

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Catholic Health Services of Long Island
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



Catholic Health Services of Long Island
Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

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, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Adoption of ASU No. 2016-02, *Leases*

As discussed in Note 2 to the consolidated financial statements, Catholic Health Services of Long Island changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2019, and consolidating statement of operations for the year ended December 31, 2019, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

April 27, 2020

Catholic Health Services of Long Island

Consolidated Balance Sheets (In Thousands)

	December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 225,735	\$ 170,722
Investments	630,949	556,199
Assets limited or restricted as to use	37,187	35,130
Patient accounts receivable, net	302,031	312,384
Contributions receivable, net	4,169	5,579
Other receivables	25,619	29,720
Inventories	36,468	33,701
Prepaid expenses and other	30,094	28,898
Total current assets	1,292,252	1,172,333
Assets limited or restricted as to use:		
Board designated and other	66,339	61,682
Donor-restricted funds	67,650	52,216
Funded depreciation	306,971	333,709
Trustee held and other agreements	139,245	128,694
Captive assets	135,872	115,944
Total assets limited or restricted as to use	716,077	692,245
Less assets limited or restricted as to use and required for current liabilities	37,187	35,130
Total assets limited or restricted as to use, net	678,890	657,115
Contributions receivable, net of current portion	5,242	6,197
Right-of-use assets	147,007	-
Other assets, net	32,640	32,080
Insurance claims receivable	185,332	190,825
Property, plant, and equipment, net	896,982	857,916
Total assets	\$ 3,238,345	\$ 2,916,466

	December 31	
	2019	2018
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 48,046	\$ 35,833
Accounts payable and accrued expenses	233,400	226,048
Accrued salaries, related withholdings, and benefits	180,582	176,081
Current portion of other self-insured liabilities	32,381	31,804
Current portion of estimated third-party payor liabilities	50,610	54,883
Current portion of operating lease liabilities	22,325	–
Other liabilities	44,813	39,579
Total current liabilities	<u>612,157</u>	<u>564,228</u>
Long-term debt, net of current portion	349,339	398,504
Estimated third-party payor liabilities, net of current portion	27,414	29,774
Other self-insured liabilities, net of current portion	111,117	111,106
Estimated malpractice liabilities	293,390	309,184
Operating lease liabilities	133,383	–
Other long-term liabilities	58,766	52,007
Total liabilities	<u>1,585,566</u>	<u>1,464,803</u>
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions:		
Catholic Health Services of Long Island	1,573,600	1,385,901
Noncontrolling interests	2,118	1,770
Total net assets without donor restrictions	<u>1,575,718</u>	<u>1,387,671</u>
Net assets with donor restrictions	77,061	63,992
Total net assets	<u>1,652,779</u>	<u>1,451,663</u>
Total liabilities and net assets	<u>\$ 3,238,345</u>	<u>\$ 2,916,466</u>

See accompanying notes.

Catholic Health Services of Long Island

Consolidated Statements of Operations (In Thousands)

	Year Ended December 31	
	2019	2018
Revenues, gains, and other support:		
Net patient services revenue	\$ 2,701,050	\$ 2,597,570
Investment income, net	94,024	60,351
Contributions, net	3,686	5,070
Other revenue	154,220	162,238
Net assets released from restrictions used for operations	2,710	1,770
Total revenues, gains, and other support	2,955,690	2,826,999
Expenses:		
Salaries	1,425,535	1,399,834
Employee benefits	461,862	432,429
Supplies and other expenses	784,236	735,375
Insurance	42,525	50,333
Depreciation and amortization	114,813	107,634
Interest	17,768	18,902
Total expenses	2,846,739	2,744,507
Operating income	108,951	82,492
Nonoperating gains (losses):		
Net unrealized gains (losses) on investments	72,960	(101,418)
Net periodic postretirement benefit changes (non-service related)	913	(755)
Excess (deficiency) of revenues, gains, and other support over expenses before income attributed to noncontrolling interests	182,824	(19,681)
Income attributable to noncontrolling interests	(2,205)	(1,405)
Excess (deficiency) of revenues, gains, and other support over expenses	180,619	(21,086)
Other changes in net assets without donor restrictions:		
Postretirement benefit plan changes other than net periodic benefit cost	(1,585)	11,996
Net assets released from restrictions for purchases of property, plant, and equipment	2,903	1,992
Grant income for purchases of property, plant, and equipment	5,762	8,965
Increase in net assets without donor restrictions	\$ 187,699	\$ 1,867

See accompanying notes.

Catholic Health Services of Long Island

Consolidated Statements of Changes in Net Assets (In Thousands)

	Without Donor Restrictions				
	Catholic Health Services of Long Island	Noncontrolling Interests	Total	With Donor Restrictions	Total
Net assets, January 1, 2018	\$ 1,384,034	\$ 1,543	\$ 1,385,577	\$ 61,547	\$ 1,447,124
Deficiency of revenues, gains, and other support over expenses	(21,086)	–	(21,086)	–	(21,086)
Investment losses including unrealized losses, net	–	–	–	(1,847)	(1,847)
Restricted contributions, net	–	–	–	8,054	8,054
Net assets released from restrictions used for operations	–	–	–	(1,770)	(1,770)
Postretirement benefit plan changes other than net periodic benefit cost	11,996	–	11,996	–	11,996
Net assets released from restrictions for purchases of property, plant, and equipment	1,992	–	1,992	(1,992)	–
Grant income for purchases of property, plant, and equipment	8,965	–	8,965	–	8,965
Distributions to noncontrolling shareholders	–	(1,178)	(1,178)	–	(1,178)
Income attributable to noncontrolling interests	–	1,405	1,405	–	1,405
Increase in net assets	1,867	227	2,094	2,445	4,539
Net assets, December 31, 2018	1,385,901	1,770	1,387,671	63,992	1,451,663
Excess of revenues, gains, and other support over expenses	180,619	–	180,619	–	180,619
Investment income, including unrealized gains, net	–	–	–	8,695	8,695
Restricted contributions, net	–	–	–	9,987	9,987
Net assets released from restrictions used for operations	–	–	–	(2,710)	(2,710)
Postretirement benefit plan changes other than net periodic benefit cost	(1,585)	–	(1,585)	–	(1,585)
Net assets released from restrictions for purchases of property, plant, and equipment	2,903	–	2,903	(2,903)	–
Grant income for purchases of property, plant, and equipment	5,762	–	5,762	–	5,762
Distributions to noncontrolling shareholders	–	(1,857)	(1,857)	–	(1,857)
Income attributable to noncontrolling interests	–	2,205	2,205	–	2,205
Increase in net assets	187,699	348	188,047	13,069	201,116
Net assets, December 31, 2019	\$ 1,573,600	\$ 2,118	\$ 1,575,718	\$ 77,061	\$ 1,652,779

See accompanying notes.

Catholic Health Services of Long Island

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2019	2018
Operating activities		
Increase in net assets	\$ 201,116	\$ 4,539
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	114,589	106,860
Distributions to noncontrolling shareholders	1,857	1,178
Amortization of deferred financing costs	688	680
Amortization of intangible assets	224	774
Net realized and unrealized (gains) and losses on investments	(150,649)	68,111
Investment income on restricted assets, net	(1,073)	(1,219)
Postretirement benefit plan changes other than net periodic benefit cost	1,585	(11,996)
Grant income for purchases of property, plant, and equipment	(5,762)	(8,965)
Restricted contributions	(8,754)	(5,784)
Changes in asset and liability accounts:		
Patient accounts receivable, net	10,353	(24,865)
Other operating assets	12,279	(28,721)
Other operating liabilities	18,352	26,120
Estimated third-party payor liabilities	(6,633)	(2,815)
Other self-insured and estimated malpractice liabilities	(15,206)	27,449
Net cash provided by operating activities	<u>172,966</u>	<u>151,346</u>
Investing activities		
Purchases of property and equipment	(153,655)	(151,715)
Increase in accounts payable due to capital purchases	3,909	12,394
Proceeds from sale of investments and assets limited or restricted as to use	550,183	359,216
Purchases of investments and assets limited or restricted as to use	(481,073)	(367,164)
Net cash used in investing activities	<u>(80,636)</u>	<u>(147,269)</u>
Financing activities		
Principal payments on long-term debt	(37,640)	(34,828)
Restricted contributions	8,754	5,784
Change in contributions receivable	3,634	1,322
Distributions to noncontrolling shareholders	(1,857)	(1,178)
Grant income for purchases of property, plant, and equipment	5,762	8,965
Investment income on restricted assets, net	1,073	1,219
Net cash used in financing activities	<u>(20,274)</u>	<u>(18,716)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	72,056	(14,639)
Cash, cash equivalents and restricted cash at beginning of year	282,824	297,463
Cash, cash equivalents and restricted cash at end of year	<u>\$ 354,880</u>	<u>\$ 282,824</u>
Reconciliation of cash, cash equivalents and restricted cash at end of year to the consolidated balance sheets:		
Cash and cash equivalents	\$ 225,735	\$ 170,722
Assets limited or restricted as to use: cash and cash equivalents	126,155	110,121
Investments: cash and cash equivalents	2,990	1,981
Total cash, cash equivalents and restricted cash	<u>\$ 354,880</u>	<u>\$ 282,824</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 18,479</u>	<u>\$ 19,215</u>

