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CONSOLIDATED FINANCIAL STATEMENTS

Garnet Health Medical Center (formerly Orange Regional
Medical Center)

Years Ended December 31, 2019 and 2018

With Report of Independent Auditors

Ernst & Young LLP



Garnet Health Medical Center
Consolidated Financial Statements
Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
Garnet Health Medical Center

We have audited the accompanying consolidated financial statements of Garnet Health Medical Center (formerly Orange Regional Medical Center), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

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

Ernst & Young LLP

May 28, 2020

Garnet Health Medical Center

Consolidated Balance Sheets

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,301	\$ 65,649
Patient accounts receivable, net	72,589	55,070
Inventories	11,867	11,585
Assets limited or restricted as to use	10,178	9,814
Due from third-party payors	3,488	5,574
Other current assets	28,212	18,400
Total current assets	<u>194,635</u>	166,092
Assets limited or restricted as to use, net of current portion	9,849	20,267
Long-term investments	103,121	85,598
Interest in net assets of Orange Regional Medical Center Foundation, Inc., net	8,496	7,419
Due from third-party payors, net of current portion	4,431	4,027
Insurance claims receivable, net of current portion	14,619	14,429
Other assets, net	8,871	10,475
Property and equipment, net	282,132	288,718
Right-of-use assets – operating leases	17,905	–
Total assets	<u><u>\$ 644,059</u></u>	<u><u>\$ 597,025</u></u>
Liabilities and net assets		
Current liabilities:		
Current installments of long-term debt and finance lease obligations	\$ 12,911	\$ 11,579
Operating lease liabilities, current portion	3,965	–
Accounts payable and accrued expenses	86,455	62,842
Estimated malpractice liabilities	2,112	4,206
Due to third-party payors	7,380	5,367
Total current liabilities	<u>112,823</u>	83,994
Long-term debt and finance lease obligations, net of current installments	282,698	292,760
Operating lease liabilities, net of current portion	14,858	–
Due to third-party payors, net of current portion	24,126	27,900
Estimated malpractice liabilities, net of current portion	18,473	18,318
Accrued retirement benefits	30,052	37,147
Other liabilities	10,637	12,459
Total liabilities	<u>493,667</u>	472,578
Commitments and contingencies		
Net assets:		
Without donor restrictions	139,424	114,576
With donor restrictions	10,968	9,871
Total net assets	<u>150,392</u>	124,447
Total liabilities and net assets	<u><u>\$ 644,059</u></u>	<u><u>\$ 597,025</u></u>

See accompanying notes to consolidated financial statements.

Garnet Health Medical Center

Consolidated Statements of Operations

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 532,359	\$ 496,186
Other revenue	8,834	7,407
Net assets released from restrictions	3	46
Total operating revenue	<u>541,196</u>	<u>503,639</u>
Operating expenses:		
Salaries and wages	200,133	185,013
Employee benefits	72,276	69,020
Supplies	101,107	92,337
Purchased services	68,626	59,505
Insurance	5,954	5,329
Interest	13,886	13,953
Depreciation and amortization	27,948	27,253
Other	35,833	31,651
Total operating expenses	<u>525,763</u>	<u>484,061</u>
Income from operations	15,433	19,578
Nonoperating gains (losses):		
Investment income (loss), net	12,254	(237)
Income from unconsolidated joint ventures	262	920
Net periodic pension and other postretirement benefit costs (non-service related)	(2,686)	(1,146)
Contributions	338	338
Distribution from MLMIC	-	13,197
Excess of revenue and gains over expenses and losses	<u>25,601</u>	<u>32,650</u>
Other changes in net assets without donor restrictions:		
Transfer (to) from Garnet Health, net	(59)	274
Contributions for property and equipment	104	457
Pension-related changes, other than net periodic pension cost	797	975
Postretirement-related changes, other than net periodic benefit cost	(709)	530
Other	(886)	-
Increase in net assets without donor restrictions	<u>\$ 24,848</u>	<u>\$ 34,886</u>

See accompanying notes to consolidated financial statements.

