the service cost component be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations. This guidance is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. CHS does not expect the adoption of ASU 2017-07 to have a material impact on the consolidated financial statements.

### **(s) Reclassifications**

Certain reclassifications have been made to the 2016 consolidated financial statements in order to conform to the 2017 presentation.

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**(3) Community Benefit and Uncompensated Care**

In accordance with its mission and philosophy, the CHS Hospitals commit substantial resources to both the indigent and the broader community. The CHS Hospitals' policy regarding charity care is to provide care without regard to the patient's ability to pay for services rendered. CHS records as charity care the care provided to patients who meet certain criteria, under its charity care policy, without charge or at amounts less than CHS' established rates. Because CHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The CHS Hospitals also provide other uncompensated care through a broad range of community service programs and charitable activities. The amount of community benefits and other uncompensated care, at cost, provided to the indigent and broader community for the years ended December 31 is as follows:

	<b>2017</b>	<b>2016</b>
Cost of community benefit:		
Net cost of charity care provided	\$ 11,371	6,293
Unpaid cost of public programs, Medicaid, and other means tested programs	55,800	49,683
Cash donations	728	1,675
Education and research	12,063	15,262
Other community benefit programs	4,527	6,056
Total cost of community benefit from continuing operations	\$ 84,489	78,969
Provision for bad debts (at cost)	\$ 4,298	5,666

New York State regulations provide for the distribution of funds from an indigent care pool, which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to the CHS Hospitals based on their level of bad debt, charity care, and uninsured units of service in relation to all other New York State hospitals. For the years ended December 31, 2017 and 2016, the CHS Hospitals received distributions of \$17,201 and \$17,494, respectively, from the indigent care pool while contributing \$11,525 in 2017 and \$11,260 in 2016. These amounts are included in net patient services revenue in the consolidated financial statements. The net shortfall of contributions to the indigent care pool over distributions received has been applied against amounts reported above as net cost of charity care provided and net uncompensated care reported as provision for bad debts.

The CHS Hospitals utilize a cost-to-charge ratio methodology to convert charity care to cost. The cost-to-charge ratio is calculated utilizing the methodology employed on the Medicare cost report.

**(4) Patient Accounts Receivable and Patient Service Revenue**

**(a) Patient Accounts Receivable**

CHS has contractual agreements with third-party payors that provide for payment at amounts that may be different from its established rates. The basis for payment under these agreements includes

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prospectively determined rates, cost reimbursement, and negotiated discounts from established rates and per diem payments.

For patient accounts receivable associated with self-pay patients, CHS records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility.

The following tables set forth the components of the change in the allowance for doubtful accounts for the years ended December 31:

<u>Primary payor</u>	<b>2017</b>			
	<u>Balance at beginning of year</u>	<u>Provision for bad debts</u>	<u>Write-offs, net of recoveries</u>	<u>Balance at end of year</u>
Medicare (including managed Medicare)	\$ 2,984	2,674	(1,514)	4,144
Medicaid (including managed Medicaid and Medicaid pending)	5,797	4,789	(4,788)	5,798
Commercial and managed care	10,415	8,698	(6,186)	12,927
Self-pay and other fee for service	<u>28,791</u>	<u>9,738</u>	<u>(10,893)</u>	<u>27,636</u>
Grand total	<u>\$ 47,987</u>	<u>25,899</u>	<u>(23,381)</u>	<u>50,505</u>

  

<u>Primary payor</u>	<b>2016</b>			
	<u>Balance at beginning of year</u>	<u>Provision for bad debts</u>	<u>Write-offs, net of recoveries</u>	<u>Balance at end of year</u>
Medicare (including managed Medicare)	\$ 3,524	3,310	(3,850)	2,984
Medicaid (including managed Medicaid and Medicaid pending)	3,555	8,454	(6,212)	5,797
Commercial and managed care	19,790	7,371	(16,746)	10,415
Self-pay and other fee for service	<u>26,673</u>	<u>18,612</u>	<u>(16,494)</u>	<u>28,791</u>
Grand total	<u>\$ 53,542</u>	<u>37,747</u>	<u>(43,302)</u>	<u>47,987</u>

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**(b) Patient Services Revenue**

The estimated percentages of patient services revenue, net of provision for bad debts, by inpatient and outpatient services for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Inpatient services	56 %	57 %
Outpatient services	44	43
	<u>100 %</u>	<u>100 %</u>

The following table reflects the estimated percentages of net patient services revenue, net of provision for bad debts, for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Medicare (including managed Medicare)	40 %	40 %
Medicaid (including managed Medicaid and Medicaid pending)	10	10
Commercial and managed care	46	44
Self-pay and other fee for service	4	6
	<u>100 %</u>	<u>100 %</u>

**(5) Concentration of Credit Risk**

CHS provides healthcare and other services through its inpatient and outpatient care facilities located throughout Long Island, New York. CHS grants credit without collateral to patients, most of whom are local residents, and routinely obtains assignment of or is otherwise entitled to receive patients' benefits payable under their health insurance program. The composition of accounts receivable from patients and third-party payors, net of allowance for uncollectible accounts at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Medicare (including managed Medicare)	40 %	39 %
Medicaid (including managed Medicaid and Medicaid pending)	13	14
Commercial and managed care	30	28
Self-pay and other	17	19
	<u>100 %</u>	<u>100 %</u>

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At December 31, 2017 and 2016, CHS has cash balances in financial institutions that exceed federal depository insurance limits. CHS routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

**(6) Contributions Receivable, Net**

Contributions receivable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Total contributions receivable	\$ 13,973	14,685
Less imputed interest ranging from 0.76% to 4.25%	<u>(692)</u>	<u>(804)</u>
	13,281	13,881
Less allowance for uncollectible contributions receivable	<u>(682)</u>	<u>(715)</u>
	<u>\$ 12,599</u>	<u>13,166</u>

Contributions receivable are scheduled to be collected as follows at December 31:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 5,307	4,467
One year to five years	7,874	9,324
Thereafter	<u>792</u>	<u>894</u>
	<u>\$ 13,973</u>	<u>14,685</u>

**(7) Other Assets, Net**

Other assets in the accompanying consolidated balance sheets as of December 31:

	<u>2017</u>	<u>2016</u>
Goodwill	\$ 21,870	21,870
Intangible assets	<u>11,737</u>	<u>11,737</u>
	33,607	33,607
Accumulated amortization of intangible assets	<u>(10,843)</u>	<u>(10,619)</u>
Goodwill and intangible assets, net	22,764	22,988
Other	<u>6,963</u>	<u>6,514</u>
Other assets, net	<u>\$ 29,727</u>	<u>29,502</u>

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Goodwill represents the future economic benefit arising from the assets acquired and represents the excess of the purchase price of acquired assets in excess of their fair value. Intangible assets are recorded at fair value. Definite-lived intangible assets are amortized over their estimated useful lives.

### (8) Property, Plant, and Equipment

The components of property, plant, and equipment, including assets under capitalized lease obligations, and accumulated depreciation and amortization are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 35,147	35,147
Land improvements	38,346	38,004
Buildings (including building service equipment)	1,103,175	1,073,228
Furniture and equipment	1,040,731	965,501
Leasehold improvements	56,398	55,408
Construction in progress	27,093	11,474
	<u>2,300,890</u>	<u>2,178,762</u>
Less accumulated depreciation	<u>1,487,829</u>	<u>1,387,681</u>
Net property, plant, and equipment	<u>\$ 813,061</u>	<u>791,081</u>

Construction in progress includes the costs associated with various expansion and renovation projects, mainly at Good Samaritan, St. Francis, and the build of a new systemwide revenue cycle management system. During 2016, CHS acquired \$3,140 of property, plant, and equipment in the Wisdom Gardens Limited Partnership purchase.

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**(9) Long-Term Debt**

Long-term debt consists of the following at December 31:

	<b>2017</b>	<b>2016</b>
Long-term debt:		
Series 2011 fixed-rate bonds (a)	\$ 216,780	226,430
Series 2014A fixed-rate bonds (b)	74,452	77,481
Series 2014B and C fixed-rate bonds (b)	88,266	88,819
DASNY revenue bonds – variable rate (c)	27,913	29,673
Term loans – variable rate SJH (d)	12,429	13,379
TELP loan – fixed rate (e)	15,507	30,709
Term loan – CHS fixed (f)	25,931	29,191
Other	7,207	8,094
	468,485	503,776
Less current portion	35,622	34,809
Total long-term debt, net of current portion	\$ 432,863	468,967

CHS maintains an “Obligated Group” for purposes of issuing debt instruments under a Master Trust Indenture (MTI). Each of the CHS Hospitals other than St. Joseph is a member of the Obligated Group. Under the terms of the MTI, all obligations issued thereunder are joint and several obligations of the members.

(a) In December 2011, \$245,230 of tax-exempt revenue bonds were issued on behalf of the Obligated Group, of which \$184,680 were issued through the Suffolk County Economic Development Corporation and \$60,550 through the Nassau County Local Economic Assistance and Financing Corporation (together, the Series 2011 Bonds). Pursuant to the MTI, each member of the Obligated Group is jointly and severally liable for outstanding obligations under the MTI. The Series 2011 Bonds are secured by the mortgaged property and by a security interest in all revenues of the Obligated Group and are subject to certain covenants of the Obligated Group. The original issue premium of \$12,738 and deferred financing costs of \$5,397, which are included in long-term debt, will be amortized over the life of the bonds. The Series 2011 Bonds bear interest at combined effective yields ranging from 1.50% to 4.85%.

Proceeds of the Series 2011 Bonds were used to defease the Dormitory Authority of the State of New York (DASNY) 1999A revenue bonds, issued on behalf of the Obligated Group (with the exception of St. Catherine), the DASNY Series 2000A and 2000B revenue bonds on behalf of St. Catherine and Siena Village, Inc., and commercially held debt of Consolation.

Approximately \$79,474 was deposited within a trustee held account to reimburse the CHS Hospitals (with the exception of St. Joseph) for routine capital expenditures. The remaining bond funds were used to pay for the cost of issuance and related interest payable. As of December 31, 2014, all amounts have been drawn down upon.

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During 2015, as a part of the sale of Siena Village, Inc., in the amount of \$62,000, CHS defeased \$15,000 of the Series 2011 Bonds issued through the Suffolk County Economic Development Corporation. In order to receive regulatory approval of the sale, the balance of the proceeds received is restricted for the payment of principal for St. Catherine as amounts relating to St. Catherine's debt become due in future years. The remaining proceeds of \$42,729 were deposited into a trustee held account and is included in trustee held and other agreements within assets limited or restricted as to use as of December 31, 2017 and 2016.

