CONSOLIDATED FINANCIAL STATEMENTS

# Orange Regional Medical Center
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Orange Regional Medical Center

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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# Report of Independent Auditors

The Board of Directors
Orange Regional Medical Center

We have audited the accompanying consolidated financial statements of Orange Regional Medical Center, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year 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 from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating 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.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orange Regional Medical Center as of December 31, 2018, and the consolidated results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

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

As discussed in Note 2 to the consolidated financial statements, Orange Regional Medical Center changed its method of revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) resulting from Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB ASC resulting from ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

## Report of Other Auditors on 2017 Consolidated Financial Statements

The consolidated financial statements of Orange Regional Medical Center for the year ended December 31, 2017, were audited by other auditors who expressed an unmodified opinion on those statements on May 25, 2018.

Ernst & Young LLP

May 29, 2019

# Orange Regional Medical Center

## Consolidated Balance Sheets

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| | *(In Thousands)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 65,649** | $ 47,483 |
| Patient accounts receivable, net | **55,070** | 52,017 |
| Inventories | **11,585** | 9,965 |
| Assets limited or restricted as to use | **9,814** | 9,477 |
| Due from third-party payors | **5,574** | 6,912 |
| Other current assets | **18,400** | 11,824 |
| Total current assets | **166,092** | 137,678 |
| Assets limited or restricted as to use, net of current portion | **20,267** | 20,137 |
| Long-term investments | **85,598** | 79,243 |
| Interest in net assets of Orange Regional Medical Center Foundation, Inc., net | **7,419** | 7,281 |
| Due from third-party payors, net of current portion | **4,027** | 2,899 |
| Insurance claims receivable, net of current portion | **14,429** | 13,558 |
| Other assets, net | **10,475** | 9,405 |
| Property and equipment, net | **288,718** | 303,291 |
| Total assets | **$ 597,025** | $ 573,492 |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Current installments of long-term debt and capital lease obligations | **$ 11,579** | $ 10,852 |
| Accounts payable and accrued expenses | **62,842** | 66,085 |
| Estimated malpractice liabilities | **4,206** | 4,498 |
| Due to third-party payors | **5,367** | 11,119 |
| Total current liabilities | **83,994** | 92,554 |
| Long-term debt and capital lease obligations, net of current installments | **292,760** | 303,404 |
| Due to third-party payors, net of current portion | **27,900** | 11,652 |
| Estimated malpractice liabilities, net of current portion | **18,318** | 17,351 |
| Accrued retirement benefits | **37,147** | 46,602 |
| Other liabilities | **12,459** | 12,483 |
| Total liabilities | **472,578** | 484,046 |
| Commitments and contingencies | | |
| Net assets: | | |
| Without donor restrictions | **114,576** | 79,690 |
| With donor restrictions | **9,871** | 9,756 |
| Total net assets | **124,447** | 89,446 |
| Total liabilities and net assets | **$ 597,025** | $ 573,492 |

*See accompanying notes to consolidated financial statements.*

# Orange Regional Medical Center

## Consolidated Statements of Operations

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| | *(In Thousands)* | |
| Operating revenue: | | |
| Net patient service revenue | **$ 496,186** | $ 486,910 |
| Provision for doubtful accounts | **–** | (19,578) |
| Net patient service revenue, less provision for doubtful accounts | **496,186** | 467,332 |
| Other revenue | **7,407** | 6,923 |
| Net assets released from restrictions | **46** | 11 |
| Total operating revenue | **503,639** | 474,266 |
| Operating expenses: | | |
| Salaries and wages | **184,962** | 173,229 |
| Employee benefits | **70,217** | 66,539 |
| Supplies | **92,337** | 91,719 |
| Purchased services | **59,505** | 58,465 |
| Insurance | **5,329** | 5,041 |
| Interest | **13,953** | 14,525 |
| Depreciation and amortization | **27,253** | 26,929 |
| Other | **31,651** | 32,794 |
| Total operating expenses | **485,207** | 469,241 |
| Income from operations | **18,432** | 5,025 |
| Nonoperating gains (losses): | | |
| Investment (loss) income, net | **(237)** | 5,473 |
| Income from unconsolidated joint ventures | **920** | 1,046 |
| Contributions | **338** | 483 |
| Loss on extinguishment of debt | **–** | (27,347) |
| Distribution from MLMIC | **13,197** | – |
| Excess (deficiency) of revenue and gains over expenses and losses | **32,650** | (15,320) |
| Other changes in net assets without donor restrictions: | | |
| Transfer from (to) Greater Hudson Valley Health System, Inc., net | **274** | (605) |
| Contributions for property and equipment | **457** | 689 |
| Pension-related changes, other than net periodic pension cost | **975** | 816 |
| Postretirement-related changes, other than net periodic benefit cost | **530** | 441 |
| Increase (decrease) in net assets without donor restrictions | **$ 34,886** | $ (13,979) |

*See accompanying notes to consolidated financial statements.*

# Orange Regional Medical Center

## Consolidated Statements of Changes in Net Assets

## Years Ended December 31, 2018 and 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| | *(In Thousands)* | | |
| Net assets at January 1, 2017 | $ 93,669 | $ 9,668 | $ 103,337 |
| Deficiency of revenue and gains over expenses and losses | (15,320) | – | (15,320) |
| Net assets released from restrictions | – | (11) | (11) |
| Transfer to Greater Hudson Valley Health System, Inc., net | (605) | – | (605) |
| Contributions for property and equipment | 689 | – | 689 |
| Pension-related changes, other than net periodic pension cost | 816 | – | 816 |
| Postretirement-related changes, other than net periodic benefit cost | 441 | – | 441 |
| Change in interest in net assets of Orange Regional Medical Center Foundation, Inc. | – | 85 | 85 |
| Contributions and investment income, net | – | 14 | 14 |
| Total change in net assets | (13,979) | 88 | (13,891) |
| Net assets at December 31, 2017 | 79,690 | 9,756 | 89,446 |
| Excess of revenue and gains over expenses and losses | **32,650** | **–** | **32,650** |
| Net assets released from restrictions | **–** | **(46)** | **(46)** |
| Transfer from Greater Hudson Valley Health System, Inc., net | **274** | **–** | **274** |
| Contributions for property and equipment | **457** | **–** | **457** |
| Pension-related changes, other than net periodic pension cost | **975** | **–** | **975** |
| Postretirement-related changes, other than net periodic benefit cost | **530** | **–** | **530** |
| Change in interest in net assets of Orange Regional Medical Center Foundation, Inc. | **–** | **138** | **138** |
| Contributions and investment income, net | **–** | **23** | **23** |
| Total change in net assets | **34,886** | **115** | **35,001** |
| Net assets at December 31, 2018 | **$ 114,576** | **$ 9,871** | **$ 124,447** |

*See accompanying notes to consolidated financial statements.*

Orange Regional Medical Center

Consolidated Statements of Cash Flows

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| | *(In Thousands)* | |
| **Operating activities** | | |
| Change in net assets | **$ 35,001** | $ (13,891) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **27,253** | 26,929 |
| Loss on extinguishment of debt | **–** | 27,347 |
| Amortization of deferred financing fees | **376** | 400 |
| Contributions for property and equipment | **(457)** | (689) |
| Contributions and restricted income, net | **(23)** | (14) |
| Provision for doubtful accounts, net of recoveries | **–** | 19,578 |
| Net realized and change in net unrealized gains and losses on investments | **3,291** | (3,457) |
| Transfer (from) to Greater Hudson Valley Health System, Inc., net | **(274)** | 605 |
| Change in interest in net assets of Orange Regional Medical Center Foundation, Inc. | **(138)** | (85) |
| Pension-related changes, other than net periodic pension cost | **(975)** | (816) |
| Postretirement-related changes, other than net periodic benefit cost | **(530)** | (441) |
| Changes in assets and liabilities: | | |
| Patient accounts receivable | **(3,053)** | (20,592) |
| Other current assets | **(6,576)** | (2,498) |
| Inventories | **(1,620)** | 74 |
| Due from third-party payors | **210** | (1,312) |
| Insurance claims receivable, net of current portion | **(871)** | 7,131 |
| Other assets, net | **(1,070)** | (308) |
| Accounts payable and accrued expenses | **(3,243)** | 11,498 |
| Due to third-party payors | **10,496** | (1,118) |
| Other liabilities | **(24)** | 1,614 |
| Estimated malpractice liabilities | **675** | (2,538) |
| Accrued retirement benefits | **(7,950)** | (5,946) |
| Net cash provided by operating activities | **50,498** | 41,471 |
| **Investing activities** | | |
| Purchases of property and equipment | **(11,480)** | (9,483) |
| Cash paid for capital expenditures related to construction project | **–** | (5,483) |
| Purchases of investments and assets limited or restricted as to use | **(201,188)** | (234,427) |
| Sales of investments and assets limited or restricted as to use | **191,075** | 244,065 |
| Net cash used in investing activities | **(21,593)** | (5,328) |