See accompanying notes.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements

December 31, 2019

(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). Active legal entities of CHS, or operational divisions of such entities, include:

CHS Hospitals

- Good Samaritan Hospital Medical Center (Good Samaritan)
- Mercy Medical Center (Mercy)
- St. Catherine of Siena Medical Center (St. Catherine)
- St. Charles Hospital and Rehabilitation Center (St. Charles)
- St. Francis Hospital, Roslyn, New York (St. Francis)
- St. Joseph Hospital (St. Joseph)

CHS Organizations

Nursing Homes

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

Insurance

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

Continuing Care Entities

- Catholic Home Care
- Good Shepherd Hospice
- Maryhaven Center of Hope (Maryhaven)
- Maryhaven School
- MCH-Wisdom, LLC
- Riverhead Hostel Holding Corporation
- Wisdom Gardens Housing Development Fund, Inc.
- Wisdom Gardens Limited Partnership

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization (continued)

Foundations and Other Entities

- Center of Hope Foundation, Inc.
- CHS Services, Inc.
- The Good Samaritan Hospital Foundation
- Good Shepherd Hospice Foundation, Inc.
- The Mercy Medical Center Foundation
- The Our Lady of Consolation Foundation
- The St. Catherine of Siena Medical Center Foundation
- The St. Charles Hospital Foundation
- The St. Francis Hospital Foundation, Inc.
- St. Francis Research and Educational Corporation

Professional Corporations

- Advanced Rehabilitation Medicine, PLLC
- Cardiac EKG Interpretation, P.C.
- CHS Physician Partners, P.C.
- Long Island Emergency Care, P.C.
- Long Island Regional Arthritis and 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.
- St. Francis Cardiac Prevention Services, P.C.
- Southwest Suffolk Medical, 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

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, including patient accounts receivable, net and insurance claims receivable, and liabilities, including other self-insured liabilities, estimated third-party payor liabilities and estimated malpractice liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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. CHS does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents. Amounts within restricted cash include cash and cash equivalents held within investments and assets limited or restricted as to use and represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

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 based upon net asset values (NAV) derived from the application of the equity method of accounting. The equity method reflects CHS's share of the net asset values of these investments. 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. Changes in the value of alternative investments is included within net unrealized gains (losses) on investments in the accompanying consolidated statements of operations.

Assets limited or restricted as to use include assets that are both internally and externally designated for future purposes. Board designated and other, funded depreciation, and captive assets are internally designated funds set aside primarily for future capital improvements and malpractice and other captive-related insurance expenditures. Donor-restricted funds are funds set aside for future use to be spent in accordance with the applicable donor-restricted purposes. Trustee held and other agreements are externally designated funds and are set aside primarily for future debt service and executive retirement plan payments. The current portion of assets limited or restricted as to use of \$37,187 and \$35,130 at December 31, 2019 and 2018, respectively, represents amounts that will be used to repay certain current installments of long-term debt and related accrued interest.

Equity method investments are non-controlling interests in joint ventures held by CHS for investment purposes. Equity method investments are included within other assets on the accompanying consolidated balance sheets. Changes in the value of equity method investments is included within net unrealized gains (losses) on investments in the accompanying consolidated statements of operations.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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

Patient Accounts Receivable, Net and Net Patient Services Revenue

Patient accounts receivable, net and net patient services revenue result from the healthcare services provided by CHS and are reported at the amount that reflects the consideration to which CHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

CHS uses a portfolio approach as a practical expedient to account for categories of patient contracts as collective groups, rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for inpatient revenue, and major payor classes and types of services provided for outpatient revenue. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

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

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Inventories

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

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.

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. Contributions are reported as assets with donor restrictions 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, assets with donor restrictions are reclassified as net assets without donor restrictions 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 within contributions, net in the consolidated statements of operations.

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).

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Estimated Malpractice Liabilities

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, 2019 and 2018, amounts recorded within estimated malpractice liabilities in the accompanying consolidated balance sheets are undiscounted.

Other 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 the 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 with stop-loss coverage of \$750 per claim provided through the plan administrator. 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.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of CHS. These net assets may be used at the discretion of CHS's management and Board of Directors.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Net Assets with Donor Restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CHS, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations.

Performance Indicator

The consolidated statements of operations include excess (deficiency) of revenues, gains, and other support over expenses as the performance indicator. Other changes in net assets without donor restrictions, which are excluded from excess (deficiency) of revenues, gains, and other support over expenses 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 for purchases of property, plant, and equipment.

Operating Income and Nonoperating Gains (Losses)

CHS's 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, and are included within operating income. Other activities, which are peripheral to CHS's primary mission, are considered to be nonoperating. Nonoperating gains and losses include net unrealized gains (losses) on investments and net periodic postretirement changes (non-service related).

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 indefinite-lived 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 2019 or 2018.

Income Taxes

CHS and most of its subsidiaries are 501(c)(3) organizations exempt from Federal income taxes on related income under Section 501(a) of the Internal Revenue Code. These entities are also exempt from New York State income taxes. There are various subsidiaries of CHS that are for-profit entities. Taxable operations and the potential for income taxes from these entities and from unrelated business activities of the tax exempt entities are not significant to the accompanying consolidated financial statements.

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.

The Taxpayer Certainty and Disaster Tax Relief Act of 2019, signed into law on December 20, 2019, retroactively repealed IRC Section 512(a)(7) which subjected amounts paid or incurred by an exempt organization to provide certain transportation fringe benefits to its employees to taxation as unrelated business taxable income. The impact of the Taxpayer Certainty and Disaster Tax Relief Act of 2019 was not significant to the accompanying consolidated financial statements.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

In January 2016, the Financial Account Standards Board (FASB) issued Accounting Standards Update (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 excess (deficiency) of revenues, gains, and other support over expenses. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. CHS adopted ASU 2016-01 effective January 1, 2019. With the exception of certain disclosures, the adoption of ASU 2016-01 did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated balance sheets, including both finance and operating leases. ASU 2016-02 requires disclosure to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease. CHS adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the prior period consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect adjustment to the prior period consolidated net assets as a result of the adoption. CHS has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, CHS has elected to utilize the operating leases' remaining lease term as of the date of adoption to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to CHS's adoption of ASU 2016-02 are described in Note 14.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. CHS adopted ASU 2016-15 effective December 31, 2019. The adoption of ASU 2016-15 did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. CHS adopted ASU 2016-18 effective December 31, 2019. Therefore, amounts generally described as restricted cash and cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. CHS adopted ASU 2016-18 using a retrospective transition method.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers are required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard became effective for CHS for annual periods beginning after December 15, 2018. CHS adopted ASU 2017-07 retrospectively effective January 1, 2019, which required the service cost component of net periodic benefit cost related to its postretirement plan to be reported within salaries on the consolidated statements of operations and to present all other components of net periodic benefit cost as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost was historically reported within employee benefits expense on the consolidated statements of operations. The adoption of ASU 2017-07 did not have a material impact on CHS's consolidated financial statements.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. The standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets (or a right of release of the promisor's obligation to transfer the assets). CHS adopted ASU 2018-08 effective January 1, 2019. The standard was applied on a modified prospective basis to agreements that were not completed as of the effective date and to agreements entered into after the effective date. The adoption of ASU 2018-08 did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in the ASU. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in ASU 2018-15 also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the consolidated balance sheets in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. CHS early adopted ASU 2018-15 effective January 1, 2019. The adoption of ASU 2018-15 did not have a material impact on the consolidated financial statements.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Other Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. ASU 2016-13 is effective for annual periods beginning after December 31, 2021. CHS has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Under ASU 2019-06, entities that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. Entities that elect the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. Entities that elect to adopt the alternatives do not have to demonstrate preferability and will follow the alternatives’ transition guidance. Entities that elect this accounting alternative will amortize goodwill on a straight-line basis over 10 years or over a shorter period if they are able to demonstrate that another useful life is more appropriate. CHS has not completed the process of evaluating the impact of ASU 2019-06 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements in order to conform to the 2019 presentation. These reclassifications have no effect on the net assets previously reported.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Community Benefit and Uncompensated Care

In accordance with its mission and philosophy, CHS commits substantial resources to both the indigent and the broader community. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under other means-tested government insurance programs that reimburse CHS at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

CHS is committed to providing care without regard to the patient's ability to pay for services rendered. CHS records charity care for the care provided to patients who meet certain criteria, under its charity care policy, without charge or at amounts less than CHS's established rates. Because CHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. CHS utilizes 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.