- (b) On May 21, 2014, \$77,725 of tax-exempt revenue bonds were issued through the Nassau County Local Economic Assistance and Financing Corporation (Series 2014A Revenue Bonds). The revenue bonds are secured by the joint and several obligations of the Obligated Group under the MTI and are subject to certain financial covenants of the Obligated Group. The bonds were issued in order to refund the Series 2004 DASNY revenue bonds on behalf of St. Francis. The original issue premium of \$7,999 and deferred financing costs of \$1,989, which are included in long-term debt, will be amortized over the life of the bonds. The effective interest rate including bond issuance costs is 4.07%. Debt service is payable semiannually.

On September 24, 2014, \$81,290 of tax-exempt bonds were issued on behalf of the Obligated Group, of which \$41,745 were issued through the Nassau County Local Economic Assistance Corp. and \$39,545 was issued through the Suffolk County Local Economic Assistance Corp. (together, the Series 2014 B and C Bonds). The original issue premium of \$10,263 and deferred financing costs of \$1,553, which are included in long-term debt, will be amortized over the life of the bonds. The Series 2014 bonds combined effective interest rate including bond issuance costs is 3.98%. Debt service is payable semiannually. The bonds were issued to reimburse CHS for renovations, equipment, and technology purchases. Approximately, \$90,058 was deposited into a trustee held account, of which approximately \$13,147 and \$37,585 remained within trustee held and other agreements on the accompanying consolidated financial statements as of December 31, 2017 and 2016, respectively. The remaining bond funds were used to pay for the cost of issuance and related interest payable. The Series 2014 B and C Bonds are secured by the mortgaged property and by a security interest in all revenues of the Obligated Group and are subject to certain covenants of the Obligated Group.

- (c) The DASNY 1999B, issued on behalf of Mercy, revenue bonds consist of term bonds of serial Periodic Auction Rate Securities (PARS) bonds with interest payable at variable rates ranging from 1.20% to 2.86% during 2017, of which \$28,375 and \$30,175 was outstanding at December 31, 2017 and 2016, respectively. The PARS are subject to a weekly auction; should the weekly auction not produce sufficient purchasers of the PARS, the underwriter is obligated to purchase the unpurchased PARS and is entitled to an annual interest rate of the lesser of (a) 14% or (b) the product of the seven-day AA composite commercial paper rate and a sliding scale of 125% to 200%, depending on the rating of the PARS bond obligor, rated A – as of December 31, 2017. Since the first quarter of 2008, there have been failed auctions. The PARS bonds do not provide for any put feature for the benefit of the holders.
- (d) On December 30, 2010, St. Joseph entered into two term loan agreements with a bank. The first for \$12,500 was to refinance St. Joseph's existing debt and to provide working capital, and the second for \$6,500 for information technology upgrades, facility renovations, and the acquisition of related equipment. The term loans are payable in annual installments of \$625 and \$325, respectively, beginning

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February 2011, with a balloon payment of \$9,579 due in December 2020 for the then remaining balance of the loans. Interest is payable at a rate of LIBOR plus 1.10%. The term loans are guaranteed by the Obligated Group and are subject to certain financial covenants of the Obligated Group.

- (e) In December 2011, CHS entered into an agreement under the New York State tax-exempt leasing program (TELP) in the amount of \$88,849 to finance the implementation of electronic health record technology. The agreement calls for an interest rate of 1.89% and expires in December 2018. Approximately \$81,176 was deposited within a trustee held account to reimburse CHS for future expenditures relating to the implementation of EHR. The TELP loan is guaranteed by the Obligated Group and is subject to certain financial covenants of the Obligated Group.
- (f) On January 28, 2015, CHS issued a new fixed rate term loan with a bank in the amount of \$35,000. The loan bears an interest rate of 2.49% and is payable in 120 equal installments through January 31, 2025. The term loan is guaranteed by the Obligated Group and is subject to certain financial covenants of the Obligated Group.

At December 31, 2017, aggregate annual maturities of long-term debt, including obligations under capital leases are as follows:

	<b>Long-term debt</b>	<b>Capital lease obligations</b>	<b>Total</b>
2018	\$ 19,333	16,289	35,622
2019	34,917	690	35,607
2020	47,359	308	47,667
2021	38,471	—	38,471
2022	44,231	—	44,231
Thereafter	252,192	—	252,192
	436,503	17,287	453,790
Unamortized bond premium	20,347	—	20,347
Unamortized deferred financing costs	(5,644)	(8)	(5,652)
Total long-term debt	\$ 451,206	17,279	468,485

#### (10) Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. With the exception of long-term debt, the carrying amounts of CHS' financial instruments, including other debt obligations, approximate their fair value. The carrying amounts and fair values of long-term debt are \$451,206 and \$473,489, respectively, at December 31, 2017 and \$470,566 and \$492,174, respectively, at December 31, 2016. The fair value of the debt was determined by comparing market prices of similar debt based on Level 2 inputs under a market

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approach. At December 31, 2017 and 2016, the carrying amount of other debt obligations approximated fair value.

The FASB *Fair Value Measurement* Topic also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include cash and cash equivalents, debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, and corporate debt securities.

Level 3: Unobservable inputs supported by little or no market activity that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about CHS' business, its value, or financial position based on the fair value of financial assets presented.

Fair values for CHS' fixed-maturity and equity securities are based on prices provided by its investment managers and its custodian banks. Both the investment managers and the custodian banks use a variety of pricing sources to determine market valuations. Each designates specific pricing services or indexes for each sector of the market based upon the provider's expertise. CHS' fixed-maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair value of alternative investments is estimated based on NAV, as provided by external investment managers or in audited financial statements when available. Valuations provided by external investment managers include estimates, appraisals, assumptions, and methods that are reviewed by management. Management believes that differences that may exist between fair value and NAV are not material to the overall consolidated financial statements.

CHS has three alternative investments measured at NAV as of December 31, 2017. One investment, included in fund of funds, can be redeemed at the option of CHS upon 45 days prior written notice, on a quarterly basis. The remaining two investments, included within equity pooled capital funds, can only be

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redeemed at the discretion of the investment managers. The external investment manager of each investment has the right to waive both the notice period and any one-year wait period.

All other investments and assets limited or restricted as to use may be redeemed daily and are able to be withdrawn upon the settlement date.

There were no significant transfers into or out of Level 1 or Level 2 for the years ended December 31, 2017 and 2016. CHS recognizes transfers between the levels of the fair value hierarchy at the beginning of the reporting period in which the date of the event or change in circumstances that caused the transfer occurs.

CHS had no investments categorized as Level 3 at December 31, 2017 or 2016.

The following table presents CHS' fair value measurements for assets measured at fair value on a recurring basis as of:

	<b>December 31, 2017</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>NAV</b>
Assets limited or restricted as to use:				
Cash and cash equivalents	\$ 113,272	113,272	—	—
U.S. Treasury obligations	75,887	75,887	—	—
U.S. government agencies obligations	27,231	—	27,231	—
Marketable equity securities – domestic	188	188	—	—
Corporate debt securities – domestic	98,453	—	98,453	—
Corporate debt securities – foreign	5,664	—	5,664	—
Municipal debt obligations	68,442	—	68,442	—
Equity mutual funds – domestic	172,563	172,563	—	—
Equity mutual funds – foreign	61,071	61,071	—	—
Fixed-income mutual funds – domestic	83,450	83,450	—	—
Fund of funds	2,616	—	—	2,616
Equity pooled capital funds	111	—	—	111
Accrued interest receivable	1,857	1,857	—	—
	<u>710,805</u>	<u>508,288</u>	<u>199,790</u>	<u>2,727</u>

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	<b>December 31, 2017</b>			
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>
Investments:				
Cash and cash equivalents	\$ 1,913	1,913	—	—
U.S. Treasury obligations	42,582	42,582	—	—
U.S. government agencies obligations	13,730	—	13,730	—
Marketable equity securities – domestic	331	331	—	—
Corporate debt securities – domestic	63,493	—	63,493	—
Corporate debt securities – foreign	4,060	—	4,060	—
Municipal debt obligations	44,818	—	44,818	—
Equity mutual funds – domestic	238,854	238,854	—	—
Equity mutual funds – foreign	87,112	87,112	—	—
Fixed-income mutual funds – domestic	96,724	96,724	—	—
Fund of funds	5,710	—	—	5,710
Equity pooled capital funds	241	—	—	241
Accrued interest receivable	1,317	1,317	—	—
	<u>600,885</u>	<u>468,833</u>	<u>126,101</u>	<u>5,951</u>
Total investments and assets limited or restricted as to use	\$ <u>1,311,690</u>	<u>977,121</u>	<u>325,891</u>	<u>8,678</u>

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The following table presents CHS' fair value measurements for assets measured at fair value on a recurring basis as of:

	<b>December 31, 2016</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>NAV</b>
Assets limited or restricted as to use:				
Cash and cash equivalents	\$ 121,901	121,901	—	—
U.S. Treasury obligations	59,011	59,011	—	—
U.S. government agencies obligations	20,709	—	20,709	—
Marketable equity securities – domestic	158	158	—	—
Corporate debt securities – domestic	92,337	—	92,337	—
Corporate debt securities – foreign	4,903	—	4,903	—
Municipal debt obligations	91,452	—	91,452	—
Equity mutual funds – domestic	149,584	149,584	—	—
Equity mutual funds – foreign	35,300	35,300	—	—
Fixed-income mutual funds – domestic	73,991	73,991	—	—
Fund of funds	2,302	—	—	2,302
Equity pooled capital funds	130	—	—	130
Accrued interest receivable	1,735	1,735	—	—
	<u>653,513</u>	<u>441,680</u>	<u>209,401</u>	<u>2,432</u>
Investments:				
Cash and cash equivalents	908	908	—	—
U.S. Treasury obligations	48,501	48,501	—	—
U.S. government agencies obligations	18,631	—	18,631	—
Marketable equity securities – domestic	260	260	—	—
Corporate debt securities – domestic	61,385	—	61,385	—
Corporate debt securities – foreign	4,990	—	4,990	—
Municipal debt obligations	52,093	—	52,093	—
Equity mutual funds – domestic	213,456	213,456	—	—
Equity mutual funds – foreign	52,823	52,823	—	—
Fixed-income mutual funds – domestic	69,479	69,479	—	—
Fund of funds	5,076	—	—	5,076
Equity pooled capital funds	287	—	—	287
Accrued interest receivable	1,233	1,233	—	—
	<u>529,122</u>	<u>386,660</u>	<u>137,099</u>	<u>5,363</u>
Total investments and assets limited or restricted as to use	\$ <u>1,182,635</u>	<u>828,340</u>	<u>346,500</u>	<u>7,795</u>

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The current portion of assets limited or restricted as to use of \$24,674 in 2017 and \$23,979 in 2016 represents amounts that will be used to repay certain current installments of long-term debt and related accrued interest.