Orange Regional Medical Center

Consolidated Statements of Cash Flows (continued)

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| | *(In Thousands)* | |
| **Financing activities** | | |
| Payment of long-term debt and capital lease obligations | **$ (11,493)** | $ (265,100) |
| Proceeds from long-term debt | **–** | 253,825 |
| Deferred financing costs incurred for debt | **–** | (3,576) |
| Transfer from (to) Greater Hudson Valley Health System, Inc. | **274** | (605) |
| Contributions for property and equipment | **457** | 689 |
| Contributions and restricted income, net | **23** | 14 |
| Net cash used in financing activities | **(10,739)** | (14,753) |
| | | |
| Net increase in cash and cash equivalents | **18,166** | 21,390 |
| Cash and cash equivalents at beginning of year | **47,483** | 26,093 |
| Cash and cash equivalents at end of year | **$ 65,649** | $ 47,483 |
| | | |
| **Supplemental disclosures of noncash investing and financing activities** | | |
| Cash paid during the year for interest, including capitalized interest | **$ 15,013** | $ 12,194 |
| Capital lease obligations incurred | **$ 1,200** | $ – |

*See accompanying notes to consolidated financial statements.*

Orange Regional Medical Center

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

December 31, 2018

## 1. Organization

Orange Regional Medical Center (ORMC or the Hospital) is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from federal and state income taxes and other related income tax pursuant to Section 501(a) of the Code. ORMC is a 383 licensed bed facility located in the town of Wallkill, New York and provides acute, psychiatric, and rehabilitative inpatient services, as well as ambulatory surgery, emergency care, and other outpatient services for residents of Orange County, New York, and surrounding areas.

The Greater Hudson Valley Health System, Inc. (GHVHS) is the parent of ORMC. During February 2010, GHVHS became the active parent of Catskill Regional Medical Center (Catskill Regional). Catskill Regional is located in Sullivan County and is licensed for a total of 181 beds maintained on two campuses in Harris, New York and Callicoon, New York. GHVHS has the same legal authority over, and responsibilities to, both ORMC and Catskill Regional. ORMC and Catskill Regional report financial results separately and neither are liable for the other's obligations.

GHVHS is also the parent of the GHVHS Medical Group, P.C. (the PC), a not-for-profit professional corporation, which was formed in October 2013 for the purpose of engaging in the profession of medicine. The PC began operations in December 2014.

GHVHS is also the parent of Greater Hudson Valley Urgent Care, P.C. (Urgent Care), a for-profit professional corporation, which was formed in January 2018 for the purpose of engaging in the profession of urgent care medicine. Urgent Care began operations in January 2019.

The Hospital is affiliated with Orange Regional Medical Center Foundation, Inc. (the Foundation) whose purpose is to raise funds for the Hospital and the health and welfare of the community. During October 2017, GHVHS became the sole corporate member of the Foundation.

The consolidated financial statements include the activities of the Hospital, East Main Street Management Corporation, The Alpha Network, Inc., and Synera Corporation. East Main Street Management Corporation, The Alpha Network, Inc., and Synera Corporation are dormant corporations, no related activities have been included in the consolidated financial statements.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

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

### Cash and Cash Equivalents

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less at the date of purchase which are not classified as assets limited or restricted as to use or held in the investment portfolio. At December 31, 2018 and 2017, the Hospital has cash balances in financial institutions that exceeded federal depository insurance limits. The Hospital routinely invests its excess operating funds in money market or similar funds. These funds generally invest in highly liquid U.S. government and agency obligations. Such investments are not insured or guaranteed by the U.S. government.

### Investments and Assets Limited or Restricted as to Use

The Hospital classifies its debt and equity securities included in investments and assets limited or restricted as to use as trading securities. These investments are measured at fair value in the accompanying consolidated balance sheets.

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

The equity method of accounting is used for joint venture investments, included in other assets, net, for which the Hospital has significant influence but does not have control.

Assets limited or restricted as to use primarily include assets held by trustees under bond indenture agreements, and assets associated with donor-restricted net assets.

**2. Summary of Significant Accounting Policies (continued)**

**Patient Accounts Receivable and Net Patient Service Revenue**

*For Periods Commencing January 1, 2018*

Effective January 1, 2018 upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the Hospital 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 include variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

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

The Hospital's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Hospital's standard charges. The Hospital 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. The estimates for contractual allowances and discounts are based on contractual agreements, the Hospital's discount policies, and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Hospital's historical collection experience for applicable patient portfolios. A patient who has no insurance receives an automatic discount to a facility specific percent of charge intended to approximate cost plus a slight margin. Under the Hospital's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced based on a sliding scale according to federal poverty level guidelines, with discounts ranging from 25% to 100%.

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

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

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

| | Inpatient | Outpatient | Total | % |
|---|---|---|---|---|
| Medicare | $ 141,485 | $ 54,776 | $ 196,261 | 40% |
| Medicaid | 48,921 | 20,618 | 69,539 | 14 |
| Managed care and other insurance | 132,666 | 86,170 | 218,836 | 44 |
| Self-pay | 3,112 | 1,398 | 4,510 | 1 |
| Workers compensation and no fault | 4,321 | 2,719 | 7,040 | 1 |
| | $ 330,505 | $ 165,681 | $ 496,186 | 100% |

Deductibles, copayments and coinsurance under third-party payment programs, which are the patient's responsibility, are included within the primary payor categories above.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting

**2. Summary of Significant Accounting Policies (continued)**

period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Hospital'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 service revenue in the period of the change. For the year ended December 31, 2018, changes in the Hospital's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated monthly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the period ended December 31, 2018 was not significant.

For services provided through December 31, 2017, net patient service revenue and the related accounts receivable estimates are subject to the accounting requirements prior to the adoption of ASU 2014-09. Estimates for the allowance for doubtful accounts pertaining to this service period are reevaluated monthly and certain revisions to such estimates continue to be made based on recent collection trends and management's expectations for the ultimate collection of accounts receivable balances existing at December 31, 2017. For the year ended December 31, 2018, the Hospital recorded bad debt recoveries of $1,516 related to pre-2018 net patient service revenue.

The Hospital has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital 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.

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

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

| | | |
|---|---|---|
| Patient receivables | $ | 41,965 |
| Contract assets | | 13,105 |
| | $ | 55,070 |

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

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the year ended December 31, 2018, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue decreasing by $2,795.

*For Periods Through December 31, 2017*

ORMC has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheets.

**2. Summary of Significant Accounting Policies (continued)**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, ORMC analyses its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, ORMC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured patients, management records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

ORMC wrote off approximately $21,500 and $22,700 for the years ended December 31, 2018 and 2017, respectively, related to patient account balances with dates of service prior to 2018, of which a significant portion relate to uninsured patients.

ORMC recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, ORMC recognizes revenue based on a discounted rate per the self-pay discount policy. On the basis of historical experience, a significant portion of ORMC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, ORMC recorded a provision for bad debts related to uninsured patients in the period the services were provided. Patient service revenue, net of contractual allowances, and discounts (but before the provision for bad debts) by primary payor, recognized in the period from these major payor sources, for the year ended December 31, 2017, is as follows:

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

| | 2017 |
|---|---|
| Patient service revenue (net of contractual allowances and discounts): | |
| Medicare | $ 182,288 |
| Medicaid | 68,226 |
| Managed care and other insurance | 219,018 |
| Self-pay | 9,437 |
| Workers compensation and no fault | 7,941 |
| | $ 486,910 |

The following table reflects the estimated percentages of patient service revenue by primary payor, net of provision for doubtful accounts, for the year ended December 31, 2017:

| | 2017 |
|---|---|
| Medicare | 39% |
| Medicaid | 14 |
| Managed care and other insurance | 45 |
| Self-pay | 1 |
| Workers compensation and no fault | 1 |
| | 100% |

The following table reflects the estimated percentages of patient service revenue by inpatient and outpatient services for the year ended December 31, 2017:

| | |
|---|---|
| Inpatient services | 68% |
| Outpatient services | 32 |
| | 100% |

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

Net patient revenues are recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the year ended December 31, 2017, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by $3,552.

**Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables by primary payor at December 31 is as follows:

| | **2018** | **2017** |
|---|---|---|
| Medicare | **32%** | 34% |
| Medicaid | **14** | 14 |
| Managed care and other insurance | **47** | 45 |
| Self-pay | **5** | 5 |
| Workers compensation and no fault | **2** | 2 |
| | **100%** | 100% |

**Charity Care**

ORMC provides charity care to patients who meet certain criteria under its charity care policy, to patients who are uninsured and to patients who are underinsured at amounts less than its established rates. Because ORMC does not pursue collection for patients who qualify, these amounts are not reported as revenue. The calculation of the cost of these services is done utilizing the ratio of patient care cost to charges based upon the prior year's Form 990 Return of Organization Exempt from Income Taxes, applied to the gross charity related allowances.

**2. Summary of Significant Accounting Policies (continued)**

The amount of services related to charity care, uninsured, and underinsured, at approximate cost, is $8,471 and $7,537 for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, ORMC received $3,641 and $3,576, respectively, from the indigent care pool.

**Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of an asset exceeds its estimated recoverability, an asset impairment charge is recognized for the difference between the fair value and carrying value of the asset. No impairment was recorded in 2018 or 2017.

**Net Assets**

*Without Donor Restrictions* – Net assets without donor restrictions are those whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract, board designation, or under debt agreements.

*With Donor Restrictions* – Net assets with donor restrictions are those whose use by ORMC has been limited by donors to a specific time period or purpose or those that must be maintained in perpetuity.

**Donor-Restricted Gifts**

Unconditional promises to give cash and other assets 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. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. The contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor

**2. Summary of Significant Accounting Policies (continued)**

restrictions and reported in the accompanying consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated statements of operations.

**Property and Equipment**

Property and equipment (including equipment acquired under capital lease obligations) are recorded at cost or, if donated, at fair market value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Estimated useful lives of the assets are as follows:

| | |
|---|---|
| Land improvements | 5 to 20 years |
| Buildings and building improvements | 15 to 40 years |
| Equipment | 5 to 15 years |

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions, and are excluded from the excess (deficiency) of revenue and gains over expenses and losses and are included in other changes in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Cash gifts restricted for investment in long-lived assets are released from restriction when the asset is placed in service or as costs are incurred for asset construction.

The Hospital's policy is to capitalize interest cost incurred on debt during the construction of major projects. No interest costs were capitalized for the years ended December 31, 2018 and 2017.

**Inventories**

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

**2. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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

**Excess (Deficiency) of Revenue and Gains over Expenses and Losses**

The consolidated statements of operations include excess (deficiency) of revenue and gains over expenses and losses as the performance indicator. Changes in net assets without donor restrictions that are excluded from the performance indicator, consistent with industry practice, include pension and postretirement – related changes other than net periodic pension or benefit cost, contributions for property and equipment, and equity transfers of assets to/from related parties.

**Operating and Nonoperating Activities**

ORMC'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, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities, which are peripheral to ORMC's primary mission, are considered to be nonoperating. Nonoperating activities include investment (loss) income, income attributable to unconsolidated joint ventures, contributions without donor restrictions, loss on extinguishment of debt and distribution from MLMIC (see Note 13).

**Estimated Malpractice, Workers' Compensation, and Health Insurance Costs**

The provision for estimated medical malpractice, workers' compensation, and health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported (IBNR).

**2. Summary of Significant Accounting Policies (continued)**

**Deferred Financing Fees**

Deferred financing fees are reported as an offset to long-term debt in the accompanying consolidated balance sheets, which represent costs incurred in connection with the issuance of the ORMC Obligated Group Revenue Bonds Series 2015 and Series 2017, and are amortized based on the effective-interest method, over the term of the bonds.

**Other Revenue**

Other operating revenue, reported as part of total operating revenue, includes cafeteria and coffee shop revenue, rent and allocated overhead income charged to the physician practice, consulting and administrative services revenue for services provided to Catskill Regional, rental revenue, grants for operations, and other miscellaneous revenue items.

**Income Taxes**

The Hospital is a Section 501(c)(3) organization exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. The effects of income taxes are not material to the accompanying consolidated financial statements.

**2. Summary of Significant Accounting Policies (continued)**

**Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of ASU 2014-09 became effective for the Hospital for annual reporting periods beginning after December 15, 2017, and interim periods within the period. The Hospital adopted ASU 2014-09 effective January 1, 2018 for its consolidated financial statements following the modified retrospective method of application, and, as such, the prior period consolidated financial statements have not been adjusted for the adoption of ASU 2014-09. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain, previously reported as net patient service revenue and the provision for doubtful accounts in the Hospital's consolidated statements of operations no longer meets the criteria for revenue recognition and, accordingly, the provision for doubtful accounts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession. Additionally, the provision for doubtful accounts, when applicable, will now be presented as an expense item rather than a reduction to net patient service revenue. For the year ended December 31, 2018, the Hospital recorded approximately $21,752 of implicit price concessions as a direct reduction to net patient service revenue that would have been recorded as a provision for doubtful accounts prior to the adoption of ASU 2014-09. Other aspects of the Hospital's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are included in Note 2. The adoption of ASU 2014-09 in relation to other revenue activity did not have a material impact to the Hospital's accompanying consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of

**2. Summary of Significant Accounting Policies (continued)**

ASU 2016-14 became effective for the Hospital for annual periods beginning after December 15, 2017 and interim periods thereafter. As such, the Hospital adopted ASU 2016-14 in its December 31, 2018 consolidated financial statements. The effects of the adoption of ASU 2016-14 were applied retrospectively, except for the disclosures about liquidity and availability of resources, as permitted by ASU 2016-14. The adoption of ASU 2016-14 had no impact on the total net assets previously reported by the Hospital as of December 31, 2017.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also impacts financial liabilities under the fair value option. This ASU is effective for ORMC for fiscal years beginning after December 15, 2018, however, early adoption is permitted for the provision relating to the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost. As such, management has elected to early adopt this provision and will no longer disclose the fair value of debt within its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their balance sheet, but recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods within the period. Early adoption is permitted. Subsequent to adoption, the Hospital's assets and liabilities are expected to increase to reflect the Hospital's right to use certain assets and the corresponding liabilities associated with operating leases, with no significant impact to net assets or the performance indicator.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent

**2. Summary of Significant Accounting Policies (continued)**

consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2016-15 on its 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. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

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 will be 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 will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. Adoption of ASU 2017-07 will require the Hospital to include the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan (aggregate of $50 for 2018) within salaries and wages on the consolidated statements of operations and to present all other

**2. Summary of Significant Accounting Policies (continued)**

components of net periodic benefit cost (aggregate of $1,146 for 2018) as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of operations.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The standard should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. ASU 2018-08 applies to all entities that make or receive contributions and is effective for the Hospital for fiscal years beginning after June 15, 2018, including interim periods within those years. Early adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2018-08 on its 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*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the Hospital for fiscal years beginning after December 15, 2020, and interim periods

**2. Summary of Significant Accounting Policies (continued)**

thereafter. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Hospital is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-09, *Codification Improvements*, ASU 2018-13, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU 2018-09 may result in additional assets included in an entity's fair value disclosure table if, among other criteria, net asset value has public visibility. ASU 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU 2018-09: fiscal years beginning after December 15, 2018; ASU 2018-13: fiscal years beginning after December 15, 2019; and ASU 2018-14: fiscal years ending after December 15, 2021. The Hospital has not completed the process of evaluating the impact of ASU 2018-09, ASU 2018-13 and ASU 2018-14 on its consolidated financial statements.