Uninsured patients that do not meet the criteria for charity care are billed at amounts in accordance with CHS's policy and federal regulations. Balances not collected or not expected to be collected are recognized as implicit price concessions as described in Note 4 to the consolidated financial statements, and are considered uncompensated care and a community benefit. These amounts were formerly recognized as provision for bad debts. CHS utilizes a cost-to-charge ratio methodology to convert implicit price concessions to cost.

The unpaid cost of public programs, Medicaid, and other means tested programs includes losses incurred in providing services to patients who participate in certain public health programs such as Medicaid, and for whom the reimbursement received by CHS is less than the cost of providing such care. To the extent these payments are less than the cost of providing such care, that uncompensated care is considered to be a community benefit. CHS utilizes a cost-to-charge ratio methodology to estimate the cost of providing this care.

The cost of education primarily consists of personnel support costs provided to residents and interns, offset by amounts reimbursed for medical education from the Medicare and Medicaid programs. Research includes expenses incurred to advance medical care and clinical knowledge.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Community Benefit and Uncompensated Care (continued)

CHS also provides other community benefit through a broad range of community service programs and charitable activities. CHS responds to identified community health related needs by offering specific services including, among others, wellness programs, community education programs, health screenings and community support services. In addition, CHS provides certain subsidized health services, particularly behavioral health and services to individuals with special needs. Where direct costs are not available, CHS utilizes a cost-to-charge ratio to estimate the cost of providing these benefits.

The amount of community benefits and other uncompensated care provided to the indigent and broader community for the years ended December 31 is as follows:

	2019	2018
Cost of community benefit:		
Net cost of charity care provided	\$ 12,951	\$ 10,707
Unpaid cost of public programs, Medicaid, and other means tested programs	98,424	88,848
Cash and in-kind donation	716	722
Education and research	13,992	12,605
Other community benefit programs	8,023	8,156
Total cost of community benefit from continuing operations	\$ 134,106	\$ 121,038
Implicit price concessions (at cost)	\$ 6,628	\$ 5,342

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 implicit price concessions (formerly bad debt), charity care, and uninsured units of service in relation to all other New York State hospitals. For the years ended December 31, 2019 and 2018, the CHS Hospitals received distributions of \$18,422 and \$17,100, respectively, from the indigent care pool, while contributing \$13,391 in 2019 and \$12,820 in 2018. 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 implicit price concessions.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities

Net patient services revenue is reported at the amount that reflects the consideration to which CHS expects to be entitled in exchange for providing patient care.

CHS's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to patient services provided by various elements of variable consideration, including contractual adjustments, discounts provided to uninsured patients as charity care, implicit price concessions provided primarily to uninsured patients, and other reductions to CHS's standard charges. CHS determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see third-party payor programs below). The estimates for contractual allowances and discounts are based on contractual agreements, CHS's discount policies, and historical experience. For uninsured and under-insured patients who do not qualify for charity care, CHS determines the transaction price associated with services rendered on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimation of the transaction price are based on CHS's historical collection experience for applicable portfolios.

The table below depicts CHS's sources of net patient services revenue disaggregated by payor. The amounts presented are based on an allocation of the estimated transaction price between the primary patient classifications of insurance coverage for the years ended December 31, 2019 and 2018:

	2019	2018
Medicare (including managed Medicare)	\$ 1,083,723	\$ 1,031,687
Medicaid (including managed Medicaid and Medicaid Pending)	205,750	205,777
Commercial and managed care	1,309,721	1,252,833
Self-pay and other fee for service	101,856	107,273
	\$ 2,701,050	\$ 2,597,570

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities (continued)

The following table depicts CHS's sources of net patient services revenue disaggregated by lines of service for the years ended December 31, 2019 and 2018:

	2019	2018
Inpatient services	\$ 1,514,915	\$ 1,443,028
Outpatient services, including emergency department	832,924	820,482
Physician services	262,497	252,498
All other	90,714	81,562
	\$ 2,701,050	\$ 2,597,570

As an integral part of its mission, CHS provides care to all patients regardless of their ability to pay for services rendered. Under CHS's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance programs has his or her bill reduced to no more than the negotiated rates for CHS's largest commercial payor. Patients who meet the criteria for free care are provided care without charge. Because CHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Generally, CHS bills patients and third-party payors several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied. CHS determines performance obligations based on the nature of the services provided. CHS recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. CHS believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute and sub-acute care services or patients receiving services in CHS's outpatient care centers or in their homes (home care). CHS measures the performance obligation from admission into the hospital or the commencement of outpatient services to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities (continued)

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

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to net patient services revenue in the period of change. Changes in the estimates of implicit price concessions, discounts, contractual adjustments and other reductions to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense was not significant for the years ended December 31, 2019 or 2018.

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. Changes in the effectiveness of these collection efforts could impact the amounts expected to be collected and, therefore, could impact net patient services revenue in future periods.

Settlements with third-party payors (see description of third-party payor programs below) for cost report filing and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated contract price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and CHS's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities (continued)

retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to audit, reviews, and investigations. Adjustments arising from a change in the transaction price were \$15,948 and \$15,399 for the years ended December 31, 2019 and 2018, respectively.

Patient accounts receivable, net is comprised of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Patient receivables	\$ 285,473	\$ 295,493
Contract assets	16,558	16,891
	<u>\$ 302,031</u>	<u>\$ 312,384</u>

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

Patient accounts receivable, net has been adjusted to the estimated amounts expected to be collected. The amounts expected to be collected are 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 expected amounts to be collected based upon historical collection and write-off experience by payor category. The results of these reviews are used to modify, if necessary, the expected amounts to be collected. CHS does not have any off-balance sheet credit exposure related to its patient accounts receivable.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities (continued)

Third-Party Payment Programs

CHS has agreements with third-party payors that provide for payments for services rendered at amounts different from its established charges. A summary of the payments arrangements with major third-party payors is as follows:

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.

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 Department of Health. Reimbursement for services to Medicaid program beneficiaries includes prospectively determined rates per discharge and per visit amounts.

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's established charges.

Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2015, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Patient Accounts Receivable, Net, Net Patient Services Revenue, and Estimated Third-Party Payor Liabilities (continued)

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. There can be no assurance that regulatory authorities will not challenge CHS’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon CHS. CHS is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. In addition, certain contracts that CHS has with commercial payors also provide for retroactive audit and review of claims.

There are various proposals at the federal and state levels that could, among other things, significantly change payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects or revisions to healthcare reform that has been or will be enacted by the federal and state governments, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on CHS.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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 patient accounts receivable, net (including from third-party payors) at December 31 is as follows:

	2019	2018
Medicare (including managed Medicare)	25%	25%
Medicaid (including managed Medicaid and Medicaid pending)	15	17
Commercial and managed care	49	46
Self-pay and other fee for service	11	12
	100%	100%

At December 31, 2019 and 2018, 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. Other Assets, Net

Other assets consist of the following at December 31:

	2019	2018
Goodwill	\$ 21,948	\$ 21,948
Intangible assets	11,737	11,737
	33,685	33,685
Accumulated amortization of intangible assets	(11,291)	(11,067)
Goodwill and intangible assets, net	22,394	22,618
Equity method investments	2,448	3,102
Other	7,798	6,360
Other assets, net	\$ 32,640	\$ 32,080

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Other Assets, Net (continued)

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

7. Property, Plant, and Equipment

The components of property, plant, and equipment and accumulated depreciation and amortization are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 35,297	\$ 35,477
Land improvements	39,381	38,876
Buildings (including building service equipment)	1,172,845	1,131,163
Furniture and equipment	1,232,476	1,149,649
Leasehold improvements	68,331	60,991
Construction-in-progress	47,393	34,799
	<u>2,595,723</u>	<u>2,450,955</u>
Less accumulated depreciation	1,698,741	1,593,039
Property, plant, and equipment, net	<u>\$ 896,982</u>	<u>\$ 857,916</u>

Construction in progress includes the costs associated with various expansion and renovation projects, mainly at Good Samaritan, and the building of various system-wide information technology, including a new system-wide revenue cycle management system, a time and attendance system and a clinical imaging system.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Long-Term Debt

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

	2019	2018
Long-term debt:		
Series 2011 fixed-rate bonds (a)	\$ 180,263	\$ 206,225
Series 2014A fixed-rate bonds (b)	68,046	71,313
Series 2014B and C fixed-rate bonds (b)	87,097	87,693
DASNY 1999B revenue bonds – variable rate (c)	24,169	26,078
Term loans – variable rate SJH (d)	10,529	11,479
Term loan – CHS fixed (e)	19,160	22,588
Other	8,121	8,961
	397,385	434,337
Less current portion	48,046	35,833
Total long-term debt, net of current portion	\$ 349,339	\$ 398,504

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. In addition, the MTI contains certain debt compliance covenants related to the maintenance of certain financial ratios, including days cash on hand and debt service coverage ratio, among other non-financial ratio covenants. As of December 31, 2019, CHS is in compliance with these financial ratio covenants. CHS is not aware of any items that would cause non-compliance with the non-financial ratio covenants.