Total investment gains are reported as follows in the accompanying consolidated statements of operations and statements of changes in net assets for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 20,978	19,458
Net realized gains on sales of securities	<u>42,246</u>	<u>1,819</u>
Investment income, net	63,224	21,277
Unrealized gains on investments, net	<u>49,461</u>	<u>30,493</u>
Total investment gains, net	\$ <u><u>112,685</u></u>	\$ <u><u>51,770</u></u>

Total investment gains are classified as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets	\$ 108,319	49,974
Temporarily restricted net assets	<u>4,366</u>	<u>1,796</u>
Investment income, net	\$ <u><u>112,685</u></u>	\$ <u><u>51,770</u></u>

**(11) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Capital expenditures	\$ 28,388	25,545
Indigent and charity care	1,080	1,121
Health education	4,778	4,159
Research	3,829	2,353
Pediatric cardiology	1,607	1,281
Healthcare services	4,907	4,333
Other	<u>12,870</u>	<u>13,412</u>
	\$ <u><u>57,459</u></u>	\$ <u><u>52,204</u></u>

Assets restricted for capital expenditures relate mainly to the expansion of the St. Francis Oncology Program and St. Francis Emergency Room and are released from restriction as stages of the projects are placed into service. Included in other is contributions receivable of approximately \$12,599 and \$13,166 at December 31, 2017 and 2016, respectively, mainly for capital expenditures.

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Net assets were released from donor restriction by incurring expenses satisfying the following restrictions:

	<u>2017</u>	<u>2016</u>
For operations:		
Health education	\$ 128	356
Indigent care	475	257
Research	700	1,272
Healthcare services	<u>334</u>	<u>257</u>
Total for operations	1,637	2,142
For capital expenditures	<u>7,431</u>	<u>2,408</u>
Total net assets released from restrictions	\$ <u>9,068</u>	\$ <u>4,550</u>

CHS has adopted investment and spending policies for permanently restricted net assets that attempt to provide a predictable stream of funding to programs supported by its permanently restricted net assets while seeking to maintain the purchasing power of these assets. CHS' permanently restricted net assets comprise donor-restricted funds. As required by GAAP, permanently restricted net assets are classified and reported based on the existence of donor-imposed restrictions. Income earned on permanently restricted net assets is available for pediatric and geriatric cardiology care and research, healthcare services, and other.

Permanently restricted net assets are restricted for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Pediatric and geriatric cardiology care and research	\$ 3,125	3,122
Healthcare services	776	776
Other	<u>187</u>	<u>167</u>
	\$ <u>4,088</u>	\$ <u>4,065</u>

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**(12) Other Revenue**

Other revenue consists of the following for the years ended December 31:

	<b>2017</b>	<b>2016</b>
Maryhaven program service revenues (a)	\$ 86,194	83,462
Rental income	8,253	7,712
Electronic Health Records incentive revenue (b)	4,509	507
Contracted services	7,161	5,821
Cafeteria and coffee shops	5,160	5,204
Grant income	2,690	1,657
DSRIP (c)	16,385	7,401
Miscellaneous income, net	7,241	6,681
	\$ 137,593	118,445

(a) Maryhaven revenue relates to program services that are principally cost-based or fee-for-service and is recognized as services are performed. Revenues from such services are recorded at rates established by governmental payors (principally, New York State Education Department, New York Department of Social Services, and Medicaid).

(b) On July 13, 2010, the Center for Medicare and Medicaid Services (CMS) issued rules to implement the Medicare and Medicaid electronic health record (EHR) incentive program established under the Health Information Technology for Economic and Clinical Health Act. Certain hospitals and eligible healthcare professionals (EPs) that demonstrate “meaningful use” of certified EHR technology can qualify for Medicare payments beginning in 2011. Medicaid requires that hospitals and EPs “adopt, implement, or upgrade” certified EHR, which includes purchasing the technology, in order to receive incentive payments starting in 2012. The CHS Hospitals, using the grant model for Meaningful Use incentive payments, recorded \$4,509 and \$507 of revenues related to Medicare and Medicaid’s incentive payments for meeting the criteria for meaningful use for the years ended December 31, 2017 and 2016, respectively. The amount of the EHR incentive payment was based on the Hospital’s best estimate and cost report data, which is subject to audit by CMS or its intermediaries and amounts recognized are subject to change. In order to qualify for the incentive payments, CHS Hospitals not only needed to demonstrate that they successfully implemented the new technology, but that they use the technology in a “meaningful,” or clinically significant fashion.

(c) New York State’s Delivery System Reform Incentive Payment (DSRIP) Program

DSRIP is the main mechanism by which the New York State Department of Health (DOH) will implement the Medicaid Redesign Team Waiver Amendment. DSRIP’s purpose is to fundamentally restructure the healthcare delivery system by reinvesting in the Medicaid program, with the ultimate goal of reducing the cost of care, while improving the quality and access to care provided. Up to \$6.42 billion dollars are allocated to this program statewide with payouts based upon achieving predefined results in system transformation, clinical management, and population health over a five-year period.

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The five-year DSRIP period began on April 1, 2015. During the five-year DSRIP period, DSRIP payments are to be made based upon achieving predefined results in system transformation, clinical management, and population health. The payments to be made are based upon performance against predefined milestones and outcomes – failure to meet milestones and reporting requirements may result in a reduction to the payments or, in some instances, receiving no payment.

DSRIP lead participants are limited to public hospitals and safety net hospitals. Safety net hospitals are defined to include public hospitals, critical access hospitals, sole community hospitals, and hospitals that have outpatient Medicaid patient volumes exceeding 35% of all patient volumes in business lines associated with Medicaid, uninsured and dual eligible individuals and have inpatient volumes exceeding 30% Medicaid, uninsured and dual eligibles. Nonhospital-based providers, not participating as part of a state-designated health home, must have at least 35% of all patient volume in their primary lines of business and must be associated with Medicaid, uninsured and dual eligible individuals. During 2014, Mercy and Good Samaritan were designated as safety net hospitals.

In November 2014, CHS entered into an affiliation agreement with two unrelated providers to form a limited liability company, in which CHS is a member, to act as a Performing Provider System (PPS) encompassing the Nassau and Queens (Nassau-Queens PPS) service areas. In February 2015, CHS entered into an agreement with SB Clinical Network IPA, LLC (Suffolk PPS), the company, which was created to act as the PPS within Suffolk County, in which CHS would participate in the Suffolk PPS as a coalition partner through an affiliation agreement.

As of December 31, 2017, CHS received approximately \$69,305 of cumulative DSRIP funding, of which \$38,633 and \$16,145 was received in 2017 and 2016, respectively. In 2017, CHS has recognized revenue of \$16,385 and also distributed \$13,339 to subrecipients. In 2016, CHS recognized revenue of \$7,401 and also distributed \$6,224 to subrecipients. As of December 31, 2017 and 2016, respectively, there is \$23,618 and \$14,709 of deferred revenue included in other liabilities, and \$13,194 and \$7,940 included in trustee held and other agreements on the accompanying consolidated balance sheets for future subrecipient distributions.

The DSRIP program contains significant reporting requirements for each PPS, which includes submission of claims and other data to the New York State DOH. DSRIP payments to the PPS are based upon this data. PPS funds may be reduced if the state's overall DSRIP PPS performance does not meet statewide benchmarks for certain measures. Audits may be performed to validate submissions and performance metrics. Funds may be subject to recoupment or recovery based upon internal review or audit if it is determined that funds are willfully misused and/or the information relied upon for payment purposes was in error, misreported, or if DOH made an error in determining the payment.

In March 2016, CHS was notified that it was awarded \$19,743 under the NYS DOH Capital Restructuring Finance Program and the Essential Health Care Provider Support Program relating to information technology capital expenditures. CHS is the lead applicant for this program proposal participating in the Nassau-Queens PPS as one of the three "Hub" integrated delivery systems committed to coordinating care through PPS's mutual DSRIP projects, and sharing of information to enhance patient care and safety. Also included in this application, as a subgrantee, is St. John's Episcopal Health (SJEH). SJEH is a safety net provider and Interim Access Assurance Fund (IAAF) recipient that operates as part of the

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CHS Hub. It is estimated that SJEH will receive \$5,159 of the \$19,743 award total. As of December 31, 2017, CHS has requested reimbursement under the grant of \$3,165, and expects receipt in 2018.

**(13) Retirement Plan and Other Postretirement Benefits**

**(a) Retirement Plan**

*(i) Diocese Pension Plan*

CHS participates in a multi-employer pension plan of the Diocese, a noncontributory defined-benefit plan, which covers substantially all lay employees with one year of continuous service. CHS' combined retirement plan expense is equal to the required annual contributions to the plan, which are calculated based on actuarially determined methods. Amounts charged to pension expense in 2017 and 2016 totaled \$75,959 and \$77,485, respectively, and are included in employee benefits in the accompanying consolidated statements of operations. CHS' contribution to the plan is in excess of 5% of total plan contributions. The following table discloses the name and funded status of the pension plan as of January 1, 2017 (the date of the last actuarial valuation):

<u>Legal name and plan number</u>	<u>EIN</u>	<u>Accumulated benefit obligation</u>	<u>Market value of plan assets</u>
Diocese of Rockville Center Pension Plan, Number 002	27-1715985	\$ 1,477,934	1,405,710

The accumulated benefit obligation and market value of plan assets are not reflected in the accompanying consolidated balance sheets of CHS.

St. Joseph participates in two multiemployer union pension plans under the terms of a collective bargaining agreement, covering substantially all employees not eligible for the Hospital's plan. If St. Joseph stops participating in either of its multiemployer plans, CHS may be required to pay the plans an amount based on the underfunded status of the plans.