*(Dollars in Thousands)*

**3. Investments, Assets Limited or Restricted as to Use and Liquidity**

The composition of investments and assets limited or restricted as to use as of December 31 is set forth in the following tables:

| | 2018 | 2017 |
|---|---|---|
| Assets limited or restricted as to use: | | |
| By bond indenture agreement (primarily cash and cash equivalents and U.S. government securities): | | |
| Construction fund | **$ 241** | $ 237 |
| Medicaid revenue fund | **1,995** | 1,964 |
| Debt service fund | **2,445** | 2,011 |
| Debt service reserve fund | **22,949** | 22,927 |
| | **27,630** | 27,139 |
| By donor: | | |
| Cash and cash equivalents | **447** | 523 |
| Corporate bonds | **51** | – |
| Mutual funds – domestic equities | **–** | 431 |
| Mutual funds – foreign equities | **1,516** | 826 |
| Mutual funds – domestic bonds | **437** | 695 |
| | **2,451** | 2,475 |
| Total assets limited or restricted as to use | **30,081** | 29,614 |
| Less current portion | **9,814** | 9,477 |
| Assets limited or restricted as to use, net of current portion | **$ 20,267** | $ 20,137 |

| | 2018 | 2017 |
|---|---|---|
| Investments: | | |
| Mutual funds – domestic equities | **$ 8,568** | $ 9,002 |
| Mutual funds – foreign equities | **6,146** | 7,721 |
| Mutual funds – domestic bonds | **15,938** | 24,145 |
| Corporate bonds | **34,792** | 38,127 |
| Government agencies securities | **248** | 248 |
| Commingled/collective funds | **19,906** | – |
| Total investments | **$ 85,598** | $ 79,243 |

*(Dollars in Thousands)*

**3. Investments, Assets Limited or Restricted as to Use and Liquidity (continued)**

The Master Trust Indenture (MTI) requires the creation of a Medicaid Revenue Account to receive all Medicaid reimbursement receipts. These funds are to be used to pay all monthly installments on all indebtedness secured by obligations outstanding under the MTI. This balance is reconciled on a monthly basis and any overage or shortage from the required amount is transferred to or from operating funds. The Master Trustee then transfers payment to the holder of each obligation. A debt service reserve fund is maintained with a required balance equal to the greatest amount required in the current year or any future year to pay principal and interest on the bonds. Moneys are deposited in the debt service fund on a monthly basis to meet the principal and interest requirements. Principal and interest as due are withdrawn from the debt service fund for payment to bondholders.

The current portion of assets limited or restricted as to use includes amounts due one year from the balance sheet date for principal and accrued interest on the ORMC Obligated Group Revenue Bonds, Series 2015 and Series 2017.

Investment (loss) income, net from investments, assets limited or restricted as to use, and cash equivalents comprise the following for the years ended December 31:

| | 2018 | 2017 |
|---|---|---|
| Investment (loss) income, net: | | |
| Interest and dividend income | **$ 3,054** | $ 2,016 |
| Realized gains, net | **295** | 3,437 |
| Change in net unrealized (losses) gains, net | **(3,586)** | 20 |
| | **$ (237)** | $ 5,473 |

**3. Investments, Assets Limited or Restricted as to Use and Liquidity (continued)**

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 fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

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

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

Level 3: Unobservable inputs that are supported by little or no market activity and 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.

*(Dollars in Thousands)*

**3. Investments, Assets Limited or Restricted as to Use and Liquidity (continued)**

The following tables present the Hospital's fair value measurements for assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

| | **December 31, 2018** | | |
|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** |
| U.S. government obligations and mortgages | **$ 25,275** | **$ 23,383** | **$ 1,892** |
| Corporate bonds | **34,843** | **–** | **34,843** |
| Mutual funds – domestic equities | **8,568** | **8,568** | **–** |
| Mutual funds – foreign equities | **7,662** | **7,662** | **–** |
| Mutual funds – domestic bonds | **16,375** | **16,375** | **–** |
| Cash and cash equivalents (included in cash and cash equivalents and assets limited or restricted as to use) | **68,699** | **68,699** | **–** |
| | **161,422** | **$ 124,687** | **$ 36,735** |
| Commingled/collective funds measured at net asset value | **19,906** | | |
| Total | **$ 181,328** | | |

| | **December 31, 2017** | | |
|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** |
| U.S. government obligations and mortgages | $ 2,168 | $ – | $ 2,168 |
| Corporate bonds | 38,127 | – | 38,127 |
| Mutual funds – domestic equities | 9,434 | 9,434 | – |
| Mutual funds – foreign equities | 8,547 | 8,547 | – |
| Mutual funds – domestic bonds | 24,840 | 24,840 | – |
| Cash and cash equivalents (included in cash and cash equivalents and assets limited or restricted as to use) | 73,224 | 73,224 | – |
| Total | $ 156,340 | $ 116,045 | $ 40,295 |

*(Dollars in Thousands)*

**3. Investments, Assets Limited or Restricted as to Use and Liquidity (continued)**

At December 31, 2018 and 2017, the Hospital did not have any Level 3 assets or liabilities measured at fair value. There were no significant transfers into or out of Level 1 or Level 2 for the years ended December 31, 2018 and 2017. There are no assets measured at fair value within the chart above at December 31, 2017 that are measured based upon net asset value (NAV).

The table below presents financial assets and liquidity resources available for general expenditures within one year at December 31, 2018:

| | | |
|---|---|---|
| Financial assets as reported on the accompanying consolidated balance sheet: | | |
| Cash and cash equivalents | $ | 65,649 |
| Patient accounts receivable, net | | 55,070 |
| Long-term investments | | 85,598 |
| Assets limited or restricted as to use | | 30,081 |
| Interest in net assets of Orange Regional Medical Center Foundation, Inc. | | 7,419 |
| Total financial assets as reported on the accompanying consolidated balance sheet | | 243,817 |
| Liquidity resources: | | |
| Line of credit | | 10,000 |
| Total financial assets and liquidity resources | | 253,817 |
| Less amounts not available to be used for general expenditures within one year: | | |
| Assets limited or restricted as to use: | | |
| Funds restricted by Bond Indenture Agreement | | 27,630 |
| Donor restricted | | 1,952 |
| Interest in net assets of the Foundation | | 7,419 |
| Total amount not available to be used for general expenditures within one year | | 37,001 |
| Financial assets available and liquidity resources to be used for general expenditures within one year | $ | 216,816 |

The Hospital 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 information above for financial assets to meet general expenditures within one year. The Hospital considers funds to be used for capital purchases as general expenditures as such purchases are considered part of regular, ongoing operations.

*(Dollars in Thousands)*

## 4. Property and Equipment

A summary of property and equipment at December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | **$ 4,897** | $ 4,897 |
| Land improvements | **17,267** | 17,164 |
| Buildings and building improvements | **207,404** | 204,587 |
| Equipment | **274,956** | 264,629 |
| Construction in progress | **866** | 1,383 |
| | **505,390** | 492,660 |
| Less accumulated depreciation | **216,672** | 189,369 |
| Property and equipment, net | **$ 288,718** | $ 303,291 |

Equipment under capitalized lease obligations, included in equipment in the table above, as of December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Equipment | **$ 8,701** | $ 7,500 |
| Less accumulated depreciation | **3,500** | 1,927 |
| | **$ 5,201** | $ 5,573 |

*(Dollars in Thousands)*

**5. Long-Term Debt and Capital Lease Obligations**

A summary of long-term debt and capital lease obligations at December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Series 2015 Bonds [(a)] | **$ 66,236** | $ 67,532 |
| Series 2017 Bonds [(b)] | **238,058** | 246,531 |
| Capital lease and lease lines of credit [(c)] | **4,819** | 5,343 |
| | **309,113** | 319,406 |
| Deferred financing costs, net | **(4,774)** | (5,150) |
| | **304,339** | 314,256 |
| Current installments | **(11,579)** | (10,852) |
| Long-term debt and capital lease obligations, net of current installments | **$ 292,760** | $ 303,404 |

ORMC maintains an "Obligated Group" for the purposes of issuing debt instruments under an MTI. ORMC is currently the sole member of the Obligated Group. Under the terms of the MTI, all obligations issued thereunder are joint and several obligations of the member.

On May 7, 2008, Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008 (Series 2008 Bonds), were issued with a par value of $261,345 and a net original issue discount of $1,239. The issue is composed of serial bonds of $27,840 with maturity dates ranging from December 1, 2011 to 2016, term bonds of $32,170 maturing December 1, 2021, term bonds of $76,960 maturing December 1, 2029, and term bonds of $124,375 maturing December 1, 2037. The Series 2008 Bonds maturing after December 1, 2018 were subject to redemption prior to maturity, at the option of the Hospital and as provided for in the debt agreement, on or after December 1, 2018, at 100% of the principal amount plus accrued interest to the date of redemption. The Series 2008 Bonds were also subject to redemption upon the occurrence of certain events as discussed in the debt agreement.

The Hospital was required to maintain a long-term debt service coverage ratio of 1.25 measured on an annual basis, and a day's-cash-on-hand ratio of 60 days calculated semiannually, as defined in the debt agreement.