- (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 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 and is subject to the debt compliance covenants of 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 the debt compliance covenants of the MTI.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Long-Term Debt (continued)

The original issue premium of \$12,738 and deferred financing costs of \$5,397, which are included in long-term debt, are amortized over the life of the bonds using the effective interest method. The Series 2011 Bonds bear interest at combined effective yields, ranging from 1.50% to 4.85%. Debt service is payable semi-annually.

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 debt become due in future years. The remaining proceeds were deposited into a trustee held account, of which \$24,898 and \$33,453 remain as of December 31, 2019 and 2018, respectively. These amounts are included in trustee held and other agreements within assets limited or restricted as to use in the accompanying consolidated balance sheets.

- (b) On May 21, 2014, \$77,725 of tax-exempt revenue bonds were issued through the Nassau County Local Economic Assistance 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 the debt compliance covenants of the MTI. 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, are amortized over the life of the bonds using the effective interest method. 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 Corporation and \$39,545 were issued through the Suffolk County Economic Development Corporation (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, are amortized over the life of the bonds using the effective interest method. 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 and was fully drawn down upon as of December 31, 2018. The remaining bond funds were used to pay for the cost of issuance

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Long-Term Debt (continued)

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 the debt compliance covenants of the MTI.

- (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 3.16% to 5.0% during 2019, of which \$24,550 and \$26,500 were outstanding at December 31, 2019 and 2018, 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, 2019. 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, beginning 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 the debt compliance covenants of the MTI.
- (e) On January 28, 2015, CHS entered into an agreement for a 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 the debt compliance covenants of the MTI.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Long-Term Debt (continued)

At December 31, 2019, aggregate annual principal payments of long-term debt are as follows:

2020	\$ 48,046
2021	38,738
2022	42,604
2023	28,900
2024	30,056
Thereafter	<u>197,470</u>
	385,814
Unamortized bond premium	15,855
Unamortized deferred financing costs	<u>(4,284)</u>
Total long-term debt	<u>\$ 397,385</u>

9. Fair Value of Financial Instruments and Investment Income

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.

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.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Value of Financial Instruments and Investment Income (continued)

- 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 assets 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.

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 indices 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.

CHS's alternative investments are reported based upon NAVs derived from the application of the equity method of accounting. This method reflects CHS's share of the NAV of the funds, 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.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Value of Financial Instruments and Investment Income (continued)

CHS has five alternative investments as of December 31, 2019. One investment can be redeemed at the option of CHS upon 30 days' prior written notice, on a monthly basis. One investment can be redeemed at the option of CHS upon 45 days' prior written notice, on a quarterly basis. One investment can be redeemed at the option of CHS upon 90 days' prior written notice, on a quarterly basis. The remaining two investments can only be 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. CHS's alternative investments are primarily invested in fund of funds.

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, 2019 and 2018. 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, 2019 or 2018.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Value of Financial Instruments and Investment Income (continued)

The following table presents CHS's fair value measurements for assets measured at fair value on a recurring basis as of December 31, 2019:

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	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 225,735	\$ 225,735	\$ -	\$ -
Assets limited or restricted to use measured at fair value:				
Cash and cash equivalents	\$ 126,155	\$ 126,155	\$ -	\$ -
U.S. Treasury obligations	80,565	80,565	-	-
U.S. government agencies obligations	26,165	-	26,165	-
Marketable equity securities – domestic	26	26	-	-
Corporate debt securities – domestic	100,386	-	100,386	-
Corporate debt securities – foreign	6,550	-	6,550	-
Municipal debt obligations	50,306	-	50,306	-
Equity mutual funds – domestic	176,842	176,842	-	-
Equity mutual funds – foreign	52,206	52,206	-	-
Fixed-income mutual funds – domestic	87,942	87,942	-	-
Accrued interest receivable	1,564	1,564	-	-
	\$ 708,707	\$ 525,300	\$ 183,407	\$ -
Investments measured at fair value:				
Cash and cash equivalents	\$ 2,990	\$ 2,990	\$ -	\$ -
U.S. Treasury obligations	58,637	58,637	-	-
U.S. government agencies obligations	16,582	-	16,582	-
Marketable equity securities – domestic	384	384	-	-
Corporate debt securities – domestic	81,675	-	81,675	-
Corporate debt securities – foreign	6,216	-	6,216	-
Municipal debt obligations	43,056	-	43,056	-
Equity mutual funds – domestic	245,983	245,983	-	-
Equity mutual funds – foreign	89,972	89,972	-	-
Fixed-income mutual funds – domestic	71,285	71,285	-	-
Accrued interest receivable	845	845	-	-
	\$ 617,625	\$ 470,096	\$ 147,529	\$ -

I had to add these totals > 1,221,131 (000) 330,936 (000)

Alternative investments reported using the equity method of accounting and measured at NAV, in the amount of \$7,370 within assets limited or restricted to use and \$13,324 within investments, are not included in the tables above.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Value of Financial Instruments and Investment Income (continued)

The following table presents CHS's fair value measurements for assets measured at fair value on a recurring basis as of December 31, 2018:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 170,722	\$ 170,722	\$ —	\$ —
Assets limited or restricted to use measured at fair value:				
Cash and cash equivalents	\$ 110,121	\$ 110,121	\$ —	\$ —
U.S. Treasury obligations	94,111	94,111	—	—
U.S. government agencies obligations	25,006	—	25,006	—
Marketable equity securities – domestic	186	186	—	—
Corporate debt securities – domestic	104,855	—	104,855	—
Corporate debt securities – foreign	8,782	—	8,782	—
Municipal debt obligations	35,157	—	35,157	—
Equity mutual funds – domestic	164,335	164,335	—	—
Equity mutual funds – foreign	50,420	50,420	—	—
Fixed-income mutual funds – domestic	94,006	94,006	—	—
Accrued interest receivable	1,836	1,836	—	—
	<u>\$ 688,815</u>	<u>\$ 515,015</u>	<u>\$ 173,800</u>	<u>\$ —</u>
Investments measured at fair value:				
Cash and cash equivalents	\$ 1,981	\$ 1,981	\$ —	\$ —
U.S. Treasury obligations	59,228	59,228	—	—
U.S. government agencies obligations	12,667	—	12,667	—
Marketable equity securities – domestic	289	289	—	—
Corporate debt securities – domestic	71,776	—	71,776	—
Corporate debt securities – foreign	7,004	—	7,004	—
Municipal debt obligations	24,920	—	24,920	—
Equity mutual funds – domestic	222,787	222,787	—	—
Equity mutual funds – foreign	72,688	72,688	—	—
Fixed-income mutual funds – domestic	75,059	75,059	—	—
Accrued interest receivable	1,240	1,240	—	—
	<u>\$ 549,639</u>	<u>\$ 433,272</u>	<u>\$ 116,367</u>	<u>\$ —</u>

Alternative investments reported using the equity method of accounting and measured at NAV, in the amount of \$3,430 within assets limited or restricted to use and \$6,560 within investments, are not included in the tables above.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Value of Financial Instruments and Investment Income (continued)

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

	<u>2019</u>	<u>2018</u>
Interest income	\$ 25,030	\$ 25,197
Net realized gains on sales of securities	<u>73,359</u>	<u>39,291</u>
Investment income, net	98,389	64,488
Net unrealized gains (losses) on investments	<u>77,290</u>	<u>(107,402)</u>
Total net investments gains (losses)	<u>\$ 175,679</u>	<u>\$ (42,914)</u>

Total net investment gains (losses) are classified as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions	\$ 166,984	\$ (41,067)
Net assets with donor restrictions	<u>8,695</u>	<u>(1,847)</u>
Total net investment gains (losses)	<u>\$ 175,679</u>	<u>\$ (42,914)</u>

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of December 31:

	2019	2018
Capital expenditures	\$ 41,868	\$ 31,293
Indigent and charity care	1,091	1,083
Health education	6,654	4,718
Research	6,752	5,175
Pediatric cardiology	2,933	2,411
Healthcare services	7,754	7,041
Other	10,009	12,271
	\$ 77,061	\$ 63,992

Assets restricted for capital expenditures relate mainly to the expansion of the St. Francis Oncology Program, St. Francis Emergency Room and program specific renovations and additions at other facilities and are released from restriction as stages of the projects are placed into service. Included in other is contributions receivable of approximately \$9,411 and \$11,776 at December 31, 2019 and 2018, respectively, mainly for capital expenditures.