*(ii) 1199 SEIU HealthCare Employees Pension Fund*

The Employee Identification Number/three-digit Pension Plan number is 13-3604862/001. The most recent Pension Protection Act (PPA) zone status is green at December 31, 2017 and 2016, which is for the plan years ended December 31, 2017 and 2016. The zone status is based on information that St. Joseph received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The financial improvement plan (FIP) or a rehabilitation plan (RP), as required by PPA, has been implemented by the plan's sponsor. The contributions by St. Joseph to the union pension fund were \$1,767 and \$1,661 for the years' ended December 31, 2017 and 2016, respectively, which is included in employee benefits within the consolidated statements of operations. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

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*(iii) New York State Nurses Association (NYSNA)*

The Employee Identification Number/three-digit Pension Plan number is 13-6604799/001. The most recent PPA zone status is green at December 31, 2017 and 2016, which is for the plan years ended December 31, 2017 and 2016. The zone status is based on information that St. Joseph received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The FIP or an RP, as required by PPA, has been implemented by the plan's sponsor. The contributions by St. Joseph to the union pension fund were \$1,714 and \$1,576 for the years ended December 31, 2017 and 2016, respectively, which are included in employee benefits within the consolidated statements of operations. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

*(iv) Collective-Bargaining Agreements*

Approximately 15% of CHS's employees are union employees covered under the terms of various collective bargaining agreements. CHS has two collective bargaining agreements with 1199 SEIU. One contract at St. Joseph, covering 3% of employees, was renegotiated in July of 2015 and expires on September 30, 2018. Negotiations for a second contract are currently underway at Mercy, covering an additional 3% of CHS employees. The three collective bargaining agreements with NYSNA covering approximately 6% of CHS employees were recently renegotiated and are due to expire on March 31, 2019 at St. Charles and St. Joseph and July 31, 2019 at St. Catherine. Other collective bargaining agreements in place include International Association of Machinists, covering approximately 3% of employees at St. Catherine and St. Charles, which are due to expire on February 2019 and October 31, 2019, respectively.

**(b) Postretirement Benefit Plans**

The CHS Hospitals have postretirement benefit plans that provide benefits for eligible employees at varying ages of retirement. The postretirement benefit plans primarily reimburse employees for unused sick pay dollars an employee accumulated during employment, or provide a set payment for certain eligible benefits for up to a maximum of \$5 per year for a fixed number of years.

Effective January 1, 2014, employees hired on or after January 1, 2014 will no longer be eligible to participate in the St. Francis Sick Pay Plan. At December 31, 2013, the plan was frozen and existing employees will receive the lower of their balance in the plan as of December 31, 2013, or their accrued sick time at retirement based on their 2013 rate of pay.

CHS complies with provisions in GAAP, which require an employer to recognize an asset or liability for the overfunded or underfunded status, respectively, of its postretirement benefit plans in its financial statements. When recognizing a postretirement benefit plan's funded status, certain gains, losses, and transition amounts will be recognized with the offset to a separate line item outside (below) the performance indicator. These amounts will subsequently be reclassified out of unrestricted net assets into the performance indicator through net periodic benefit expense based on the measurement and recognition requirements.

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The net periodic cost for postretirement benefits, which is included in employee benefits expense in the accompanying consolidated financial statements, for 2017 and 2016 includes the following components:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 383	373
Interest cost	712	768
Actuarial gain	(81)	(75)
Amortization of prior service cost	<u>124</u>	<u>123</u>
Net periodic benefit cost	\$ <u>1,138</u>	<u>1,189</u>

Total benefits paid under the plan were \$423 and \$436 in 2017 and 2016, respectively.

The following table sets forth the unfunded status for CHS' postretirement benefit plan at December 31:

	<u>2017</u>	<u>2016</u>
Accumulated postretirement benefit obligation:		
Retirees and beneficiaries	\$ 1,241	1,261
Fully eligible active plan participants	<u>19,839</u>	<u>19,814</u>
Total accumulated postretirement benefit obligation	21,080	21,075
Plan assets, at fair value	<u>—</u>	<u>—</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$ <u>21,080</u>	<u>21,075</u>

The postretirement benefit obligation is predominantly included within the caption other long-term liabilities in the accompanying consolidated balance sheets.

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The following table represents the changes in accumulated postretirement benefit obligation for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Accumulated postretirement benefit obligation –		
January 1	\$ 21,075	21,147
Service cost	383	373
Interest cost	712	768
Benefits paid	(423)	(436)
Actuarial gain	<u>(667)</u>	<u>(777)</u>
Accumulated postretirement benefit obligation –		
December 31	\$ <u>21,080</u>	<u>21,075</u>

Assumptions used in accounting for postretirement benefits as of December 31, 2017 and 2016 were predominantly as follows:

	<u>2017</u>	<u>2016</u>
Assumed discount rate ranging from	3.13%–3.39%	3.48%–3.61%
Assumed rates of increase in compensation levels	N/A	N/A

Expected benefit payments for the next five years and five years thereafter are as follows:

2018	\$ 1,241
2019	1,514
2020	1,690
2021	1,848
2022	1,869
2023–2027	<u>6,511</u>
	\$ <u>14,673</u>

Amounts not yet reflected in net periodic benefit costs and included in unrestricted net assets consist of a gain of \$32 and a loss of \$678 in 2017 and 2016, respectively.

Changes in the assumed healthcare cost trend would not materially affect the accumulated postretirement benefit obligation, as the benefit is limited to the amount of the employees' unused sick pay or a stated maximum eligible benefit.

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**(14) Functional Expenses**

CHS provides healthcare and other services to residents within its geographical location. Expenses related to providing these services are as follows:

	<u>2017</u>	<u>2016</u>
Healthcare services	\$ 2,241,380	2,110,811
Administrative and general	<u>340,229</u>	<u>303,027</u>
Total expenses	\$ <u>2,581,609</u>	<u>2,413,838</u>

**(15) Commitments**

*Operating Leases*

CHS has entered into various operating leases for equipment and facilities, expiring at various dates. Total rental expense for the years ended December 31, 2017 and 2016 for such operating leases was approximately \$35,296 and \$32,751, respectively, and is included in supplies and other expenses in the accompanying consolidated statements of operations.

The following is a schedule of future minimum lease payments under significant operating leases that have initial or remaining lease terms in excess of one year:

Year ending December 31:	
2018	\$ 24,612
2019	23,068
2020	21,594
2021	19,455
2022	18,347
2023 and thereafter	<u>86,064</u>
	\$ <u>193,140</u>

**(16) Contingencies**

**(a) General**

The CHS entities have been named as defendants in a number of legal actions involving alleged professional liability claims and other claims arising from the normal conduct of its affairs, certain of which seek damages in unstated amounts. It is the opinion of CHS's management, based on a review of the aforementioned claims by defense attorneys and CHS' in-house legal counsel, that insurance coverage and self-insurance reserves are adequate and the final disposition of such claims will not have any material adverse effect on CHS' consolidated financial position, results of operations, or liquidity. In addition, there are known, and possibly unknown, incidents that occurred through December 31, 2017 that may result in the assertion of additional claims. In management's opinion, any liability that may arise from settlement of such claims will be settled within either insurance coverage limits or self-insured

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liability estimates or otherwise will not have any material adverse effect on CHS' consolidated financial position, results of operations, or liquidity.

### **(b) Workers' Compensation and Other Self-Insured Liabilities**

The CHS hospitals are self-insured for certain claims, including workers' compensation, through the PSIP of the Diocese for outstanding claims through the year ended December 31, 2011. During 2012, the CHS hospitals (excluding St. Joseph) entered into an arrangement with a commercial carrier in which per-claim deductible and coverage is provided. In August 2015, St. Joseph entered into an arrangement with a commercial carrier in which a \$250 per-claim stop-loss coverage is provided for workers' compensation claims. The other CHS entities are insured through the New York State Insurance fund. CHS has coverage for general liability, property, and other lines of coverage through a combination of commercial policies and through the Captive.

In connection with these self-insured liabilities related to workers' compensation, CHS recorded insurance expense for the years ended December 31, 2017 and 2016 of \$13,413 and \$18,413, respectively, which is included in employee benefit expense within the consolidated statements of operations. The current portion of the PSIP and workers' compensation self-insurance liability of \$14,740 and \$14,572 at December 31, 2017 and 2016, respectively, is included within the caption current portion of other self-insured liabilities in the accompanying consolidated balance sheets.

As of December 31, 2017 and 2016, CHS has recorded a liability and a related insurance receivable as follows:

	<u>2017</u>	<u>2016</u>
Other self-insured liabilities	\$ 132,323	141,444
Insurance claims receivable	39,310	45,434

The current portion of insurance claims receivable related to other self-insured liabilities of \$3,614 and \$4,601 is included within other receivables in the consolidated balance sheets as of December 31, 2017 and 2016, respectively. The estimated undiscounted workers' compensation self-insurance liabilities are \$143,337 and \$148,739 as of December 31, 2017 and 2016, respectively. Such amounts were discounted to the actuarially determined present value at rates of 1.75% and 1.25% as of December 31, 2017 and 2016, respectively.

### **(c) Malpractice**

CHS provides for potential medical malpractice losses through a combination of purchased primary insurance, self-insurance, and layers of commercial excess insurance.

From November 1, 2002 through October 31, 2006, the CHS Hospitals (excluding St. Joseph) purchased a shared claims-made commercial policy for primary coverage with varying limits per claim and in the aggregate, which were augmented by a shared claims-made commercial excess policy, with varying layers of self-insurance. From November 1, 2006 through October 31, 2013, the CHS Hospitals

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(excluding St. Joseph) each purchased an individual claims-made malpractice policy for primary first-dollar coverage with limits of \$1,000 per claim and an aggregate of \$6,000.

Effective November 1, 2013, the CHS Hospitals retained \$250 of primary coverage per malpractice claim. Each CHS Hospital purchased an individual claims-made malpractice policy with each Hospital, excluding Good Samaritan, with coverage limits of \$1,000 per claim and aggregate of \$6,000 (Good Samaritan with limits of \$2,000 per claim and aggregate of \$10,000) after exhausted primary per claim coverage. Effective November 1, 2017, St. Francis has increased its coverage limits to \$2,000 per claim and aggregate of \$10,000. The \$250 of primary coverage per malpractice claim, along with excess coverage, is provided by the Captive with coverage limits shared with the other participants of the Captive of \$59,000 per claim and \$59,000 in the aggregate.

For the period November 1, 2002 through October 31, 2006, defense costs are outside the stated policy limits and are provided by the primary carrier for the life of the claim. For the period beginning November 1, 2006 to the present, defense costs are outside of the stated policy limits. However, if the aggregate of the primary policy is exhausted, the primary carrier will cease to pay defense costs and the Captive will assume responsibility for these costs. All defense costs are included in estimated malpractice liabilities on the accompanying consolidated balance sheets.

In August 1, 2010, St. Joseph purchased a commercial claims-made policy with limits of \$1,000 per claim and \$6,000 in the aggregate. St. Joseph also purchased an excess policy with limits of \$10,000 per claim, and in the aggregate. Effective November 1, 2012, St. Joseph excess coverage is provided by the Captive with coverage limits shared with other participants.