**5. Long-Term Debt and Capital Lease Obligations (continued)**

Interest on the Series 2008 Bonds was payable on a semiannual basis beginning December 1, 2008. Principal was payable annually beginning December 1, 2011 in varying amounts from $4,020 in 2011 to $19,035 in 2037. The Series 2008 Bonds were issued with various stated interest rates ranging from 5.50% to 6.50%. The effective interest rate for this issue was 6.53%.

The Series 2008 Bonds were collateralized by the land and buildings that comprise the Hospital facility.

The Series 2008 Bonds were advance refunded with the issuance of the Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2017.

(a) On May 13, 2015, Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2015 (Series 2015 Bonds), were issued with a par value of $66,100 and a net original issue premium of $3,960. The issue is composed of serial bonds with values of $1,000 to $2,500 with maturity dates ranging from December 1, 2016 to 2035, term bonds of $14,600 maturing December 1, 2040, and term bonds of $18,600 maturing December 1, 2045. The Series 2015 Bonds maturing after December 1, 2025 are subject to redemption prior to maturity, at the option of the Hospital and as provided for in the debt agreement, on or after June 1, 2025, at 100% of the principal amount plus accrued interest to the date of redemption. The Series 2015 Bonds are also subject to redemption upon the occurrence of certain events as discussed in the debt agreement.

The Hospital is required to maintain a long-term debt service coverage ratio of 1.25 measured on an annual basis, and a day's-cash-on-hand ratio of 60 days calculated semiannually, as defined in the debt agreement. The Series 2015 Bonds are collateralized by the land and buildings that comprise the Hospital facility. As of December 31, 2018, the Hospital was in compliance with its debt covenants.

Interest on the Series 2015 Bonds is payable on a semiannual basis beginning December 1, 2015. Principal is payable annually beginning December 1, 2016 in varying amounts from $1,000 in 2016 to $18,600 in 2045. The Series 2015 Bonds were issued with various stated interest rates ranging from 4.45% to 5.00%. The effective interest rate for this issue is 4.75%.

**5. Long-Term Debt and Capital Lease Obligations (continued)**

(b) On February 28, 2017, Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2017 (Series 2017 Bonds), were issued with a par value of $237,100 and a net original issue premium of $16,725. The issue is composed of serial bonds with values of $6,200 to $17,600 with maturity dates ranging from December 1, 2017 to 2037. The Series 2017 Bonds maturing after December 1, 2037 are subject to redemption prior to maturity, at the option of the Hospital and as provided for in the debt agreement, on or after June 1, 2027, at 100% of the principal amount plus accrued interest to the date of redemption. The Series 2017 Bonds are also subject to redemption upon the occurrence of certain events as discussed in the debt agreement. The proceeds of the Series 2017 Bonds were applied to refund on an advanced basis all of the Series 2008 Bonds, to make a deposit to a debt service reserve fund in the amount of $18,520, and to pay costs of issuance of $3,577. As a result of the extinguishment of the Series 2008 bonds, the Hospital recorded a loss on extinguishment of debt in the amount of $27,347.

The Hospital is required to maintain a long-term debt service coverage ratio of 1.25 measured on an annual basis, and a day's-cash-on-hand ratio of 60 days calculated semiannually, as defined in the debt agreement. The Series 2017 Bonds are collateralized by the land and buildings that comprise the hospital facility. As of December 31, 2018, the Hospital was in compliance with its debt covenant.

Interest on the Series 2017 Bonds is payable on a semiannual basis beginning June 1, 2017. Principal is payable annually beginning December 1, 2017 in varying amounts from $6,200 in 2017 to $17,600 in 2037. The Series 2017 Bonds were issued with various stated interest rates ranging from 4.00% to 5.00%. The effective interest rate for this issue is 4.33%.

The Bond Series Certificate related to the Series 2017 Bonds provided that the debt service reserve fund requirement for the Series 2017 Bonds will be reduced to zero if the Hospital provides the Dormitory Authority of the State of New York with a written request therefor, together with written evidence that the following requirements (the "Release Requirements") have been met: (1) the Series 2017 Bonds have received an "investment grade rating" from at least two of the rating agencies then rating the Series 2017 Bonds, (2) such ratings have been in effect with respect to the Series 2017 Bonds for a period of at least two consecutive years from the date of the later of the two rating agency "investment grade rating" upgrades, (3) the Hospital has days' cash on hand of 100 days or greater based on the audited financial statements of the most recent fiscal year,

**5. Long-Term Debt and Capital Lease Obligations (continued)**

and (4) at least two of the rating agencies then rating the Series 2017 Bonds have confirmed that the release of the debt service reserve fund will not adversely affect the ratings of the Series 2017 Bonds. If ORMC achieves the Release Requirements, all amounts on deposit in the debt service reserve fund will be transferred to the construction fund and/or the debt service fund and ORMC shall have no further obligation to make deposits to the debt service reserve fund. Funds transferred to the construction fund may be applied to acquire and install equipment, machinery, furnishings, fixtures and apparatus in and around the ORMC Facility (collectively, the "Additional Equipment") and related renovations, alterations and improvements to the ORMC Facility necessary to accommodate the installation of the Additional Equipment. At December 31, 2018, ORMC did not meet the Release Requirements.

(c) During 2016, the Hospital entered into a lease line of credit with a bank for $3,750, with interest at 3.62%, maturing in December 2021, as well as a lease line of credit with another entity for $3,750 with interest at 3.00%, maturing in November 2020. During 2018, the Hospital entered into a capital lease agreement for $1,200, maturing in April 2021.

The Hospital has a $10,000 working capital line of credit under which no amounts were outstanding as of December 31, 2018 and 2017. Interest on borrowings under this line of credit would be floating at the one-month London Interbank Offered Rate interest rate plus 2.75%. This agreement expires on July 31, 2019 and is renewable annually.

Aggregate principal payments on long-term debt and capital lease obligations as of December 31, 2018 for the next five years and thereafter are as follows: 2019 – $11,579; 2020 – $12,005; 2021 – $11,347; 2022 – $10,777; 2023 – $11,237; and thereafter – $247,394.

## 6. Commitments and Contingencies

### General

Various suits and claims arising in the normal course of operations are pending. While the outcome of these suits cannot be determined at this time, management believes that such suits and claims are either specifically covered by insurance or are not material to the Hospital's overall consolidated financial position, operating results, or liquidity.

### Professional Liability

ORMC and Catskill Regional's professional liability insurance programs were combined effective September 1, 2016. Coverage is written on a claims made, first dollar basis. Professional liability limits are $2,000 per medical incident subject to annual aggregate limits of $7,000. Under the excess liability program, there are limits of $35,000 per medical incident and in the annual aggregate, subject to the policy's varying retroactive dates. Joint and several liability does not apply between ORMC and Catskill Regional. Prior to September 1, 2016, ORMC and Catskill Regional's professional liability programs were written separately.

Prior to September 1, 2016, ORMC had professional liability claims-made commercial insurance coverage for the first $1,000 per occurrence, $5,000 in the aggregate for malpractice claims effective September 1, 2009 (prior to that date it was $1,000/$3,000) and excess insurance for $5,000 per occurrence, $5,000 in the aggregate for claims made prior to September 1, 2008, and $10,000 per occurrence and $10,000 in the aggregate for claims through September 1, 2012, and $15,000 per occurrence and $15,000 in the aggregate for claims made subsequent to that date.

The Hospital has engaged an independent actuary to estimate the liability for both reported and incurred-but-not-reported claims. Based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors, management, with the assistance of an independent actuary, has recorded an accrual for ultimate undiscounted cost. As of December 31, 2018 and 2017, the Hospital has recorded the following:

*(Dollars in Thousands)*

**6. Commitments and Contingencies (continued)**

| | 2018 | 2017 |
|---|---|---|
| Estimated malpractice liabilities | **$ 4,206** | $ 4,498 |
| Estimated malpractice liabilities, net of current portion | **18,318** | 17,351 |
| Insurance claims receivable (included in other current assets) | **(4,206)** | (4,498) |
| Insurance claims receivable, net of current portion | **(14,429)** | (13,558) |

The Hospital has been named as a defendant in various malpractice cases. The outcome of these actions cannot be predicted at this time, but it is the opinion of management that any loss that may arise from these actions will not have a material adverse effect on the consolidated financial position, results of operations, or liquidity of ORMC. In addition, there are known, and possibly unknown, incidents occurring through December 31, 2018, that may result in the assertion of additional claims. In management's opinion, any liability that may arise from the settlement of such claims will be settled within insurance coverage or otherwise will not have any material adverse effect on the Hospital's financial position, results of operations, or liquidity.