CHS has adopted investment and spending policies for assets with donor restrictions that attempt to provide a predictable stream of funding to programs supported by its assets with donor restrictions, while seeking to maintain the purchasing power of these assets. As required by GAAP, assets with donor restrictions are classified and reported based on the existence of donor-imposed restrictions. Income earned net assets with donor restrictions is available for the support of the programs listed above.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Other Revenue

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

	2019	2018
Maryhaven program service revenues (a)	\$ 87,995	\$ 89,698
Rental income	11,874	11,778
Contracted services	9,168	9,105
Cafeteria and coffee shops	5,485	5,278
Grant income	3,744	3,942
DSRIP (b)	27,138	31,563
Miscellaneous income	8,816	10,874
	\$ 154,220	\$ 162,238

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

DSRIP is the main mechanism by which the 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 is 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.

The five-year DSRIP period began on April 1, 2015. 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), 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.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Other Revenue (continued)

CHS recognizes DSRIP revenue ratably as expenses related to the program are incurred. For the years ended December 31, 2019 and 2018, CHS recognized revenue of \$27,138 and \$31,563, respectively. For the years ended December 31, 2019 and 2018, CHS distributed \$10,958 and \$11,354, respectively, to subrecipient providers contracted to participate in the DSRIP program. As of December 31, 2019 and 2018, there is \$20,727 and \$12,591, respectively, included in trustee held and other agreements in the accompanying consolidated balance sheets for DSRIP related funds expected to be distributed to subrecipient providers in the future.

12. Retirement Plan and Other Postretirement Benefits

Retirement Plans

Diocese Pension Plan

CHS participates in a multi-employer pension plan of the Diocese, a noncontributory defined-benefit church plan, which covers substantially all lay employees with one year of continuous service. CHS's 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 2019 and 2018 totaled \$91,277 and \$82,364, 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, 2019 (the date of the last actuarial valuation):

Legal Name and Plan Number	EIN	Accumulated Benefit Obligation	Market Value of Plan Assets
Diocese of Rockville Center Pension Plan Number 002	27-1715985	\$ 1,707,405	\$ 1,569,934

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

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Retirement Plan and Other Postretirement Benefits (continued)

1199 SEIU HealthCare Employees Pension Fund and New York State Nurses Association (NYSNA)

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 CHS Hospitals' 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.

The Employee Identification Number/three-digit Pension Plan number for the 1199 SEIU HealthCare Employees Pension Fund plan is 13-3604862/001. The most recent Pension Protection Act (PPA) zone status is green at December 31, 2019 and 2018, which is for the plan years ended December 31, 2018 and 2017. 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 the PPA, has been implemented by the plan's sponsor. The contributions by St. Joseph to the union pension fund were \$2,151 and \$1,938 for the years ended December 31, 2019 and 2018, respectively, which is included in employee benefits within the consolidated statements of operations. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

The Employee Identification Number/three-digit Pension Plan number for the NYSNA plan is 13-6604799/001. The most recent PPA zone status is green at December 31, 2019 and 2018, which is for the plan years ended December 31, 2018 and 2017. 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.

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 \$1,727 and \$1,750 for the years ended December 31, 2019 and 2018, respectively, which are included in employee benefits within the consolidated statements of operations. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Retirement Plan and Other Postretirement Benefits (continued)

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 were 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 recognizes an asset or liability for the overfunded or underfunded status, respectively, of its postretirement benefit plans in its consolidated 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 net assets without donor restrictions into the performance indicator through net periodic benefit cost based on the measurement and recognition requirements.

The net periodic benefit (credit) cost for postretirement benefits for the years ended December 31, 2019 and 2018 includes the following components:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 45	\$ 389
Interest cost	363	656
Actuarial gain	(1,403)	(116)
Amortization of prior service cost	127	126
Net periodic benefit (credit) cost	<u>\$ (868)</u>	<u>\$ 1,055</u>

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Retirement Plan and Other Postretirement Benefits (continued)

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

	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation:		
Retirees and beneficiaries	\$ 690	\$ 875
Fully eligible active plan participants	9,243	8,829
Total accumulated postretirement benefit obligation	<u>9,933</u>	<u>9,704</u>
Plan assets, at fair value	—	—
Accumulated postretirement benefit obligation in excess of plan assets	<u>\$ 9,933</u>	<u>\$ 9,704</u>

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

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

	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation – January 1	\$ 9,704	\$ 21,080
Service cost	45	389
Interest cost	363	656
Benefits paid	(488)	(435)
Actuarial gain	309	(11,986)
Accumulated postretirement benefit obligation – December 31	<u>\$ 9,933</u>	<u>\$ 9,704</u>

During 2018, an experience study was performed on all of the CHS postretirement benefit plans, which resulted in updated actuarial assumptions and the actuarial gain included in the table above.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Retirement Plan and Other Postretirement Benefits (continued)

Assumptions used in accounting for postretirement benefits as of December 31, 2019 and 2018 were predominantly as follows:

	<u>2019</u>	<u>2018</u>
Assumed discount rate ranging from	2.64%–2.78%	3.93%–4.14%
Assumed rates of increase in compensation levels	N/A	N/A

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

2020	\$	710
2021		841
2022		925
2023		1,058
2024		1,086
2025–2029		3,471
	<u>\$</u>	<u>8,091</u>

Amounts not yet reflected in net periodic benefit (credit) cost and included in net assets without donor restrictions consist of a gain of \$10,443 and \$12,028 in 2019 and 2018, respectively.

Changes in the assumed healthcare cost trend rate 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.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

13. Functional Expenses

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

	Year Ended December 31, 2019						Total
	Hospital Patient Care	Post-Acute and Continuing Care	Ambulatory Physician Practices	Research	Foundations and Fundraising	Management and Administrative	
Salaries	\$ 791,152	\$ 165,123	\$ 252,128	\$ 5,128	\$ 1,662	\$ 210,342	\$ 1,425,535
Employee Benefits	269,519	70,108	49,057	1,242	503	71,433	461,862
Supplies and other expenses	548,523	43,510	57,225	1,508	1,136	132,334	784,236
Insurance	29,340	3,058	9,696	41	-	390	42,525
Depreciation and amortization	63,750	4,916	4,385	1,369	11	40,382	114,813
Interest	16,375	1,259	30	-	-	104	17,768
Total	\$ 1,718,659	\$ 287,974	\$ 372,521	\$ 9,288	\$ 3,312	\$ 454,985	\$ 2,846,739

	Year Ended December 31, 2018						Total
	Hospital Patient Care	Post-Acute and Continuing Care	Ambulatory Physician Practices	Research	Foundations and Fundraising	Management and Administrative	
Salaries	\$ 773,645	\$ 163,122	\$ 257,953	\$ 5,120	\$ 1,636	\$ 198,358	\$ 1,399,834
Employee Benefits	244,448	67,785	49,359	1,161	491	69,185	432,429
Supplies and other expenses	514,966	45,002	51,742	1,638	1,295	120,732	735,375
Insurance	38,096	3,005	8,844	41	-	347	50,333
Depreciation and amortization	59,742	5,044	4,664	1,179	561	36,444	107,634
Interest	17,251	1,333	61	-	-	257	18,902
Total	\$ 1,648,148	\$ 285,291	\$ 372,623	\$ 9,139	\$ 3,983	\$ 425,323	\$ 2,744,507

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest and other occupancy costs are allocated to a function based on square footage or units of service basis. Allocated healthcare services costs not allocated on a units of service basis are otherwise allocated based on revenue.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments

Leases

As described in Note 2, CHS adopted ASU 2016-02 effective January 1, 2019. Leases are classified as either finance or operating leases, based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, among other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset. CHS does not have any finance leases.

For leases with initial terms greater than one year (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), CHS records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. CHS's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities, unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities, unless CHS is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, CHS has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. CHS has made an accounting policy election not to separate lease components from nonlease components in contracts when determining its lease payments for all of its asset classes, as permitted by ASU 2016-02. As such, CHS accounts for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities.