Each CHS Hospital has obtained an actuarial valuation of the estimated liability, which includes self-insured periods prior to November 1, 2002, self-insured buffer layers, and incidents that have occurred but for which a claim has not been reported. Insurance expense increased \$3,544 and \$6,225 due to changes in self-insurance liability estimates from prior years in the consolidated statements of operations as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, CHS has recorded a liability and a related insurance receivable as follows:

	<u>2017</u>	<u>2016</u>
Estimated malpractice liability	\$ 275,633	250,855
Insurance claims receivable	132,578	130,419

#### **(d) Reimbursement Contingencies**

CHS has agreements with third-party payors that provide for payments for services rendered at amounts different from their established charges. Net patient services revenue for the years ended December 31, 2017 and 2016 increased by \$16,688 and \$15,615, respectively, for settlements related to prior years and changes in estimates to reflect the most recent information available.

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A summary of the payments arrangement with major third-party payors is as follows:

(i) *Medicare*

Inpatient acute and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

(ii) *Medicaid*

The New York Health Care Reform Act of 1996 (the Act), as amended, governs payments to hospitals in New York State, and Medicaid, workers' compensation, and no-fault payors rates are promulgated by the New York State DOH. Reimbursement for services to Medicaid program beneficiaries includes prospectively determined rates per discharge and per visit amounts.

(iii) *Other Third-Party Payors*

CHS has entered into payment arrangements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and per diem payment rates. If such rates are not negotiated, then the payors are billed at CHS' established charges.

(iv) *Healthcare Regulatory Environment*

As a result of federal healthcare reform legislation, changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligation of health insurers, providers, and employers.

The healthcare industry is subject to extensive governmental regulation through numerous and complex laws, some of which are ambiguous and subject to varying interpretation. The federal government and many states, including the State of New York, have aggressively increased enforcement under a number of such laws that are often referred to as Medicare and Medicaid "antifraud and abuse" legislation. For many years, CHS has maintained a corporate compliance program to monitor the organization's compliance with applicable laws, including the so-called "antifraud and abuse" rules. Noncompliance with such rules could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

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### (v) *Health Care Reform*

In March 2010, the U.S. Congress enacted the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010 (the Reconciliation Act and, together with the PPACA, the Health Care Reform Act), modifying various provisions of the PPACA. The comprehensive healthcare reform mandated by the Health Care Reform Act aims to expand the availability of health insurance coverage, control the costs of healthcare, and improve the manner in which healthcare is delivered. The Health Care Reform Act requires all individuals to purchase health insurance or pay a fee, with hardship exceptions; substantially expands Medicaid coverage; provides premium subsidies to certain individuals; imposes certain taxes on individuals and employers; creates insurance pooling mechanisms or state run health insurance exchanges; imposes new requirements on the insurance industry regarding access and coverage; provides for certain cost containment mechanisms and new models of care delivery; and includes provisions designed to reduce Medicare spending and improve the quality of outcomes and health system performance. CHS may be impacted if certain aspects of PPACA are amended, repealed, or successfully challenged.

There are various proposals being considered by Congress that would repeal the Health Reform Act and replace it or amend it. There are other proposals at the federal and New York State levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, and increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined and could be material to CHS's future of operations and cash flows.

### (e) *Letters of Credit*

CHS maintains a letter of credit for workers' compensation claims in the amount of \$36,548 to secure the deductible provision of certain workers' compensation policies, which will expire on December 31, 2018.

### (17) **Subsequent Events**

CHS has evaluated subsequent events from the consolidated balance sheet date through April 16, 2018, the date at which the consolidated financial statements were issued. Other than the aforementioned, there were no additional items identified for disclosure.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2017

(In thousands)

Assets	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Current assets:												
Cash and cash equivalents	\$ 16,610	14,492	2,685	4,604	7,303	45,694	—	45,694	1,114	32,405	54,278	16,250
Investments	93,598	331,565	4,698	601	—	430,462	—	430,462	—	55,042	—	86,624
Assets limited or restricted as to use	—	1,712	938	—	—	2,650	—	2,650	—	22,024	—	—
Patient accounts receivable, net	77,811	102,089	26,160	22,940	26,991	255,991	—	255,991	13,564	—	—	—
Contributions receivable, net	—	—	—	—	20	20	—	20	—	—	—	—
Other receivables	5,619	14,840	2,321	1,006	1,126	24,912	—	24,912	32	—	1,685	—
Inventories	7,116	11,475	2,831	3,872	3,660	28,954	—	28,954	1,801	—	—	—
Prepaid expenses and other	6,033	7,647	2,266	1,784	2,815	20,545	—	20,545	635	46	3,952	3,262
Due from related parties	8,305	34,290	5,627	14,110	1,391	63,723	(24,801)	38,922	261	23,044	21,780	63,507
Total current assets	215,092	518,110	47,526	48,917	43,306	872,951	(24,801)	848,150	17,407	132,561	81,695	169,643
Assets limited or restricted as to use:												
Board designated and other	35,352	6,076	1,752	—	—	43,180	—	43,180	—	4,728	—	—
Donor-restricted funds	4,847	2,799	2,083	2,748	1,098	13,575	—	13,575	148	223	—	—
Funded depreciation	9,550	342,535	—	—	5,051	357,136	—	357,136	—	—	—	—
Trustee held and other	12,156	6,626	4,770	640	41,714	65,906	—	65,906	202	65,591	2,042	—
Captive assets	—	—	—	—	—	—	—	—	—	—	—	—
Total assets limited or restricted as to use	61,905	358,036	8,605	3,388	47,863	479,797	—	479,797	350	70,542	2,042	—
Less assets limited or restricted as to use and required for current liabilities	—	1,712	938	—	—	2,650	—	2,650	—	22,024	—	—
Total assets limited or restricted as to use, net	61,905	356,324	7,667	3,388	47,863	477,147	—	477,147	350	48,518	2,042	—
Due from related parties, net of current portion	32,969	35,845	9,372	9,362	—	87,548	(4,081)	83,467	—	22,082	45,465	—
Contributions receivable, net of current portion	—	—	—	8	—	8	—	8	—	—	—	—
Other investments, at cost	—	—	—	—	—	—	—	—	—	2,250	—	—
Other assets, net	997	13,837	—	112	50	14,996	—	14,996	90	10,488	—	—
Insurance claims receivable	86,814	53,286	54,690	27,710	28,705	251,205	—	251,205	17,644	—	—	10,384
Property, plant, and equipment, net	177,726	267,901	102,811	52,619	75,369	676,426	—	676,426	34,125	54	59,261	—
Total assets	\$ 575,503	1,245,303	222,066	142,116	195,293	2,380,281	(28,882)	2,351,399	69,616	215,953	188,463	180,027

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2017

(In thousands)

Assets	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Current assets:									
Cash and cash equivalents	\$ 4,788	1,327	33,337	4,740	4,100	495	198,528	(16,250)	182,278
Investments	110,816	—	57	1,856	2,652	—	687,509	(86,624)	600,885
Assets limited or restricted as to use	—	—	—	—	—	—	24,674	—	24,674
Patient accounts receivable, net	—	—	11,026	—	6,938	—	287,519	—	287,519
Contributions receivable, net	4,605	—	—	—	—	—	4,625	—	4,625
Other receivables	—	1,041	—	10,295	—	407	38,372	(2,801)	35,571
Inventories	—	—	—	347	139	—	31,241	—	31,241
Prepaid expenses and other	4	—	475	1,219	572	97	30,807	(7,844)	22,963
Due from related parties	8	3,064	2,648	1,153	1,135	1,943	157,465	(157,465)	—
Total current assets	<u>120,221</u>	<u>5,432</u>	<u>47,543</u>	<u>19,610</u>	<u>15,536</u>	<u>2,942</u>	<u>1,460,740</u>	<u>(270,984)</u>	<u>1,189,756</u>
Assets limited or restricted as to use:									
Board designated and other	17,867	—	—	705	—	—	66,480	—	66,480
Donor-restricted funds	33,417	—	624	—	952	—	48,939	—	48,939
Funded depreciation	—	—	—	440	1,000	—	358,576	—	358,576
Trustee held and other	—	—	31	164	—	—	133,936	—	133,936
Captive assets	—	—	—	—	—	—	—	102,874	102,874
Total assets limited or restricted as to use	<u>51,284</u>	<u>—</u>	<u>655</u>	<u>1,309</u>	<u>1,952</u>	<u>—</u>	<u>607,931</u>	<u>102,874</u>	<u>710,805</u>
Less assets limited or restricted as to use and required for current liabilities	—	—	—	—	—	—	24,674	—	24,674
Total assets limited or restricted as to use, net	<u>51,284</u>	<u>—</u>	<u>655</u>	<u>1,309</u>	<u>1,952</u>	<u>—</u>	<u>583,257</u>	<u>102,874</u>	<u>686,131</u>
Due from related parties, net of current portion	—	—	—	—	—	—	151,014	(151,014)	—
Contributions receivable, net of current portion	7,966	—	—	—	—	—	7,974	—	7,974
Other investments, at cost	—	—	—	—	—	—	2,250	(2,250)	—
Other assets, net	1,900	—	548	1,700	5	—	29,727	—	29,727
Insurance claims receivable	—	—	1,022	4,211	4,304	—	288,770	(120,496)	168,274
Property, plant, and equipment, net	—	6,330	4,439	15,518	16,428	480	813,061	—	813,061
Total assets	<u>\$ 181,371</u>	<u>11,762</u>	<u>54,207</u>	<u>42,348</u>	<u>38,225</u>	<u>3,422</u>	<u>3,336,793</u>	<u>(441,870)</u>	<u>2,894,923</u>

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

## Consolidating Schedule – Balance Sheet

December 31, 2017

(In thousands)