Garnet Health Medical Center

Consolidated Statements of Changes in Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Net assets at January 1, 2018	\$ 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 Garnet Health, 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
Excess of revenue and gains over expenses and losses	25,601	—	25,601
Net assets released from restrictions	—	(3)	(3)
Transfer to Garnet Health, net	(59)	—	(59)
Contributions for property and equipment	104	—	104
Pension-related changes, other than net periodic pension cost	797	—	797
Postretirement-related changes, other than net periodic benefit cost	(709)	—	(709)
Change in interest in net assets of Orange Regional Medical Center Foundation, Inc.	—	1,077	1,077
Contributions and investment income, net	—	23	23
Other	(886)	—	(886)
Total change in net assets	24,848	1,097	25,945
Net assets at December 31, 2019	\$ 139,424	\$ 10,968	\$ 150,392

See accompanying notes to consolidated financial statements.

Garnet Health Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 25,945	\$ 35,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,948	27,253
Amortization of deferred financing fees	366	376
Contributions for property and equipment	(104)	(457)
Contributions and restricted income, net	(23)	(23)
Net realized and change in net unrealized gains and losses on investments	(8,198)	3,291
Transfer to (from) Garnet Health, net	59	(274)
Change in interest in net assets of Orange Regional Medical Center Foundation, Inc.	(1,077)	(138)
Pension-related changes, other than net periodic pension cost	(797)	(975)
Postretirement-related changes, other than net periodic benefit cost	709	(530)
Changes in assets and liabilities:		
Patient accounts receivable	(17,519)	(3,053)
Other current assets	(9,812)	(6,576)
Inventories	(282)	(1,620)
Due from third-party payors	1,682	210
Insurance claims receivable, net of current portion	(190)	(871)
Other assets, net	1,604	(1,070)
Right-of-use assets – operating leases	918	–
Accounts payable and accrued expenses	23,613	(3,243)
Due to third-party payors	(1,761)	10,496
Other liabilities	(1,822)	(24)
Estimated malpractice liabilities	(1,939)	675
Accrued retirement benefits	(7,007)	(7,950)
Net cash provided by operating activities	<u>32,313</u>	<u>50,498</u>
Investing activities		
Purchases of property and equipment	(18,424)	(11,480)
Purchases of investments and assets limited or restricted as to use	(44,547)	(223,880)
Sales of investments and assets limited or restricted as to use	49,158	191,075
Net cash used in investing activities	<u>(13,813)</u>	<u>(44,285)</u>

Garnet Health Medical Center

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Financing activities		
Payment of long-term debt and finance lease obligations	\$ (12,034)	\$ (11,493)
Transfer (to) from Garnet Health, net	(59)	274
Contributions for property and equipment	104	457
Contributions and restricted income, net	23	23
Net cash used in financing activities	<u>(11,966)</u>	<u>(10,739)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash and restricted cash equivalents	6,534	(4,526)
Cash and cash equivalents and restricted cash and cash equivalents at beginning of year	<u>68,699</u>	<u>73,225</u>
Cash and cash equivalents and restricted cash and cash equivalents at end of year	<u>\$ 75,233</u>	<u>\$ 68,699</u>
Reconciliation of cash, cash equivalents and restricted cash and restricted cash equivalents at end of year to the consolidated balance sheets:		
Cash and cash equivalents	\$ 68,301	\$ 65,649
Assets limited or restricted as to use: cash and cash equivalents	<u>6,932</u>	<u>3,050</u>
Total cash, cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 75,233</u>	<u>\$ 68,699</u>
Supplemental disclosures of noncash investing and financing activities		
Cash paid during the year for interest, including capitalized interest	<u>\$ 14,988</u>	<u>\$ 15,013</u>
Finance lease obligations incurred	<u>\$ 2,938</u>	<u>\$ 1,200</u>

See accompanying notes to consolidated financial statements.