CHS has made an accounting policy election not to record leases with an initial term of less than one year as right-of-use assets and liabilities.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments (continued)

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2019:

Lease cost for the year ended December 31, 2019:	
Operating lease cost	\$ 28,889
Short-term lease cost	8,375
Total lease cost	<u>\$ 37,264</u>
Right-of-use assets and liabilities as of December 31, 2019:	
Right-of-use assets – operating leases	\$ 147,007
Lease liability – operating leases	155,708
Other information:	
Cash paid for amounts included in the measurement of lease liabilities (year ended December 31, 2019):	
Operating cash flows from operating leases	\$ 27,576
Right-of-use assets obtained in exchange for new operating lease liabilities (year ended December 31, 2019)	\$ 17,949
Weighted-average remaining lease term – operating leases	138.7 months
Weighted-average discount rate – operating leases	2.6%

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments (continued)

The following table reconciles the undiscounted operating lease payments to the lease liabilities recorded on the accompanying consolidated balance sheets at December 31, 2019:

	Operating Leases
2020	\$ 29,326
2021	26,801
2022	24,687
2023	22,044
2024	17,479
Thereafter	71,281
Total lease payments	191,618
Less imputed interest	35,910
Total lease obligation	155,708
Less current portion	22,325
Long-term portion	\$ 133,383

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 covering approximately 5% of employees. One contract at St. Joseph expires September 30, 2021. A second 1199 SEIU contract at Mercy expires July 31, 2020. The three collective bargaining agreements with NYSNA cover approximately 6% of CHS's employees and expire on March 31, 2023 at St. Charles and St. Joseph. The St. Catherine contract expired on July 31, 2019 and is currently being renegotiated. Other collective bargaining agreements in place include International Association of Machinists, covering approximately 2% of employees at St. Catherine and St. Charles. The St. Catherine contract expires February 28, 2022. The St. Charles contract expires October 31, 2022.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Contingencies

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 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's consolidated financial position, results of operations, or liquidity. In addition, there are known, and possibly unknown, incidents that occurred through December 31, 2019 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 liability estimates or otherwise will not have any material adverse effect on CHS's consolidated financial position, results of operations, or liquidity.

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, 2019 and 2018 of \$15,126 and \$14,131, respectively, which is included in employee benefits within the consolidated statements of operations. The current portion of the PSIP and workers' compensation self-insurance liability of \$13,692 and \$14,952 at December 31, 2019 and 2018, respectively, is included within the caption current portion of other self-insured liabilities in the accompanying consolidated balance sheets.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Contingencies (continued)

As of December 31, 2019 and 2018, CHS has recorded a liability and a related insurance receivable as follows:

	<u>2019</u>	<u>2018</u>
Other self-insured liabilities	\$ 124,809	\$ 126,058
Insurance claims receivable	36,826	37,397

The current portion of insurance claims receivable related to other self-insured liabilities of \$3,293 and \$3,998 is included within other receivables in the consolidated balance sheets as of December 31, 2019 and 2018, respectively. The estimated undiscounted workers' compensation self-insurance liabilities are \$137,402 and \$139,042 as of December 31, 2019 and 2018, respectively. Such amounts were discounted to the actuarially determined present value at a rate of 2.0% as of December 31, 2019 and 2018.

Estimated Malpractice Liabilities

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 (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.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Contingencies (continued)

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 in the accompanying consolidated balance sheets.

On 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's 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 decreased \$15,984 and \$3,764 due to changes in self-insurance liability estimates from prior years in the consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, CHS has recorded a liability and a related insurance receivable as follows:

	<u>2019</u>	<u>2018</u>
Estimated malpractice liability	\$ 293,390	\$ 309,184
Insurance claims receivable	151,799	157,426

Letters of Credit

CHS maintains a letter of credit for workers' compensation claims in the amount of \$35,048 to secure the deductible provision of certain workers' compensation policies, which expired on December 31, 2019. In January 2020, the letter of credit was extended to December 31, 2020, and the amount was revised to \$34,048.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

16. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at December 31:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 225,735	\$ 170,722
Investments	630,949	556,199
Assets limited or restricted as to use	716,077	692,245
Patient accounts receivable, net	302,031	312,384
Contributions receivable, net	9,411	11,776
Total financial assets	1,884,203	1,743,326
Less amounts not available to be used within one year:		
Assets limited or restricted as to use	342,767	296,854
Contributions receivable, net	9,411	11,776
Financial assets not available to be used within one year	352,178	308,630
Financial assets available to meet general expenditures within one year	\$ 1,532,025	\$ 1,434,696

CHS has certain assets limited or restricted as to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the table above for financial assets to meet general expenditures within one year. CHS has other assets limited or restricted as to use which are primarily for donor restricted purposes, malpractice and other captive-related insurance expenditures, and debt service. Those assets, which are described further in Note 2, are not available for general expenditure within the next year.

17. Subsequent Events

CHS has evaluated subsequent events from the consolidated balance sheet date through April 27, 2020, the date at which the consolidated financial statements were issued. Other than items disclosed in Note 15 and below, there were no additional items identified for disclosure.

CHS is currently evaluating financing scenarios to refinance the DASNY 1999B revenue bonds, the St. Joseph term loans, and the CHS fixed term loan. As of December 31, 2019, the outstanding principal related to this debt approximated \$53,900.

Catholic Health Services of Long Island

Notes to Consolidated Financial Statements (continued)

(In Thousands)

17. Subsequent Events (continued)

CHS is currently negotiating terms to secure a line of credit with a commercial bank in the amount of \$100,000. As of the date the consolidated financial statements were issued, this line of credit has not been executed.

CHS is currently evaluating a transaction with the PSIP of the Diocese to reinsure its outstanding self-insured claims with a third-party reinsurer. Pending final approval and authorization, CHS anticipates making a lump sum cash payment to the third-party reinsurer for an amount that approximates its outstanding net liabilities, which was \$29,552 as of December 31, 2019.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact CHS's consolidated financial condition. The ultimate impact of these matters to CHS and its consolidated financial condition is presently unknown. CHS continues to evaluate and pursue all opportunities available to CHS through the Coronavirus Relief, and Economic Security Act, the Federal Emergency Management Agency and any other Federal or private relief opportunities that may become available.

The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

Supplementary Information

Catholic Health Services of Long Island

Consolidating Balance Sheet (In Thousands)

December 31, 2019

	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.
Assets												
Current assets:												
Cash and cash equivalents	\$ 21,334	\$ 62,454	\$ (540)	\$ 2,490	\$ 9,869	\$ 95,607	\$ –	\$ 95,607	\$ 5,041	\$ 14,768	\$ 41,416	\$ 2,774
Investments	59,804	437,452	–	662	–	497,918	–	497,918	–	1,498	–	133,098
Assets limited or restricted as to use	–	1,600	1,013	–	–	2,613	–	2,613	–	34,574	–	–
Patient accounts receivable, net	85,709	105,574	27,795	23,024	28,893	270,995	–	270,995	12,246	–	–	–
Contributions receivable, net	297	–	–	–	16	313	–	313	–	–	–	–
Other receivables	2,976	6,427	1,050	1,349	995	12,797	–	12,797	43	–	788	–
Inventories	8,963	13,185	3,230	4,107	3,827	33,312	–	33,312	2,619	–	–	–
Prepaid expenses and other	9,429	8,849	2,137	1,525	2,229	24,169	–	24,169	2,207	140	5,917	3,267
Due from related parties	10,996	57,923	13,893	928	1,176	84,916	(61,823)	23,093	918	9,533	44,275	64,787
Total current assets	199,508	693,464	48,578	34,085	47,005	1,022,640	(61,823)	960,817	23,074	60,513	92,396	203,926
Assets limited or restricted as to use:												
Board designated and other	38,695	6,905	998	–	–	46,598	–	46,598	–	–	–	–
Donor-restricted funds	5,932	3,264	2,667	3,403	1,632	16,898	–	16,898	355	363	–	–
Funded depreciation	9,550	291,028	–	–	5,393	305,971	–	305,971	–	–	–	–
Trustee held and other agreements	14,590	8,810	4,932	899	25,674	54,905	–	54,905	232	60,320	2,983	–
Captive assets	–	–	–	–	–	–	–	–	–	–	–	–
Total assets limited or restricted as to use	68,767	310,007	8,597	4,302	32,699	424,372	–	424,372	587	60,683	2,983	–
Less assets limited or restricted as to use and required for current liabilities	–	1,600	1,013	–	–	2,613	–	2,613	–	34,574	–	–
Total assets limited or restricted as to use, net	68,767	308,407	7,584	4,302	32,699	421,759	–	421,759	587	26,109	2,983	–
Due from related parties, net of current portion	27,442	29,872	7,727	7,790	5,179	78,010	(4,081)	73,929	–	5,267	29,694	–
Contributions receivable, net of current portion	13	–	–	8	–	21	–	21	–	–	–	–
Other investments, at cost	–	–	–	–	–	–	–	–	–	2,250	–	–
Other assets, net	505	14,977	–	114	12	15,608	–	15,608	90	10,513	–	–
Right-of-use-assets	27,917	97,950	4,963	6,470	14,527	151,827	–	151,827	800	–	36,353	–
Insurance claims receivable	99,393	53,215	58,909	27,210	24,850	263,577	–	263,577	15,776	–	–	18,381
Property, plant, and equipment, net	216,781	267,338	111,791	56,312	87,202	739,424	–	739,424	34,880	34	78,345	–
Total assets	\$ 640,326	\$ 1,465,223	\$ 239,552	\$ 136,291	\$ 211,474	\$ 2,692,866	\$ (65,904)	\$ 2,626,962	\$ 75,207	\$ 104,686	\$ 239,771	\$ 222,307