Liabilities and Net Assets	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group Subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Current liabilities:												
Current portion of long-term debt	\$ 1,043	3,831	1,980	1,583	3,323	11,760	—	11,760	950	6,442	15,507	—
Accounts payable and accrued expenses	44,362	61,030	14,858	13,830	13,777	147,857	—	147,857	8,605	12,706	34,173	905
Accrued salaries, related withholdings, and benefits	35,242	54,863	8,015	17,838	16,261	132,219	—	132,219	5,304	3,140	11,768	—
Current portion of other self-insured liabilities	9,256	6,750	2,160	3,651	4,797	26,614	—	26,614	457	—	1,420	—
Current portion of estimated third-party payor liabilities	14,540	19,081	5,398	6,045	6,653	51,717	—	51,717	1,759	—	—	—
Due to related parties	19,924	12,560	13,516	7,793	22,746	76,539	(35,121)	41,418	3,993	9,628	35,934	23,551
Other liabilities	—	—	—	—	—	—	—	—	—	26,419	—	—
Total current liabilities	124,367	158,115	45,927	50,740	67,557	446,706	(35,121)	411,585	21,068	58,335	98,802	24,456
Long-term debt, net of current portion	68,684	162,515	45,780	53,388	57,824	388,191	—	388,191	11,479	17,485	—	—
Estimated third-party payor liabilities, net of current portion	6,943	7,389	1,147	2,404	13,346	31,229	—	31,229	866	—	—	—
Other self-insured liabilities, net of current portion	35,208	22,311	13,387	13,619	17,816	102,341	—	102,341	1,904	—	—	5,284
Estimated malpractice liabilities	92,527	49,205	57,238	26,137	29,420	254,527	—	254,527	21,483	—	—	115,212
Other long-term liabilities	10,729	17,283	1,620	1,636	2,554	33,822	—	33,822	202	22,052	4,593	—
Due to related parties, net of current portion	—	—	21,235	15,296	22,892	59,423	(8,822)	50,601	11,700	82,536	—	—
Total liabilities	338,458	416,818	186,334	163,220	211,409	1,316,239	(43,943)	1,272,296	68,702	180,408	103,395	144,952
Net assets (deficit):												
Unrestricted:												
Attributable to CHS	230,833	825,686	33,649	(23,860)	(17,234)	1,049,074	15,061	1,064,135	766	35,322	85,068	32,825
Attributable to noncontrolling interests	1,365	—	—	—	—	1,365	—	1,365	—	—	—	—
Total unrestricted	232,198	825,686	33,649	(23,860)	(17,234)	1,050,439	15,061	1,065,500	766	35,322	85,068	32,825
Temporarily restricted	4,847	2,799	2,083	1,980	1,118	12,827	—	12,827	148	223	—	—
Permanently restricted	—	—	—	776	—	776	—	776	—	—	—	—
Capital stock and paid-in capital	—	—	—	—	—	—	—	—	—	—	—	2,250
Total net assets (deficit)	237,045	828,485	35,732	(21,104)	(16,116)	1,064,042	15,061	1,079,103	914	35,545	85,068	35,075
Commitments and contingencies												
Total liabilities and net assets (deficit)	\$ 575,503	1,245,303	222,066	142,116	195,293	2,380,281	(28,882)	2,351,399	69,616	215,953	188,463	180,027

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2017

(In thousands)

Liabilities and Net Assets	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Current liabilities:									
Current portion of long-term debt	\$ —	—	—	388	575	—	35,622	—	35,622
Accounts payable and accrued expenses	352	98	5,222	2,155	2,720	3,022	217,815	(8,006)	209,809
Accrued salaries, related withholdings, and benefits	—	—	5,782	2,802	3,431	—	164,446	—	164,446
Current portion of other self-insured liabilities	—	—	809	1,541	538	—	31,379	—	31,379
Current portion of estimated third-party payor liabilities	—	—	1,028	(1,444)	2,317	—	55,377	—	55,377
Due to related parties	3,298	129	6,570	6,168	9,701	2,351	142,741	(142,741)	—
Other liabilities	—	1,574	—	2,982	—	—	30,975	(2,801)	28,174
Total current liabilities	3,650	1,801	19,411	14,592	19,282	5,373	678,355	(153,548)	524,807
Long-term debt, net of current portion	—	—	—	2,745	12,963	—	432,863	—	432,863
Estimated third-party payor liabilities, net of current portion	—	—	—	—	—	—	32,095	—	32,095
Other self-insured liabilities, net of current portion	—	—	—	5,163	2,941	—	117,633	—	117,633
Estimated malpractice liabilities	—	—	1,022	511	3,374	—	396,129	(120,496)	275,633
Other long-term liabilities	—	—	31	4,068	—	—	64,768	—	64,768
Due to related parties, net of current portion	—	—	22,479	1,590	—	—	168,906	(168,906)	—
Total liabilities	3,650	1,801	42,943	28,669	38,560	5,373	1,890,749	(442,950)	1,447,799
Net assets (deficit):									
Unrestricted:									
Attributable to CHS	131,733	9,961	10,640	13,670	(1,287)	(3,309)	1,379,524	4,510	1,384,034
Attributable to noncontrolling interests	—	—	—	—	—	178	1,543	—	1,543
Total unrestricted	131,733	9,961	10,640	13,670	(1,287)	(3,131)	1,381,067	4,510	1,385,577
Temporarily restricted	42,863	—	437	9	952	—	57,459	—	57,459
Permanently restricted	3,125	—	187	—	—	—	4,088	—	4,088
Capital stock and paid-in capital	—	—	—	—	—	1,180	3,430	(3,430)	—
Total net assets (deficit)	177,721	9,961	11,264	13,679	(335)	(1,951)	1,446,044	1,080	1,447,124
Commitments and contingencies									
Total liabilities and net assets (deficit)	\$ 181,371	11,762	54,207	42,348	38,225	3,422	3,336,793	(441,870)	2,894,923

See accompanying independent auditors' report.

CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Statement of Operations

Year ended December 31, 2017

(In thousands)

	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group Subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Unrestricted revenues, gains, and other support:												
Net patient service revenues before bad debts	\$ 653,251	858,079	223,886	213,413	247,770	2,196,399	—	2,196,399	115,169	—	—	—
Provision for bad debts, net	(7,638)	(3,984)	(5,595)	(3,019)	(4,117)	(24,353)	—	(24,353)	(226)	—	—	—
Net patient services revenue	645,613	854,095	218,291	210,394	243,653	2,172,046	—	2,172,046	114,943	—	—	—
Investment income, net	3,019	48,087	219	88	637	52,050	—	52,050	44	1,337	—	1,680
Contributions, net	305	2	97	119	26	549	—	549	6	—	9	—
Other revenue	55,219	60,776	8,704	5,072	4,017	133,788	(96,742)	37,046	1,251	40,830	159,491	27,648
Net assets released from restrictions used for operations	106	237	13	165	104	625	—	625	—	311	—	—
Total revenues, gains, and other support	704,262	963,197	227,324	215,838	248,437	2,359,058	(96,742)	2,262,316	116,244	42,478	159,500	29,328
Expenses:												
Salaries	310,589	411,681	98,600	90,699	112,332	1,023,901	—	1,023,901	49,474	9,388	92,258	—
Employee benefits	95,615	91,155	29,181	26,777	39,072	281,800	—	281,800	20,913	2,677	28,581	—
Supplies and other expenses	183,729	270,662	58,106	67,040	67,559	647,096	(95,967)	551,129	35,012	24,390	37,657	1,137
Insurance	14,628	14,377	10,646	4,418	5,015	49,084	—	49,084	4,047	18	232	29,052
Depreciation and amortization	23,367	28,471	9,013	6,881	6,960	74,692	—	74,692	3,660	12	18,036	—
Interest	486	4,246	882	1,629	3,538	10,781	—	10,781	283	7,544	458	—
CHS Services, Inc.	44,219	48,269	19,712	16,889	17,480	146,569	—	146,569	9,189	—	—	—
CHS corporate office allocation	7,813	8,162	3,170	2,913	3,099	25,157	—	25,157	1,457	—	—	—
Total expenses	680,446	877,023	229,310	217,246	255,055	2,259,080	(95,967)	2,163,113	124,035	44,029	177,222	30,189
Operating income (loss) before nonoperating gains (losses)	23,816	86,174	(1,986)	(1,408)	(6,618)	99,978	(775)	99,203	(7,791)	(1,551)	(17,722)	(861)
Nonoperating gains (losses):												
Change in unrealized gains (losses) on trading investments, net	9,810	20,514	112	63	(88)	30,411	—	30,411	—	3,075	—	2,666
Other nonoperating gains, net	—	—	—	—	—	—	—	—	—	—	—	—
Income attributable to noncontrolling interests	(1,517)	—	—	—	—	(1,517)	—	(1,517)	—	—	—	—
Excess (deficiency) of revenues, gains, and other support over expenses	32,109	106,688	(1,874)	(1,345)	(6,706)	128,872	(775)	128,097	(7,791)	1,524	(17,722)	1,805
Other changes in benefit plan unrestricted net assets:												
Postretirement changes other than net periodic benefit cost	351	39	55	96	169	710	—	710	—	—	—	—
Net assets released from restrictions for purchase of property, plant, and equipment	712	2	784	—	145	1,643	—	1,643	482	—	—	—
Grant income for purchases of property, plant, and equipment	8	47	3	20	—	78	—	78	62	—	—	—
Transfer (to) from Catholic Health Services of Long Island	(2,089)	(2,177)	6,690	2,258	14,170	18,852	—	18,852	4,609	(32,370)	(5,000)	—
Transfer (to) from CHS Services, Inc.	(12,488)	(13,842)	(4,370)	(3,989)	(4,286)	(38,975)	—	(38,975)	(2,318)	5,000	41,350	—
Transfers (to) from related parties	—	5,760	—	—	—	5,760	—	5,760	—	—	—	—
Increase (decrease) in unrestricted net assets	\$ 18,603	96,517	1,288	(2,960)	3,492	116,940	(775)	116,165	(4,956)	(25,846)	18,628	1,805

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Statement of Operations

Year ended December 31, 2017

(In thousands)

	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Unrestricted revenues, gains, and other support:									
Net patient service revenues before bad debts	\$ —	—	105,786	—	56,249	—	2,473,603	(271)	2,473,332
Provision for bad debts, net	—	—	522	—	(1,842)	—	(25,899)	—	(25,899)
Net patient services revenue	—	—	106,308	—	54,407	—	2,447,704	(271)	2,447,433
Investment income, net	5,936	—	46	46	88	—	61,227	(391)	60,836
Contributions, net	4,774	—	412	312	11	—	6,073	—	6,073
Other revenue	—	4,300	249	86,880	258	1,989	359,942	(222,349)	137,593
Net assets released from restrictions used for operations	551	—	105	—	45	—	1,637	—	1,637
Total revenues, gains, and other support	11,261	4,300	107,120	87,238	54,809	1,989	2,876,583	(223,011)	2,653,572
Expenses:									
Salaries	878	5,172	58,700	50,462	30,742	—	1,320,975	—	1,320,975
Employee benefits	253	994	19,242	22,425	11,815	4	388,704	—	388,704
Supplies and other expenses	638	1,449	17,074	13,809	10,391	7,595	700,281	(7,227)	693,054
Insurance	—	41	510	1,045	1,298	—	85,327	(27,648)	57,679
Depreciation and amortization	—	1,323	832	1,752	1,293	90	101,690	—	101,690
Interest	—	—	—	219	613	—	19,898	(391)	19,507
CHS Services, Inc.	—	—	1,169	716	920	—	158,563	(158,563)	—
CHS corporate office allocation	—	—	376	294	265	—	27,549	(27,549)	—
Total expenses	1,769	8,979	97,903	90,722	57,337	7,689	2,802,987	(221,378)	2,581,609
Operating income (loss) before nonoperating gains (losses)	9,492	(4,679)	9,217	(3,484)	(2,528)	(5,700)	73,596	(1,633)	71,963
Nonoperating gains (losses):									
Change in unrealized gains (losses) on trading investments, net	11,338	—	9	(2)	(14)	—	47,483	—	47,483
Other nonoperating gains, net	—	—	—	—	—	—	—	—	—
Income attributable to noncontrolling interests	—	—	—	—	—	326	(1,191)	—	(1,191)
Excess (deficiency) of revenues, gains, and other support over expenses	20,830	(4,679)	9,226	(3,486)	(2,542)	(5,374)	119,888	(1,633)	118,255
Other changes in benefit plan unrestricted net assets:									
Postretirement changes other than net periodic benefit cost	—	—	—	—	—	—	710	—	710
Net assets released from restrictions for purchase of property, plant, and equipment	5,306	—	—	—	—	—	7,431	—	7,431
Grant income for purchases of property, plant, and equipment	—	—	—	27	—	—	167	—	167
Transfer (to) from Catholic Health Services of Long Island	—	—	(300)	2,745	(169)	5,000	(6,633)	6,633	—
Transfer (to) from CHS Services, Inc.	—	—	(19)	(17)	(21)	—	5,000	(5,000)	—
Transfers (to) from related parties	(11,158)	5,398	—	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets	\$ 14,978	719	8,907	(731)	(2,732)	(374)	126,563	—	126,563