Garnet Health Medical Center

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

December 31, 2019

1. Organization

In 2019, Greater Hudson Valley Health System, Inc. legally changed its name to Garnet Health. The related organizations also changed their names legally. Orange Regional Medical Center is now Garnet Health Medical Center, Catskill Regional Medical Center is now Garnet Health Medical Center – Catskills, GHVHS Medical Group, PC is now Garnet Health Doctors, PC, and Greater Hudson Valley Urgent Care PC is now Garnet Health Urgent Care PC. Amended certificates of incorporation for each entity were filed with the New York State Department of State. In addition, a Certificate of Assumed Name for each entity was also filed with New York State allowing each entity to do business using the previous name.

Garnet Health Medical Center (GHMC 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. GHMC 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. During 2019, GHMC opened a 20 bed observation unit.

Garnet Health (GH) (formerly Greater Hudson Valley Health System, Inc.) is the parent of GHMC. In February 2010, GH became the active parent of Garnet Health Medical Center – Catskills (GHMC- Catskills) (formerly Catskill Regional Medical Center). GHMC – Catskills is located in Sullivan County and is licensed for a total of 233 beds maintained on two campuses in Harris, New York and Callicoon, New York. GH has the same legal authority over, and responsibilities to, both GHMC and GHMC – Catskills. GHMC and GHMC – Catskills report financial results separately and neither are liable for the other's obligations.

GH is also the parent of the Garnet Health Doctors, P.C. (the PC) (formerly GHVHS Medical Group, P.C.), 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.

GH is also the parent of Garnet Health Urgent Care, P.C. (Urgent Care) (formerly Greater Hudson Valley Urgent Care, P.C.), a not-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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization (continued)

During December 2019, GH became the sole member of –Catskill Regional Medical Center Foundation, Inc. (the CRMC Foundation), whose purpose is to raise funds for GHMC – Catskills and the health and welfare of the community. GH is also the sole corporate member of Orange Regional Medical Center Foundation, Inc. (the ORMC Foundation) whose purpose is to raise funds for GHMC and the health and welfare of the community.

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. At December 31, 2019 and 2018, 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 income (loss), net (including realized gains and losses on investments, interest, dividends, and unrealized gains and losses) is included in the excess of revenue and gains over expenses and losses unless the income or loss is restricted by donor or law.

Garnet Health Medical Center

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

2. Summary of Significant Accounting Policies (continued)

The equity method of accounting is used for joint venture investments, included in other assets, net, on the consolidated balance sheets, 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.

Patient Accounts Receivable and Net Patient Service Revenue

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

Garnet Health Medical Center

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

2. Summary of Significant Accounting Policies (continued)

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%.

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 years ended December 31, 2019 and 2018, by payor, are as follows:

	2019			
	Inpatient	Outpatient	Total	%
Medicare	\$ 156,233	\$ 53,997	\$ 210,230	40%
Medicaid	49,705	21,569	71,274	13
Managed care and other insurance	141,682	89,817	231,499	43
Self-pay	4,158	6,708	10,866	2
Workers compensation and no fault	5,776	2,714	8,490	2
	\$ 357,554	\$ 174,805	\$ 532,359	100%

Garnet Health Medical Center

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

2. Summary of Significant Accounting Policies (continued)

	2018			
	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
	<u>\$ 330,505</u>	<u>\$ 165,681</u>	<u>\$ 496,186</u>	<u>100%</u>

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 is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Hospital's in-house patients occurs within days or weeks after the end of the reporting period.

For the years ended December 31, 2019 and 2018, the Hospital recorded allowances for implicit price concessions, denials and charity care in the amount of \$21,226 and \$21,752, respectively, in addition to the contractual allowances recorded based on negotiated contracts with payors.

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 years ended December 31, 2019 and 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

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 periods ended December 31, 2019 and 2018, was not significant.

The Hospital 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.