Catholic Health Services of Long Island

Consolidating Balance Sheet (continued) (In Thousands)

December 31, 2019

	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
Assets									
Current assets:									
Cash and cash equivalents	\$ 3,973	\$ 4,730	\$ 26,736	\$ 3,077	\$ 5,018	\$ 25,369	\$ 228,509	\$ (2,774)	\$ 225,735
Investments	121,378	—	5,323	2,003	2,829	—	764,047	(133,098)	630,949
Assets limited or restricted as to use	—	—	—	—	—	—	37,187	—	37,187
Patient accounts receivable, net	—	—	12,451	—	6,339	—	302,031	—	302,031
Contributions receivable, net	3,856	—	—	—	—	—	4,169	—	4,169
Other receivables	—	961	—	10,574	—	456	25,619	—	25,619
Inventories	—	—	—	441	96	—	36,468	—	36,468
Prepaid expenses and other	—	—	412	992	595	239	37,938	(7,844)	30,094
Due from related parties	—	473	5,275	2,335	2,770	10	153,469	(153,469)	—
Total current assets	129,207	6,164	50,197	19,422	17,647	26,074	1,589,437	(297,185)	1,292,252
Assets limited or restricted as to use:									
Board designated and other	19,074	—	—	667	—	—	66,339	—	66,339
Donor-restricted funds	48,621	—	386	65	962	—	67,650	—	67,650
Funded depreciation	—	—	—	—	1,000	—	306,971	—	306,971
Trustee held and other agreements	—	—	78	—	—	20,727	139,245	—	139,245
Captive assets	—	—	—	—	—	—	—	135,872	135,872
Total assets limited or restricted as to use	67,695	—	464	732	1,962	20,727	580,205	135,872	716,077
Less assets limited or restricted as to use and required for current liabilities	—	—	—	—	—	—	37,187	—	37,187
Total assets limited or restricted as to use, net	67,695	—	464	732	1,962	20,727	543,018	135,872	678,890
Due from related parties, net of current portion	—	—	—	—	—	—	108,890	(108,890)	—
Contributions receivable, net of current portion	5,221	—	—	—	—	—	5,242	—	5,242
Other investments, at cost	—	—	—	—	—	—	2,250	(2,250)	—
Other assets, net	—	—	15	6,409	5	—	32,640	—	32,640
Right-of-use assets	—	—	12,876	8,016	—	2,949	212,821	(65,814)	147,007
Insurance claims receivable	—	—	1,632	3,555	7,030	—	309,951	(124,619)	185,332
Property, plant, and equipment, net	—	6,035	8,016	14,580	15,235	433	896,982	—	896,982
Total assets	\$ 202,123	\$ 12,199	\$ 73,200	\$ 52,714	\$ 41,879	\$ 50,183	\$ 3,701,231	\$ (462,886)	\$ 3,238,345

Catholic Health Services of Long Island

Consolidating Balance Sheet (continued) (In Thousands)

December 31, 2019

	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.
Liabilities and net assets (deficit)												
Current liabilities:												
Current portion of long-term debt	\$ 1,020	\$ 6,053	\$ 2,218	\$ 4,477	\$ 9,399	\$ 23,167	\$ –	\$ 23,167	\$ 10,529	\$ 12,272	\$ –	\$ –
Accounts payable and accrued expenses	57,960	64,609	18,461	14,765	17,184	172,979	–	172,979	8,819	12,584	33,927	883
Accrued salaries, related withholdings, and benefits	35,117	71,274	9,441	12,145	16,405	144,382	–	144,382	5,165	2,902	13,935	–
Current portion of other self-insured liabilities	9,031	6,887	2,880	3,051	4,893	26,742	–	26,742	359	–	1,509	–
Current portion of estimated third-party payor liabilities	13,852	14,162	5,656	6,809	6,623	47,102	–	47,102	1,935	–	–	–
Due to related parties	27,846	4,381	27,723	22,758	22,143	104,851	(62,361)	42,490	6,453	11,791	39,987	24,864
Current portion of operating lease liabilities	3,422	8,438	804	1,693	1,169	15,526	–	15,526	250	–	6,971	–
Other liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Total current liabilities	148,248	175,804	67,183	65,698	77,816	534,749	(62,361)	472,388	33,510	39,549	96,329	25,747
Long-term debt, net of current portion	60,915	143,796	39,851	42,875	40,040	327,477	–	327,477	–	6,888	–	–
Estimated third-party payor liabilities, net of current portion	6,072	5,639	1,175	610	13,187	26,683	–	26,683	731	–	–	–
Other self-insured liabilities, net of current portion	34,336	21,231	11,482	12,382	16,625	96,056	–	96,056	2,522	–	–	6,828
Estimated malpractice liabilities	106,277	51,092	62,267	26,245	26,293	272,174	–	272,174	19,496	–	–	117,791
Operating lease liabilities	24,495	93,590	4,159	4,777	13,358	140,379	–	140,379	550	–	32,718	–
Other long-term liabilities	10,268	14,978	594	1,039	1,217	28,096	–	28,096	232	26,767	2,468	–
Due to related parties, net of current portion	–	–	21,235	8,143	14,479	43,857	(8,822)	35,035	11,700	70,694	–	–
Total liabilities	390,611	506,130	207,946	161,769	203,015	1,469,471	(71,183)	1,398,288	68,741	143,898	131,515	150,366
Commitments and contingencies												
Net assets (deficit):												
Net assets without donor restrictions:												
Attributable to CHS	241,520	955,829	28,939	(28,889)	6,811	1,204,210	5,279	1,209,489	6,111	(39,575)	108,256	69,691
Attributable to noncontrolling interests	1,953	–	–	–	–	1,953	–	1,953	–	–	–	–
Total net assets without donor restrictions	243,473	955,829	28,939	(28,889)	6,811	1,206,163	5,279	1,211,442	6,111	(39,575)	108,256	69,691
Net assets with donor restrictions	6,242	3,264	2,667	3,411	1,648	17,232	–	17,232	355	363	–	–
Capital stock and paid-in capital	–	–	–	–	–	–	–	–	–	–	–	2,250
Total net assets (deficit)	249,715	959,093	31,606	(25,478)	8,459	1,223,395	5,279	1,228,674	6,466	(39,212)	108,256	71,941
Total liabilities and net assets (deficit)	\$ 640,326	\$ 1,465,223	\$ 239,552	\$ 136,291	\$ 211,474	\$ 2,692,866	\$ (65,904)	\$ 2,626,962	\$ 75,207	\$ 104,686	\$ 239,771	\$ 222,307

Catholic Health Services of Long Island

Consolidating Balance Sheet (continued) (In Thousands)

December 31, 2019

	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
Liabilities and net assets (deficit)									
Current liabilities:									
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 451	\$ 1,627	\$ -	\$ 48,046	\$ -	\$ 48,046
Accounts payable and accrued expenses	380	15	4,089	2,078	2,777	2,851	241,382	(7,982)	233,400
Accrued salaries, related withholdings, and benefits	-	-	7,448	3,172	3,576	2	180,582	-	180,582
Current portion of other self-insured liabilities	-	-	1,106	2,048	617	-	32,381	-	32,381
Current portion of estimated third-party payor liabilities	-	-	1,284	(1,860)	2,149	-	50,610	-	50,610
Due to related parties	2,079	13	1,719	3,765	6,342	2,356	141,859	(141,859)	-
Current portion of operating lease liabilities	-	-	1,238	1,468	-	380	25,833	(3,508)	22,325
Other liabilities	8	1,611	-	2,488	-	40,706	44,813	-	44,813
Total current liabilities	2,467	1,639	16,884	13,610	17,088	46,295	765,506	(153,349)	612,157
Long-term debt, net of current portion	-	-	-	5,219	9,755	-	349,339	-	349,339
Estimated third-party payor liabilities, net of current portion	-	-	-	-	-	-	27,414	-	27,414
Other self-insured liabilities, net of current portion	-	-	-	3,611	2,100	-	111,117	-	111,117
Estimated malpractice liabilities	-	-	1,632	816	6,100	-	418,009	(124,619)	293,390
Operating lease liabilities	-	-	12,355	6,548	-	3,139	195,689	(62,306)	133,383
Other long-term liabilities	-	-	78	1,125	-	-	58,766	-	58,766
Due to related parties, net of current portion	-	-	3,849	1,552	-	-	122,830	(122,830)	-
Total liabilities	2,467	1,639	34,798	32,481	35,043	49,434	2,048,670	(463,104)	1,585,566
Commitments and contingencies									
Net assets (deficit):									
Net assets without donor restrictions:									
Attributable to CHS	141,958	10,560	38,016	20,168	5,874	(596)	1,569,952	3,648	1,573,600
Attributable to noncontrolling interests	-	-	-	-	-	165	2,118	-	2,118
Total net assets without donor restrictions	141,958	10,560	38,016	20,168	5,874	(431)	1,572,070	3,648	1,575,718
Net assets with donor restrictions	57,698	-	386	65	962	-	77,061	-	77,061
Capital stock and paid-in capital	-	-	-	-	-	1,180	3,430	(3,430)	-
Total net assets (deficit)	199,656	10,560	38,402	20,233	6,836	749	1,652,561	218	1,652,779
Total liabilities and net assets (deficit)	\$ 202,123	\$ 12,199	\$ 73,200	\$ 52,714	\$ 41,879	\$ 50,183	\$ 3,701,231	\$ (462,886)	\$ 3,238,345