See accompanying independent auditors' report.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2016

(In thousands)

Assets	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Current assets:												
Cash and cash equivalents	\$ 40,658	27,433	2,488	7,473	6,130	84,182	—	84,182	9,221	35,651	40,124	14,319
Investments	65,875	309,553	—	533	—	375,961	—	375,961	—	51,190	—	72,130
Assets limited or restricted as to use	—	1,751	900	—	—	2,651	—	2,651	—	21,328	—	—
Patient accounts receivable, net	80,002	97,445	26,937	22,439	28,702	255,525	—	255,525	13,271	—	—	—
Contributions receivable, net	—	—	—	—	41	41	—	41	—	—	—	—
Other receivables	2,792	8,307	1,342	943	694	14,078	—	14,078	22	5	243	110
Inventories	6,646	11,023	2,983	3,843	3,863	28,358	—	28,358	1,755	—	—	—
Prepaid expenses and other	6,038	7,015	2,203	1,782	2,668	19,706	—	19,706	775	120	3,684	3,224
Due from related parties	4,521	25,640	2,648	13,066	839	46,714	(21,906)	24,808	209	18,050	21,174	54,883
Total current assets	206,532	488,167	39,501	50,079	42,937	827,216	(21,906)	805,310	25,253	126,344	65,225	144,666
Assets limited or restricted as to use:												
Board designated and other	43,929	5,453	7,110	—	—	56,492	—	56,492	—	4,822	—	—
Donor-restricted funds	4,719	2,686	2,525	2,423	851	13,204	—	13,204	439	447	—	—
Funded depreciation	—	285,728	—	—	7,516	293,244	—	293,244	—	—	—	—
Trustee held and other	11,089	5,552	5,412	456	44,433	66,942	—	66,942	263	81,066	1,652	—
Captive assets	—	—	—	—	—	—	—	—	—	—	—	—
Total assets limited or restricted as to use	59,737	299,419	15,047	2,879	52,800	429,882	—	429,882	702	86,335	1,652	—
Less assets limited or restricted as to use and required for current liabilities	—	1,751	900	—	—	2,651	—	2,651	—	21,328	—	—
Total assets limited or restricted as to use, net	59,737	297,668	14,147	2,879	52,800	427,231	—	427,231	702	65,007	1,652	—
Due from related parties, net of current portion	38,611	34,479	10,135	8,223	—	91,448	(4,081)	87,367	—	27,364	44,301	—
Contributions receivable, net of current portion	—	—	—	8	—	8	—	8	—	—	—	—
Other investments, at cost	—	—	—	—	—	—	—	—	—	2,250	—	—
Other assets, net	1,221	13,907	—	113	70	15,311	—	15,311	90	11,906	—	—
Insurance claims receivable	81,333	43,752	51,069	31,324	32,767	240,245	—	240,245	10,694	—	—	7,606
Property, plant, and equipment, net	166,667	267,043	97,460	54,515	75,733	661,418	—	661,418	31,215	61	54,082	—
Total assets	\$ 554,101	1,145,016	212,312	147,141	204,307	2,262,877	(25,987)	2,236,890	67,954	232,932	165,260	152,272

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2016

(In thousands)

Assets	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Current assets:									
Cash and cash equivalents	\$ 5,251	64	23,013	5,645	4,054	469	221,993	(14,319)	207,674
Investments	97,543	—	49	1,801	2,578	—	601,252	(72,130)	529,122
Assets limited or restricted as to use	—	—	—	—	—	—	23,979	—	23,979
Patient accounts receivable, net	—	—	10,350	—	7,917	—	287,063	—	287,063
Contributions receivable, net	3,711	—	—	—	—	—	3,752	—	3,752
Other receivables	—	803	—	11,220	83	311	26,875	—	26,875
Inventories	—	—	—	325	70	—	30,508	—	30,508
Prepaid expenses and other	—	—	450	1,227	716	1	29,903	(7,844)	22,059
Due from related parties	—	2,497	3,115	931	1,225	633	127,525	(127,525)	—
Total current assets	<u>106,505</u>	<u>3,364</u>	<u>36,977</u>	<u>21,149</u>	<u>16,643</u>	<u>1,414</u>	<u>1,352,850</u>	<u>(221,818)</u>	<u>1,131,032</u>
Assets limited or restricted as to use:									
Board designated and other	17,167	—	—	675	—	—	79,156	—	79,156
Donor-restricted funds	27,478	—	597	—	938	—	43,103	—	43,103
Funded depreciation	—	—	—	439	1,000	—	294,683	—	294,683
Trustee held and other	—	—	9	137	53	—	150,122	—	150,122
Captive assets	—	—	—	—	—	—	—	86,449	86,449
Total assets limited or restricted as to use	<u>44,645</u>	<u>—</u>	<u>606</u>	<u>1,251</u>	<u>1,991</u>	<u>—</u>	<u>567,064</u>	<u>86,449</u>	<u>653,513</u>
Less assets limited or restricted as to use and required for current liabilities	—	—	—	—	—	—	23,979	—	23,979
Total assets limited or restricted as to use, net	<u>44,645</u>	<u>—</u>	<u>606</u>	<u>1,251</u>	<u>1,991</u>	<u>—</u>	<u>543,085</u>	<u>86,449</u>	<u>629,534</u>
Due from related parties, net of current portion	—	—	—	—	—	—	159,032	(159,032)	—
Contributions receivable, net of current portion	9,406	—	—	—	—	—	9,414	—	9,414
Other investments, at cost	—	—	—	—	—	—	2,250	(2,250)	—
Other assets, net	—	—	548	1,627	5	15	29,502	—	29,502
Insurance claims receivable	—	—	666	3,998	3,063	—	266,272	(95,020)	171,252
Property, plant, and equipment, net	—	7,406	4,477	15,652	16,334	436	791,081	—	791,081
Total assets	<u>\$ 160,556</u>	<u>10,770</u>	<u>43,274</u>	<u>43,677</u>	<u>38,036</u>	<u>1,865</u>	<u>3,153,486</u>	<u>(391,671)</u>	<u>2,761,815</u>

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2016

(In thousands)

Liabilities and Net Assets	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group Subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Current liabilities:												
Current portion of long-term debt	\$ 1,026	3,651	1,901	1,438	3,018	11,034	—	11,034	950	6,075	15,225	—
Accounts payable and accrued expenses	40,704	59,237	12,176	14,151	18,302	144,570	—	144,570	8,120	13,523	25,223	871
Accrued salaries, related withholdings, and benefits	33,804	53,380	8,126	16,138	15,127	126,575	—	126,575	4,834	2,786	9,406	—
Current portion of other self-insured liabilities	7,506	9,658	2,769	3,448	4,221	27,602	—	27,602	260	—	1,606	—
Current portion of estimated third-party payor liabilities	18,085	22,114	6,503	4,394	7,744	58,840	—	58,840	1,952	—	—	—
Due to related parties	18,702	14,713	5,689	5,642	20,019	64,765	(33,001)	31,764	4,286	7,028	27,553	23,111
Other liabilities	—	—	—	—	—	—	—	—	—	14,709	—	—
Total current liabilities	119,827	162,753	37,164	45,211	68,431	433,386	(33,001)	400,385	20,402	44,121	79,013	23,982
Long-term debt, net of current portion	75,302	165,478	48,489	54,059	61,064	404,392	—	404,392	12,429	20,869	15,484	—
Estimated third-party payor liabilities, net of current portion	8,167	7,337	1,995	2,215	13,960	33,674	—	33,674	1,114	—	—	—
Other self-insured liabilities, net of current portion	38,107	23,245	13,580	15,867	20,306	111,105	—	111,105	1,874	—	—	4,764
Estimated malpractice liabilities	84,668	38,182	52,651	29,382	33,692	238,575	—	238,575	14,011	—	—	90,256
Other long-term liabilities	9,833	16,166	2,312	1,453	2,371	32,135	—	32,135	263	19,958	4,323	—
Due to related parties, net of current portion	—	—	21,235	17,423	24,317	62,975	(8,822)	54,153	11,700	86,435	—	—
Total liabilities	335,904	413,161	177,426	165,610	224,141	1,316,242	(41,823)	1,274,419	61,793	171,383	98,820	119,002
Net assets (deficit):												
Unrestricted:												
Attributable to CHS	212,230	729,169	32,361	(20,900)	(20,726)	932,134	15,836	947,970	5,722	61,168	66,440	31,020
Attributable to noncontrolling interests	1,248	—	—	—	—	1,248	—	1,248	—	—	—	—
Total unrestricted	213,478	729,169	32,361	(20,900)	(20,726)	933,382	15,836	949,218	5,722	61,168	66,440	31,020
Temporarily restricted	4,719	2,686	2,525	1,655	892	12,477	—	12,477	439	381	—	—
Permanently restricted	—	—	—	776	—	776	—	776	—	—	—	—
Capital stock and paid-in capital	—	—	—	—	—	—	—	—	—	—	—	2,250
Total net assets (deficit)	218,197	731,855	34,886	(18,469)	(19,834)	946,635	15,836	962,471	6,161	61,549	66,440	33,270
Commitments and contingencies												
Total liabilities and net assets (deficit)	\$ 554,101	1,145,016	212,312	147,141	204,307	2,262,877	(25,987)	2,236,890	67,954	232,932	165,260	152,272

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Balance Sheet

December 31, 2016

(In thousands)