**Workers' Compensation**

Effective January 1, 2002, the Hospital became a participating member of the Hudson Healthcare Workers Compensation Group Trust (the Trust). The Hospital has entered into an indemnity agreement with the Trust to have the Trust provide risk management services and workers' compensation and employers' liability coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation and employers' liability obligations of the Trust, irrespective of the subsequent termination of a member's membership in the Trust, the insolvency or bankruptcy of another member of the Trust, or other facts or circumstances. However, recourse for any and all payments of workers' compensation and employers' liability benefits covered by the Trust's certificate of coverage to a member shall first be made by the Trust's assets.

*(Dollars in Thousands)*

**6. Commitments and Contingencies (continued)**

The Trust provides workers' compensation insurance (medical, indemnity, and legal costs) to Trust members. Such coverage is provided up to the per occurrence New York State statutory limits. The Trust also provides employers' liability insurance with the following limits:

| | |
|---|---|
| Bodily injury by accident | $ 100 each accident |
| Bodily injury by disease | 100 each employee |
| Bodily injury by disease | 500 policy limit |

The Trust engaged an independent actuary to estimate the liability for uninsured claims for all workers' compensation occurrences beginning January 1, 2002, for both reported claims and IBNR claims.

The Hospital has a 33% member interest in this Trust; accordingly, the Hospital accounts for this investment on the equity basis of accounting, which is included in other assets, net in the accompanying consolidated balance sheets. The Hospital's equity investment is fully reserved for as of December 31, 2018 and 2017.

Effective January 1, 2011, the Trust was frozen and has ceased underwriting operations and will run off its unpaid loss and loss adjustment expenses. The Hospital is responsible for all claims occurring prior to January 1, 2011 through the Trust. The Hospital became self-insured for workers' compensation claims occurring January 1, 2011 or later. Pennsylvania Manufacturers Association Insurance Company (PMA) administers the plan. The Hospital has recorded $11,598 and $11,292 within other liabilities related to those claims including IBNR claims as actuarially determined as of December 31, 2018 and 2017, respectively. Interim premiums will be paid and final premiums will be retrospectively set, trued up to historical actual claims paid. Funding for the plan has exceeded claims resulting in a receivable of $7,637 and $6,342 at December 31, 2018 and 2017, respectively, and is included within other assets.

*(Dollars in Thousands)*

**6. Commitments and Contingencies (continued)**

**Employee Health**

The Hospital is self-insured for employee health insurance for certain union and nonunion employees. Effective July 1, 2008, technical, service, and clerical employees who participate in collective-bargaining agreements became covered under the union's benefit plan. The Hospital records an estimate for IBNR claims based on information provided by its third-party administrator. The amount accrued was approximately $903 at December 31, 2018 and 2017, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

**Operating Lease Obligations**

The following is a schedule of future minimum lease payments required under noncancelable operating lease agreements with initial or remaining terms of one year or more as of December 31, 2018:

| | |
|---|---|
| 2019 | $ 2,042 |
| 2020 | 1,058 |
| 2021 | 544 |
| 2022 | 557 |
| 2023 | 116 |
| Thereafter | – |

Rent expense for ORMC was $3,314 and $3,213 for the years ended December 31, 2018 and 2017, respectively.

**6. Commitments and Contingencies (continued)**

**Collective-Bargaining Agreements**

Approximately 79% of the Hospital's employees are union employees covered under the terms of various collective-bargaining agreements. The collective-bargaining agreement with Local 1199 SEIU covering service, technical, professional, and clerical staffs was ratified in January 2016 and expired on April 30, 2018. This agreement covers approximately 49% of the total workforce. Subsequent to year end, negotiations were completed and a new contract was ratified which expires on September 30, 2021. The collective-bargaining agreement with Local 1199 SEIU covering nursing staff was ratified in December 2018 and expires on September 30, 2022. This agreement covers approximately 30% of the total workforce. The collective-bargaining agreement with Law Enforcement Officers Professional Association covering security staff became effective on September 18, 2017 and expires on September 18, 2022. The agreement shall successively renew itself annually and continue in full force unless written notice is served no more than ninety days and no less than thirty days prior to the expiration date.

**7. Pension and Other Postretirement Benefits**

ORMC's employees not covered by collective-bargaining agreements have a defined-contribution retirement plan that includes a base employer contribution to a 403(b) account equal to a percentage of compensation, to a maximum of 5% based on years of service. During 2018 and 2017, the base employer contribution was $1,270 and $1,357, respectively, which was included within employee benefits expense in the accompanying consolidated statements of operations.

In addition, there is an employer-matching component to the plan. As of January 1, 2008, ORMC makes a matching contribution equal to 100% of the employee's 403(b) contribution, up to 4% of the employee's compensation. During 2018 and 2017, the matching contribution was $1,333 and $1,195, respectively, which was included within employee benefits expense in the accompanying consolidated statements of operations.

ORMC maintains a fully frozen noncontributory defined-benefit pension plan for current and past employees not covered by a collective-bargaining agreement. Effective January 1, 2006, ORMC froze participation in the pension plan to any employees hired after December 31, 2005. Effective January 1, 2008, ORMC froze the pension plan for the remaining active participants in the plan by ceasing any future accrual of credited service and compensation under the plan.

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

ORMC participates in a multiemployer Local 1199 defined-benefit pension plan for participating staff. The contribution percentages are defined in the collective-bargaining agreements. The risks of participation in this multiemployer plan are different from a single-employer plan in the following aspects: a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers; and c) if the Hospital chooses to stop participating in its multiemployer plan and if the plan is underfunded, ORMC may be required to pay the plan an amount based on the underfunded status of the plan, referred to as the withdrawal liability.

The Hospital's participation in this plan for the years ended December 31, 2018 and 2017 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2018 and 2017 is for the plan's year-end at December 31, 2017 and 2016, respectively. The zone status is based on information received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements requiring contributions to the plan:

| Pension Fund | EIN/Pension Plan Number | Pension Protection Act Zone Status January 1, 2018 | Pension Protection Act Zone Status January 1, 2017 | FIP/RP Status Pending/ Implemented | Contributions of ORMC 2018 | Contributions of ORMC 2017 | Surcharge Imposed | Expiration Date of Collective-Bargaining Agreements |
|---|---|---|---|---|---|---|---|---|
| 1199 SEIU Health Care Employees Pension Fund | 13-3604862 Plan No. 001 | **Green** | Green | No | **$ 12,890** | $ 12,775 | No | 9/30/2021 and 9/30/2022 |

**7. Pension and Other Postretirement Benefits (continued)**

Total amounts expensed under the union-sponsored multiemployer plans were $13,893 and $11,344 for the years ended December 31, 2018 and 2017, respectively. ORMC was not listed in the plan's most recent available annual report (Form 5500 for U.S. Plans) for providing more than five percent of the total contributions to the plan for the years ended December 31, 2017 and 2016. At the date the consolidated financial statements were issued, Form 5500 was not available for the plan year ended December 31, 2018.

ORMC sponsors a defined-contribution healthcare plan that provides postretirement medical, dental, and life insurance benefits to employees who meet the eligibility requirements under the plan.

ORMC offers executives, who are at least age 55 with five years of service, subsidized medical coverage to age 65 based on years of service. Nonunion and security employees who were hired before January 1, 1988 receive a nominal monthly reimbursement. Employees in the nursing and professional unions who are at least age 62 with 20 years of service receive 100% subsidized medical benefits until age 65. Employees in the professional group who are age 62 with 20 years of service also receive fully subsidized dental coverage. A select group of grandfathered retirees receive dental coverage for life.