Catholic Health Services of Long Island

Consolidating Statement of Operations (In Thousands)

Year Ended December 31, 2019

	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.
Revenues, gains, and other support:												
Net patient services revenue	\$ 728,916	\$ 961,634	\$ 228,008	\$ 222,652	\$ 260,506	\$ 2,401,716	\$ –	\$ 2,401,716	\$ 124,261	\$ –	\$ –	\$ –
Investment income, net	17,304	53,293	241	175	835	71,848	–	71,848	45	2,428	–	9,039
Contributions, net	264	4	65	135	18	486	–	486	1	–	–	–
Other revenue	61,633	62,331	12,490	4,443	3,893	144,790	(102,282)	42,508	368	27,922	213,414	29,804
Net assets released from restrictions used for operations	96	12	106	191	17	422	–	422	11	14	–	–
Total revenues, gains, and other support	808,213	1,077,274	240,910	227,596	265,269	2,619,262	(102,282)	2,516,980	124,686	30,364	213,414	38,843
Expenses:												
Salaries	335,716	436,750	102,815	94,784	119,041	1,089,106	–	1,089,106	51,684	9,619	109,180	–
Employee benefits	111,040	107,386	35,523	34,695	46,036	334,680	–	334,680	20,038	3,225	35,089	–
Supplies and other expenses	217,928	294,864	67,987	68,523	68,597	717,899	(102,282)	615,617	41,698	8,766	68,806	1,358
Insurance	17,042	17,420	9,565	5,087	5,394	54,508	–	54,508	3,459	17	340	11,285
Depreciation and amortization	26,393	31,200	9,721	7,042	7,858	82,214	–	82,214	3,950	9	23,445	–
Interest	380	3,856	1,399	1,439	2,859	9,933	–	9,933	375	6,943	–	–
CHS Services, Inc.	58,713	66,019	23,770	25,790	23,080	197,372	–	197,372	12,121	–	–	–
CHS corporate office allocation	7,568	8,616	2,812	2,781	2,955	24,732	–	24,732	1,350	–	–	–
Total expenses	774,780	966,111	253,592	240,141	275,820	2,510,444	(102,282)	2,408,162	134,675	28,579	236,860	12,643
Operating income (loss)	33,433	111,163	(12,682)	(12,545)	(10,551)	108,818	–	108,818	(9,989)	1,785	(23,446)	26,200
Nonoperating gains (losses):												
Net unrealized gains (losses) on investments	685	56,031	147	81	390	57,334	–	57,334	–	(1,794)	–	4,005
Net periodic postretirement benefit costs (non-service related)	478	18	147	126	144	913	–	913	–	–	–	–
Excess (deficiency) of revenue, gains, and other support over expenses before income attributable to noncontrolling interests	34,596	167,212	(12,388)	(12,338)	(10,017)	167,065	–	167,065	(9,989)	(9)	(23,446)	30,205
Income attributable to noncontrolling interests	(2,207)	–	–	–	–	(2,207)	–	(2,207)	–	–	–	–
Excess (deficiency) of revenue, gains, and other support over expenses	32,389	167,212	(12,388)	(12,338)	(10,017)	164,858	–	164,858	(9,989)	(9)	(23,446)	30,205
Other changes in net assets without donor restrictions:												
Postretirement benefit plan changes other than net periodic benefit cost	(557)	(414)	(217)	(159)	(238)	(1,585)	–	(1,585)	–	–	–	–
Net assets released from restrictions for purchases of property, plant, and equipment	715	29	128	27	–	899	–	899	1	–	–	–
Grant income for purchases of property, plant, and equipment	–	53	–	122	33	208	–	208	2	–	5,552	–
Transfer (to) from Catholic Health Services of Long Island	(3,210)	(53,679)	15,879	22,885	16,759	(1,366)	–	(1,366)	15,429	(21,123)	(5,706)	–
Transfer (to) from CHS Services, Inc.	(9,536)	(11,454)	(3,490)	(3,978)	(3,267)	(31,725)	–	(31,725)	(1,569)	5,706	33,363	–
Transfers (to) from related parties	(3,650)	2,221	(279)	(5,373)	1,728	(5,353)	–	(5,353)	(509)	–	–	–
Increase (decrease) in net assets without donor restrictions	\$ 16,151	\$ 103,968	\$ (367)	\$ 1,186	\$ 4,998	\$ 125,936	\$ –	\$ 125,936	\$ 3,365	\$ (15,426)	\$ 9,763	\$ 30,205

Catholic Health Services of Long Island

Consolidating Statement of Operations (continued) (In Thousands)

Year Ended December 31, 2019

	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
Revenues, gains, and other support:									
Net patient services revenue	\$ –	\$ –	\$ 125,195	\$ –	\$ 50,199	\$ –	\$ 2,701,371	\$ (321)	\$ 2,701,050
Investment income, net	10,545	–	193	49	90	–	94,237	(213)	94,024
Contributions, net	2,560	–	264	368	7	–	3,686	–	3,686
Other revenue	–	5,114	361	88,810	861	23,076	432,238	(278,018)	154,220
Net assets released from restrictions used for operations	1,726	–	465	43	29	–	2,710	–	2,710
Total revenues, gains, and other support	14,831	5,114	126,478	89,270	51,186	23,076	3,234,242	(278,552)	2,955,690
Expenses:									
Salaries	917	5,128	70,241	53,099	27,745	8,816	1,425,535	–	1,425,535
Employee benefits	266	1,242	26,850	25,431	12,827	2,214	461,862	–	461,862
Supplies and other expenses	580	1,507	16,068	16,218	9,650	11,990	792,258	(8,022)	784,236
Insurance	–	41	391	1,042	1,246	–	72,329	(29,804)	42,525
Depreciation and amortization	–	1,369	1,072	1,288	1,365	101	114,813	–	114,813
Interest	–	–	–	188	542	–	17,981	(213)	17,768
CHS Services, Inc.	–	–	1,291	791	1,016	–	212,591	(212,591)	–
CHS corporate office allocation	–	–	421	329	297	–	27,129	(27,129)	–
Total expenses	1,763	9,287	116,334	98,386	54,688	23,121	3,124,498	(277,759)	2,846,739
Operating income (loss)	13,068	(4,173)	10,144	(9,116)	(3,502)	(45)	109,744	(793)	108,951
Nonoperating gains (losses):									
Net unrealized gains (losses) on investments	13,226	–	87	49	53	–	72,960	–	72,960
Net periodic postretirement benefit costs (non-service related)	–	–	–	–	–	–	913	–	913
Excess (deficiency) of revenue, gains, and other support over expenses before income attributable to noncontrolling interests	26,294	(4,173)	10,231	(9,067)	(3,449)	(45)	183,617	(793)	182,824
Income attributable to noncontrolling interests	–	–	–	–	–	2	(2,205)	–	(2,205)
Excess (deficiency) of revenue, gains, and other support over expenses	26,294	(4,173)	10,231	(9,067)	(3,449)	(43)	181,412	(793)	180,619
Other changes in net assets without donor restrictions:									
Postretirement benefit plan changes other than net periodic benefit cost	–	–	–	–	–	–	(1,585)	–	(1,585)
Net assets released from restrictions for purchases of property, plant, and equipment	1,667	–	336	–	–	–	2,903	–	2,903
Grant income for purchases of property, plant, and equipment	–	–	–	–	–	–	5,762	–	5,762
Transfer (to) from Catholic Health Services of Long Island	–	–	(530)	3,577	2,748	471	(6,500)	6,500	–
Transfer (to) from CHS Services, Inc.	–	–	(57)	(5)	(6)	–	5,707	(5,707)	–
Transfers (to) from related parties	(9,081)	4,516	3,365	4,076	2,986	–	–	–	–
Increase (decrease) in net assets without donor restrictions	\$ 18,880	\$ 343	\$ 13,345	\$ (1,419)	\$ 2,279	\$ 428	\$ 187,699	\$ –	\$ 187,699

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