Liabilities and Net Assets	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Current liabilities:									
Current portion of long-term debt	\$ —	—	—	1,003	522	—	34,809	—	34,809
Accounts payable and accrued expenses	434	66	6,500	2,475	3,331	1,820	206,933	(7,989)	198,944
Accrued salaries, related withholdings, and benefits	—	—	5,202	2,700	3,270	—	154,773	—	154,773
Current portion of other self-insured liabilities	—	—	886	1,631	622	—	32,607	—	32,607
Current portion of estimated third-party payor liabilities	—	—	169	(598)	2,721	—	63,084	—	63,084
Due to related parties	2,706	161	5,033	3,512	6,560	1,296	113,010	(113,010)	—
Other liabilities	—	1,301	—	3,827	—	—	19,837	—	19,837
Total current liabilities	3,140	1,528	17,790	14,550	17,026	3,116	625,053	(120,999)	504,054
Long-term debt, net of current portion	—	—	—	2,194	13,599	—	468,967	—	468,967
Estimated third-party payor liabilities, net of current portion	—	—	—	—	—	—	34,788	—	34,788
Other self-insured liabilities, net of current portion	—	—	—	6,188	2,941	—	126,872	—	126,872
Estimated malpractice liabilities	—	—	666	333	2,034	—	345,875	(95,020)	250,855
Other long-term liabilities	—	—	9	4,046	53	—	60,787	—	60,787
Due to related parties, net of current portion	—	—	22,479	1,965	—	—	176,732	(176,732)	—
Total liabilities	3,140	1,528	40,944	29,276	35,653	3,116	1,839,074	(392,751)	1,446,323
Net assets (deficit):									
Unrestricted:									
Attributable to CHS	116,755	9,242	1,733	14,401	1,445	(2,935)	1,252,961	4,510	1,257,471
Attributable to noncontrolling interests	—	—	—	—	—	504	1,752	—	1,752
Total unrestricted	116,755	9,242	1,733	14,401	1,445	(2,431)	1,254,713	4,510	1,259,223
Temporarily restricted	37,539	—	430	—	938	—	52,204	—	52,204
Permanently restricted	3,122	—	167	—	—	—	4,065	—	4,065
Capital stock and paid-in capital	—	—	—	—	—	1,180	3,430	(3,430)	—
Total net assets (deficit)	157,416	9,242	2,330	14,401	2,383	(1,251)	1,314,412	1,080	1,315,492
Commitments and contingencies									
Total liabilities and net assets (deficit)	\$ 160,556	10,770	43,274	43,677	38,036	1,865	3,153,486	(391,671)	2,761,815

See accompanying independent auditors' report.

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

Consolidating Schedule – Statement of Operations

Year ended December 31, 2016

(In thousands)

	Good Samaritan Hospital	St. Francis Hospital	Mercy Medical Center	St. Charles Hospital	St. Catherine Medical Center & Subsidiaries	Subtotal	Consolidating and eliminating entries	Obligated Group Subtotal	St. Joseph Hospital	CHSLI	CHS Services	RVC Insurance Company, Inc.
Unrestricted revenues, gains, and other support:												
Net patient service revenues before bad debts	\$ 666,973	775,272	211,386	232,915	245,422	2,131,968	—	2,131,968	115,729	—	—	—
Provision for bad debts, net	(16,720)	(4,593)	(4,882)	(4,489)	(4,545)	(35,229)	—	(35,229)	(1,804)	—	—	—
Net patient services revenue	650,253	770,679	206,504	228,426	240,877	2,096,739	—	2,096,739	113,925	—	—	—
Investment income, net	2,440	12,329	203	88	537	15,597	—	15,597	41	1,133	—	1,952
Contributions, net	270	—	57	211	5	543	—	543	—	—	10	—
Other revenue	24,161	38,721	7,005	3,465	1,863	75,215	(46,935)	28,280	324	33,749	138,392	27,068
Net assets released from restrictions used for operations	147	651	56	155	57	1,066	—	1,066	—	185	—	—
Total revenues, gains, and other support	677,271	822,380	213,825	232,345	243,339	2,189,160	(46,935)	2,142,225	114,290	35,067	138,402	29,020
Expenses:												
Salaries	279,033	356,830	97,576	103,826	107,551	944,816	—	944,816	48,094	8,481	80,659	—
Employee benefits	81,550	90,919	29,268	30,549	38,430	270,716	—	270,716	20,321	3,212	27,391	—
Supplies and other expenses	179,658	214,040	47,051	61,177	61,370	563,296	(46,935)	516,361	30,472	15,761	28,655	1,754
Insurance	15,725	12,437	9,809	5,455	6,378	49,804	—	49,804	4,140	17	244	29,343
Depreciation and amortization	22,531	25,183	9,029	7,206	6,985	70,934	—	70,934	3,273	3,889	17,988	—
Interest	522	4,403	552	1,684	3,730	10,891	—	10,891	222	7,757	757	—
CHS Services, Inc.	38,826	40,290	17,641	15,334	15,178	127,269	—	127,269	7,762	—	—	—
CHS corporate office allocation	7,992	8,300	3,210	2,944	3,136	25,582	—	25,582	1,490	—	—	—
Total expenses	625,837	752,402	214,136	228,175	242,758	2,063,308	(46,935)	2,016,373	115,774	39,117	155,694	31,097
Operating income (loss) before nonoperating gains (losses)	51,434	69,978	(311)	4,170	581	125,852	—	125,852	(1,484)	(4,050)	(17,292)	(2,077)
Nonoperating gains (losses):												
Change in unrealized gains (losses) on trading investments, net	2,196	20,861	4	35	(134)	22,962	—	22,962	—	1,223	—	888
Other nonoperating gains (losses), net	—	—	—	—	—	—	—	—	—	—	(283)	—
Income attributable to noncontrolling interests	(1,366)	—	—	—	—	(1,366)	—	(1,366)	—	—	—	—
Excess (deficiency) of revenues, gains, and other support over expenses	52,264	90,839	(307)	4,205	447	147,448	—	147,448	(1,484)	(2,827)	(17,575)	(1,189)
Other changes in benefit plan unrestricted net assets:												
Postretirement changes other than net periodic benefit cost	13	515	126	17	154	825	—	825	—	—	—	—
Net assets released from restrictions for purchase of property, plant, and equipment	9	47	23	179	200	458	—	458	133	—	—	—
Grant income for purchases of property, plant, and equipment	25	40	38	27	38	168	—	168	93	—	—	—
Transfer (to) from Catholic Health Services of Long Island	(1,988)	(2,069)	(773)	2,293	6,712	4,175	—	4,175	5,627	(22,979)	(28,621)	—
Transfer (to) from CHS Services, Inc.	(13,523)	(14,348)	(5,252)	(4,801)	(4,707)	(42,631)	—	(42,631)	(2,555)	28,621	45,279	—
Transfers (to) from related parties	—	2,477	—	—	—	2,477	—	2,477	—	—	—	—
Increase (decrease) in unrestricted net assets	\$ 36,800	77,501	(6,145)	1,920	2,844	112,920	—	112,920	1,814	2,815	(917)	(1,189)

## CATHOLIC HEALTH SERVICES OF LONG ISLAND

## Consolidating Schedule – Statement of Operations

Year ended December 31, 2016

(In thousands)

	St. Francis Hospital Foundation	St. Francis Research and Educational Corporation	Catholic Home Care & Hospice	Maryhaven	Our Lady of Consolation	Other entities	Subtotal	Consolidating and eliminating entries	CHS consolidated total
Unrestricted revenues, gains, and other support:									
Net patient service revenues before bad debts	\$ —	—	101,606	—	56,956	—	2,406,259	(310)	2,405,949
Provision for bad debts, net	—	—	(117)	—	(597)	—	(37,747)	—	(37,747)
Net patient services revenue	—	—	101,489	—	56,359	—	2,368,512	(310)	2,368,202
Investment income, net	2,472	—	43	(181)	27	—	21,084	(495)	20,589
Contributions, net	12,761	—	426	—	27	—	14,053	—	14,053
Other revenue	—	3,744	1,191	83,807	201	3,334	320,090	(201,645)	118,445
Net assets released from restrictions used for operations	818	—	46	—	27	—	2,142	—	2,142
Total revenues, gains, and other support	16,051	3,744	103,195	83,912	56,641	3,334	2,725,881	(202,450)	2,523,431
Expenses:									
Salaries	724	4,740	55,405	46,532	29,578	—	1,219,029	—	1,219,029
Employee benefits	210	909	20,308	22,573	12,663	6	378,309	—	378,309
Supplies and other expenses	537	1,272	18,462	12,888	10,559	6,298	643,019	(7,047)	635,972
Insurance	—	41	384	1,025	1,192	5	86,195	(27,068)	59,127
Depreciation and amortization	—	1,560	761	1,775	1,275	10	101,465	—	101,465
Interest	—	—	1	170	633	—	20,431	(495)	19,936
CHS Services, Inc.	—	—	1,101	674	867	—	137,673	(137,673)	—
CHS corporate office allocation	—	—	341	267	241	—	27,921	(27,921)	—
Total expenses	1,471	8,522	96,763	85,904	57,008	6,319	2,614,042	(200,204)	2,413,838
Operating income (loss) before nonoperating gains (losses)	14,580	(4,778)	6,432	(1,992)	(367)	(2,985)	111,839	(2,246)	109,593
Nonoperating gains (losses):									
Change in unrealized gains (losses) on trading investments, net	4,334	—	—	(2)	(20)	—	29,385	—	29,385
Other nonoperating gains (losses), net	—	—	2	1,238	—	—	957	—	957
Income attributable to noncontrolling interests	—	—	—	—	—	116	(1,250)	—	(1,250)
Excess (deficiency) of revenues, gains, and other support over expenses	18,914	(4,778)	6,434	(756)	(387)	(2,869)	140,931	(2,246)	138,685
Other changes in benefit plan unrestricted net assets:									
Postretirement changes other than net periodic benefit cost	—	—	—	—	—	—	825	—	825
Net assets released from restrictions for purchase of property, plant, and equipment	1,817	—	—	—	—	—	2,408	—	2,408
Grant income for purchases of property, plant, and equipment	—	—	—	50	—	—	311	—	311
Transfer (to) from Catholic Health Services of Long Island	—	—	(17)	7,780	(38)	—	(34,073)	34,073	—
Transfer (to) from CHS Services, Inc.	—	—	(259)	(31)	(148)	3,621	31,897	(31,897)	—
Transfers (to) from related parties	(6,735)	4,258	—	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets	\$ 13,996	(520)	6,158	7,043	(573)	752	142,299	(70)	142,229

See accompanying independent auditors' report.