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

The following table sets forth the benefit obligations and fair value of plan assets at December 31, 2018 and 2017:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of year | **$ 135,898** | $ 130,430 | **$ 3,137** | $ 3,249 |
| Service cost | **–** | – | **50** | 54 |
| Interest cost | **4,832** | 5,259 | **104** | 121 |
| Actuarial (gain) loss | **(9,525)** | 6,798 | **(137)** | (43) |
| Plan participant contributions | **–** | – | **35** | 33 |
| Benefits paid and administrative expenses | **(7,312)** | (6,589) | **(301)** | (277) |
| Projected benefit obligation at end of year | **$ 123,893** | $ 135,898 | **$ 2,888** | $ 3,137 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | **$ 92,013** | $ 79,463 | **$ –** | $ – |
| Actual return on plan assets | **(4,367)** | 11,089 | **–** | – |
| Employer and participant contributions | **8,900** | 8,050 | **301** | 277 |
| Benefits paid and administrative expenses | **(7,312)** | (6,589) | **(301)** | (277) |
| Fair value of plan assets at end of year | **$ 89,234** | $ 92,013 | **$ –** | $ – |

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at December 31, 2018 and 2017:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Benefit obligation | **$ (123,893)** | $ (135,898) | **$ (2,888)** | $ (3,137) |
| Fair value of plan assets | **89,234** | 92,013 | **–** | – |
| Funded status | **$ (34,659)** | $ (43,885) | **$ (2,888)** | $ (3,137) |
| Amounts recognized in the consolidated balance sheet consist of: | | | | |
| Current liabilities | **$ –** | $ – | **$ (400)** | $ (420) |
| Noncurrent liabilities | **(34,659)** | (43,885) | **(2,488)** | (2,717) |
| | **$ (34,659)** | $ (43,885) | **$ (2,888)** | $ (3,137) |

Amounts recognized in accumulated other changes in net assets without donor restrictions consist of the following:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Prior service cost | **$ –** | $ – | **$ (25)** | $ (31) |
| Net actuarial loss | **69,150** | 70,125 | **2,706** | 3,242 |
| | **$ 69,150** | $ 70,125 | **$ 2,681** | $ 3,211 |

The estimated amount that will be amortized from net assets without donor restrictions into net periodic pension cost in 2019 is $2,417 for the pension plan and $340 for the postretirement plan related to actuarial gains and losses and prior service costs.

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

Other changes recognized in net assets without donor restrictions consist of the following:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Net actuarial (loss) gain | **$ (1,319)** | $ (1,484) | **$ 137** | $ 43 |
| Amortization of net loss | **2,294** | 2,300 | **399** | 457 |
| Amortization of prior service credit | **–** | – | **(6)** | (59) |
| Total recognized in net assets without donor restrictions | **$ 975** | $ 816 | **$ 530** | $ 441 |

The components of net periodic pension cost for the years ended December 31, 2018 and 2017, are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Service cost | **$ –** | $ – | **$ 50** | $ 54 |
| Interest cost | **4,832** | 5,259 | **104** | 121 |
| Expected return on assets | **(6,477)** | (5,774) | **–** | – |
| Amortization of prior service cost | **–** | – | **(6)** | (59) |
| Recognized net actuarial loss | **2,294** | 2,300 | **399** | 457 |
| Net periodic benefit cost | **$ 649** | $ 1,785 | **$ 547** | $ 573 |

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Weighted average assumptions used to determine benefit obligations: | | | | |
| Discount rate | **4.32%** | 3.65% | **4.25%** | 3.56% |
| Weighted average assumptions used to determine net benefit cost: | | | | |
| Discount rate | **3.65** | 4.14 | **3.56** | 3.97 |
| Expected return on plan assets | **7.00** | 7.25 | **–** | – |

The discount rate is derived by identifying a theoretical settlement portfolio of high quality corporate bonds sufficient to provide for the plan's projected benefit payments. The returns from this portfolio are used to determine a single discount rate that results in a discounted value of the plan's benefit payments that equates to the market value of the selected bonds.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical and projected returns, without adjustments.

At December 31, 2018, the annual rate of increase in the per capita cost of covered healthcare benefits was 6.75% and assumed to decrease to 4.75% by 2028.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

| | **One-Percentage-Point Increase** | **One-Percentage-Point Decrease** |
|---|---|---|
| Effect on total of service and interest cost components | $ 7 | $ (8) |
| Effect on postretirement benefit obligation | 93 | (83) |

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

**Plan Assets**

The weighted average asset allocation of the plan assets, excluding cash, at December 31, 2018 and 2017, was as follows:

| | 2018 | 2017 |
|---|---|---|
| Asset category: | | |
| Commingled/collective funds | **65%** | –% |
| Mutual funds | **29** | 32 |
| Exchange traded funds | **–** | 56 |
| Alternative investments | **6** | 12 |
| | **100%** | 100% |

The Hospital's financial and investment objectives are to meet present and future obligations to beneficiaries, while minimizing the Hospital's contributions over the long term, by earning an adequate return on assets with moderate volatility.

The following tables present the Hospital's fair value measurements for plan assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

| | December 31, 2018 | | |
|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** |
| Asset category: | | | |
| Cash | **$ 1,076** | **$ 1,076** | **$ –** |
| Mutual funds – domestic equities | **15,384** | **15,384** | **–** |
| Mutual funds – foreign equities | **10,467** | **10,467** | **–** |
| | **26,927** | **$ 26,927** | **$ –** |
| Commingled/collective funds measured at net asset value | **56,644** | | |
| Investments in partnerships measured at net asset value | **5,663** | | |
| Total | **$ 89,234** | | |

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

| | December 31, 2017 | | |
|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** |
| Asset category: | | | |
| Cash | $ 4,871 | $ 4,871 | $ – |
| Mutual funds – domestic equities | 27,788 | 27,788 | – |
| Exchange traded funds – equity | 23,485 | 23,485 | – |
| Exchange traded funds – fixed income | 25,471 | 25,471 | – |
| Fixed-income securities – domestic | 245 | – | 245 |
| | 81,860 | $ 81,615 | $ 245 |
| Investments in partnerships measured at net asset value | 10,153 | | |
| Total | $ 92,013 | | |

Investments measured at NAV consist of shares or units in commingled/common trust funds, funds of funds and limited partnerships as opposed to direct interests in the funds' underlying holdings, which may be marketable. The NAV reported by each fund is used as a practical expedient to estimate the fair value of the Hospital's interest therein as the Hospital is able to redeem its interest at or near the date of the consolidated balance sheets. The Hospital has two investments in private equity funds measured at NAV at December 31, 2018 and 2017. Total funding commitment for these investments is a total of $6,000 of which $5,303 has been invested as of December 31, 2018. The Hospital receives 10 business days' notice of funding requests. Investment in these funds is expected to last the life of the fund without redemption. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

At December 31, 2018 and 2017, the Hospital had no assets measured at fair value based upon Level 3 inputs.

**Contributions**

The Hospital expects to contribute $6,825 to the pension plan and $400 to its postretirement plans in 2019.

*(Dollars in Thousands)*

**7. Pension and Other Postretirement Benefits (continued)**

**Estimated Future Benefit Payments**

The benefits expected to be paid in each year from 2019 to 2023 for the pension plan are $7,310, $7,420, $7,560, $7,750, and $7,890, respectively. The aggregate benefits expected to be paid in the five years from 2024 to 2028 are $40,540. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2018.

The benefits expected to be paid in each year from 2019 to 2023 for the postretirement plans are $400, $310, $250, $200, and $230, respectively. The aggregate benefits expected to be paid in the five years from 2024 to 2028 are $980. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2018 and include estimated future employee service, as appropriate.

**8. Net Assets with Donor Restrictions**

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

| | 2018 | 2017 |
|---|---|---|
| Programs, capital equipment, and improvements | **$ 7,579** | $ 7,476 |
| Health education | **34** | 22 |
| Investments held in perpetuity, with income restricted to equipment purchases | **2,130** | 2,130 |
| Investments held in perpetuity, with income available for operations | **128** | 128 |
| | **$ 9,871** | $ 9,756 |

**9. Related-Party Transactions**

Certain individuals serving on the board of the Hospital also serve on the board of the Foundation.

The Hospital recognizes its interest in the net assets of the Foundation and the changes in net assets of the Foundation. During October 2017, GHVHS became the sole corporate member of the Foundation.

*(Dollars in Thousands)*

**9. Related-Party Transactions (continued)**

The following table sets forth a summary of the balance sheets of the Foundation at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Total assets | **$ 7,419** | $ 7,281 |
| Total liabilities | **–** | – |
| Total net assets | **$ 7,419** | $ 7,281 |

The following table sets forth a summary of the statements of activities of the Foundation for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Total support and revenue | **$ 1,781** | $ 1,816 |
| Total expenses, distributions, and other | **1,643** | 1,771 |
| Change in net assets | **$ 138** | $ 45 |

The Hospital incurred and paid expenses on behalf of the Foundation in the amount of $1,020 and $813 for the years ended December 31, 2018 and 2017, respectively.

As part of the affiliation agreement between GHVHS and Catskill Regional entered into in 2007, ORMC is providing consulting and administrative services to Catskill Regional. These services are billed at a base annual fee of $560 to be paid in monthly installments of approximately $47 and are included in other revenue in the accompanying consolidated statements of operations. In addition, certain shared expenses are paid by ORMC and Catskill Regional is charged their respective portion of the expense. Included within other current assets related to these shared expenses is a receivable of $4,783 and $2,071 at December 31, 2018 and 2017, respectively.

**9. Related-Party Transactions (continued)**

During 2018 and 2017, ORMC transferred to GHVHS funding in the amount of $1,970 and $3,189, respectively, for the purpose of developing, implementing, and maintaining the EPIC system, an electronic health record system. This system is owned by GHVHS and will be utilized by ORMC and GHVHS Medical Group PC (the PC). For the years ended December 31, 2018 and 2017, included in purchased services and other expenses is an expense allocation from GHVHS in connection with ORMC's use of the EPIC system in the amount of $2,243 and $2,584, respectively, and a transfer from GHVHS to ORMC for the same amount.

The PC furnishes services exclusively to GHVHS, ORMC, and Catskill Regional, both to hospital inpatients and to members of the community in outpatient settings that are effectively hospital sites. All management and administrative services in connection with the operation of the PC are performed by GHVHS, ORMC, and Catskill Regional. These services are governed by administrative and professional services agreements. Pursuant to the professional services agreement, at the direction of GHVHS, ORMC, and Catskill Regional will provide payment to the PC for the amount by which the PC's expenses exceed its revenues. For the years ended December 31, 2018 and 2017, ORMC's share was $15,133 and $19,858, respectively, recorded in purchased services in the accompanying consolidated statements of operations. Related to these agreements, at December 31, 2018 and 2017, a receivable from the PC in the amount of $3,573 and $932, respectively, is included in other current assets and a payable to the PC in the amount of $1,452 and $2,107, respectively, is included in accounts payable and accrued expenses in the accompanying consolidated financial statements.

As of January 1, 2018, compensation of executives of ORMC, Catskill Regional and the PC was made by GHVHS and these costs and related benefits were then allocated to each entity.

## 10. Joint Venture Agreements

### Crystal Run Ambulatory Surgery Center of Middletown, LLC (CRASC)

The Hospital has an agreement with CRASC to operate an ambulatory surgical center. CRASC was organized as a for-profit corporation for income tax purposes. The Hospital has a 40% ownership interest in CRASC at December 31, 2018, and records its investment on the equity method. At December 31, 2018 and 2017, $1,543 and $1,397, respectively, has been recorded in other assets, net in the accompanying consolidated balance sheets. As of December 31, 2018, the Hospital has cumulatively invested $440 in CRASC.

### Hudson Valley Ambulatory Surgery, LLC (HVAS)

The Hospital has an agreement with HVAS to operate an ambulatory surgical center. HVAS was organized as a for-profit corporation for income tax purposes. The Hospital has a 26% ownership interest in HVAS at December 31, 2018, and records its investment on the equity method. At December 31, 2018 and 2017, $67 and $101, respectively, has been recorded in other assets, net in the accompanying consolidated balance sheets. As of December 31, 2018, the Hospital has cumulatively invested $570 in HVAS.

## 11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts that are different from their established rates. A summary of the payment arrangements with major third-party payors follows:

### Medicare

Inpatient acute and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or visits/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.

**11. Net Patient Service Revenue (continued)**

**Medicaid**

The New York Health Care Reform Act of 1996, 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**

The Hospital has entered into payment arrangements with certain commercial carriers, and managed care companies. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and/or per diem payment rates. If such rates are not negotiated, then the payors are billed at the Hospital's established charges.

**Healthcare Regulatory Environment**

As a result of federal healthcare reform legislation and various legal proceedings, changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligation of health insurers, providers, and employers. The ultimate outcome of proposed legislation and other market changes cannot presently be determined and could be material to ORMC's future results of operations and cash flows.

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, ORMC 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. The Hospital 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.

**11. Net Patient Service Revenue (continued)**

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates, including New York State indigent care pool distributions based on industry-wide and hospital specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors, and amounts due from the indigent care pool for such adjustments.

As a result of monitoring and review conducted under the ORMC Corporate Compliance Program, ORMC discovered and self-disclosed to the Medicare Administrative Contractor (MAC), a clerical error omission of certain Medicare charges from the 2013 Cost Report. During 2015, ORMC both refiled an Amended Cost Report per the MAC's instructions, and has recorded an estimated liability for this omission within third-party payor liabilities as of December 31, 2018 and 2017.

**12. Delivery System Reform Incentive Payment (DSRIP) Program**

New York State has embarked on an effort to address critical healthcare issues throughout the state and allow for comprehensive healthcare reform through a Delivery System Reform Incentive Payment (DSRIP) Program. The DSRIP Program will promote community-level collaborations and focus on health system reform, specifically a goal to achieve a 25% reduction in avoidable hospital admissions over five years for Medicaid patients. Safety net providers will be required to collaborate to implement innovative projects focusing on system transformation, clinical improvement, and population health improvement. DSRIP funds will be based on performance linked to achievement of project milestones. DSRIP funding is expected to consist of, but not be limited to, a variety of grants and incentive payments.

The groups of providers who are responsible for creating and implementing DSRIP projects are called Performing Provider Systems (PPS). Following an application and approval process, New York State Department of Health approved the creation of 25 Preferred Provider Systems across New York State. The PPSs comprise various healthcare providers located within the same geographic region; providers represent different types across the care continuum, including hospitals, physician practices, nursing homes, and Federally Qualified Health Centers, among others. ORMC, as a member of GHVHS, is participating in one PPS – the WMCHealth Center for Regional Healthcare Innovation led by Westchester Medical Center. During 2018 and 2017, ORMC received $653 and $8, respectively, in distributions related to this program, included in other revenue.

*(Dollars in Thousands)*

## 13. Distribution from MLMIC

During the year ended December 31, 2018, the Hospital received $13,197, recorded within nonoperating gains, in connection with the conversion of Medical Liability Mutual Insurance Company ("MLMIC") to a stock insurance company, the acquisition of MLMIC by National Indemnity Company, a subsidiary of Berkshire Hathaway, Inc., and the related transactions. In this transaction, the Hospital surrendered its intangible policy holder membership rights in exchange for a distribution in connection with the acquisition based on premiums paid during a specified period.

## 14. Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location, including acute and psychiatric inpatient services, as well as ambulatory surgery, emergency care, and other outpatient services. Expenses related to providing these services for the years ended December 31, 2018 and 2017, are as follows:

| | Healthcare Services | General and Administrative | Total |
|---|---|---|---|
| **December 31, 2018** | | | |
| Salaries and wages | **$ 165,011** | **$ 19,951** | **$ 184,962** |
| Employee benefits | **62,644** | **7,573** | **70,217** |
| Supplies | **91,746** | **591** | **92,337** |
| Purchased services | **52,438** | **7,067** | **59,505** |
| Insurance | **5,112** | **217** | **5,329** |
| Interest | **10,660** | **3,293** | **13,953** |
| Depreciation and amortization | **20,821** | **6,432** | **27,253** |
| Other | **21,150** | **10,501** | **31,651** |
| | **$ 429,582** | **$ 55,625** | **$ 485,207** |

*(Dollars in Thousands)*

## 14. Functional Expenses (continued)

| | Healthcare Services | General and Administrative | Total |
|---|---|---|---|
| **December 31, 2017** | | | |
| Salaries and wages | $ 153,320 | $ 19,909 | $ 173,229 |
| Employee benefits | 58,892 | 7,647 | 66,539 |
| Supplies | 91,235 | 484 | 91,719 |
| Purchased services | 52,974 | 5,491 | 58,465 |
| Insurance | 4,828 | 213 | 5,041 |
| Interest | 11,097 | 3,428 | 14,525 |
| Depreciation and amortization | 20,574 | 6,355 | 26,929 |
| Other | 22,392 | 10,402 | 32,794 |
| | $ 415,312 | $ 53,929 | $ 469,241 |

## 15. Subsequent Events

The Hospital has evaluated and disclosed subsequent events from the consolidated balance sheet date of December 31, 2018 through May 29, 2019, which is the date the consolidated financial statements were issued.

**EY** | Assurance | Tax | Transactions | Advisory

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