At December 31, 2019 and 2018, accounts receivable is comprised of the following components:

	December 31	
	2019	2018
Patient receivables	\$ 60,588	\$ 41,965
Contract assets	12,001	13,105
	<u>\$ 72,589</u>	<u>\$ 55,070</u>

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

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 years ended December 31, 2019 and 2018, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by \$3,407 for 2019 and decreasing by \$2,795 for 2018.

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:

	<u>2019</u>	<u>2018</u>
Medicare	32%	32%
Medicaid	14	14
Managed care and other insurance	46	47
Self-pay	6	5
Workers compensation and no fault	2	2
	<u>100%</u>	<u>100%</u>

Charity Care

GHMC 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 GHMC 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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

The amount of services related to charity care, uninsured, and underinsured, at approximate cost, is \$9,247 and \$8,471 for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, GHMC received \$3,005 and \$3,641, 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 2019 or 2018.

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 GHMC 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

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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 finance 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 finance 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 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, 2019 and 2018.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Right-of-Use Assets

Beginning in 2019 (subsequent to the adoption of ASU 2016-02), the Hospital recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Hospital has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets.

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 of Revenue and Gains over Expenses and Losses

The consolidated statements of operations include excess 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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Activities

GHMC'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 GHMC's primary mission, are considered to be nonoperating. Nonoperating activities include investment income (loss), income attributable to unconsolidated joint ventures, contributions without donor restrictions, non-service related pension and other postretirement benefit costs, and the one time 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).

Deferred Financing Fees

Deferred financing fees are reported as an offset to long-term debt in the accompanying consolidated balance sheets, 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 GHMC – Catskills, 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.

Garnet Health Medical Center

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

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. As GHMC accounts for its equity investments as trading securities, the Hospital's adoption of this ASU effective January 1, 2019 did not have an impact on the recognition of income related to GHMC's equity investments.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets, including both finance leases (formerly referred to as capital leases) and operating leases. ASU 2016-02 requires expanded disclosure related to lease agreements (see Note 6) to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depend on its classification as a finance or operating lease. GHMC adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the 2018 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. GHMC has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Certain other accounting policy elections and quantitative and qualitative information pertaining to GHMC's adoption of ASU 2016-02 are described in Note 6.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. GHMC adopted ASU 2016-15 effective January 1, 2019. The adoption of ASU 2016-15 did not have a material impact on GHMC's 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. GHMC adopted ASU 2016-18 effective December 31, 2019. 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. GHMC has adopted ASU 2016-18 using a retrospective transition method.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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. The standard became effective for GHMC in its December 31, 2019 consolidated financial statements, which required the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan (aggregate of \$42 for 2019) to be reported within salaries and wages on the consolidated statements of operations and to present all other components of net periodic benefit cost (aggregate of \$2,686 for 2019) as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost was previously reported within employee benefits expense on the consolidated statements of operations. The effects of the adoption of ASU 2017-07 were applied retrospectively.

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). GHMC adopted ASU 2018-08 effective January 1, 2019. The standard was applied on a modified prospective basis to agreements that were not completed as of the effective date and to agreements entered into after the effective date. The adoption of ASU 2018-08 did not have a material impact to GHMC's consolidated financial statements.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in 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 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.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. The ASU is effective for annual periods beginning after December 31, 2022. GHMC has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)
(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:

	<u>2019</u>	<u>2018</u>
Assets limited or restricted as to use:		
By bond indenture agreement (primarily cash and cash equivalents and U.S. government securities):		
Construction fund	\$ 9,200	\$ 241
Medicaid revenue fund	2,053	1,995
Debt service fund	1,896	2,445
Debt service reserve fund	4,406	22,949
	<u>17,555</u>	<u>27,630</u>
By donor:		
Cash and cash equivalents	469	447
Corporate bonds	51	51
Mutual funds – foreign equities	1,161	1,516
Mutual funds – domestic bonds	791	437
	<u>2,472</u>	<u>2,451</u>
Total assets limited or restricted as to use	<u>20,027</u>	<u>30,081</u>
Less current portion	<u>10,178</u>	<u>9,814</u>
Assets limited or restricted as to use, net of current portion	<u>\$ 9,849</u>	<u>\$ 20,267</u>
	<u>2019</u>	<u>2018</u>
Investments:		
Mutual funds – domestic equities	\$ 14,939	\$ 8,568
Mutual funds – foreign equities	6,443	6,146
Mutual funds – domestic bonds	17,804	15,938
Mutual funds – balanced asset allocation	1,384	–
Corporate bonds	36,231	34,792
Government agencies securities	–	248
Commingled/collective funds	26,320	19,906
Total investments	<u>\$ 103,121</u>	<u>\$ 85,598</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(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. During 2019, GHMC met the requirements of the MTI for release of the debt service reserve funds, which were originally set at \$18,520. Upon approval by the New York State Department of Health, the balance in the debt service reserve fund was transferred to the Construction Fund. On December 30, 2019, the Hospital transferred \$9,822 from the Construction Fund to its operating bank account.

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 GHMC Obligated Group Revenue Bonds, Series 2015 and Series 2017.

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

	<u>2019</u>	<u>2018</u>
Investment income (loss), net:		
Interest and dividend income	\$ 4,056	\$ 3,054
Realized gains, net	174	295
Change in net unrealized gains (losses), net	8,024	(3,586)
	<u>\$ 12,254</u>	<u>\$ (237)</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)
(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, 2019 and 2018:

	December 31, 2019		
	Total	Level 1	Level 2
U.S. government obligations and mortgages	\$ 11,092	\$ —	\$ 11,092
Corporate bonds	36,282	—	36,282
Mutual funds – domestic equities	14,939	14,939	—
Mutual funds – foreign equities	7,604	7,604	—
Mutual funds – domestic bonds	18,595	18,595	—
Mutual funds – balanced asset allocation	1,384	1,384	—
Cash and cash equivalents (included in cash and cash equivalents and assets limited or restricted as to use)	75,233	75,233	—
		<u>\$ 117,755</u>	<u>\$ 47,374</u>
Commingled/collective funds measured at net asset value	<u>26,320</u>		
Total	<u>\$ 191,449</u>		

	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	—
		<u>\$ 124,687</u>	<u>\$ 36,735</u>
Commingled/collective funds measured at net asset value	<u>19,906</u>		
Total	<u>\$ 181,328</u>		

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

At December 31, 2019 and 2018, 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, 2019 and 2018, except for the transfer of \$9,822 from assets whose use is limited to cash, as previously disclosed.

The table below presents financial assets and liquidity resources available for general expenditures within one year at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets as reported on the accompanying consolidated balance sheets:		
Cash and cash equivalents	\$ 68,301	\$ 65,649
Patient accounts receivable, net	72,589	55,070
Long-term investments	103,121	85,598
Assets limited or restricted as to use	20,027	30,081
Interest in net assets of Orange Regional Medical Center Foundation, Inc.	8,496	7,419
Total financial assets as reported on the accompanying consolidated balance sheets	<u>272,534</u>	243,817
Liquidity resources:		
Line of credit	10,000	10,000
Total financial assets and liquidity resources	<u>282,534</u>	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	17,555	27,630
Donor restricted	1,952	1,952
Interest in net assets of the Orange Regional Medical Center Foundation, Inc.	8,496	7,419
Total amount not available to be used for general expenditures within one year	<u>28,003</u>	37,001
Financial assets available and liquidity resources to be used for general expenditures within one year	<u>\$ 254,531</u>	<u>\$ 216,816</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

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.

4. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 4,897	\$ 4,897
Land improvements	17,267	17,267
Buildings and building improvements	213,279	207,404
Equipment	290,647	274,956
Construction in progress	851	866
	<u>526,941</u>	<u>505,390</u>
Less accumulated depreciation	244,809	216,672
Property and equipment, net	<u>\$ 282,132</u>	<u>\$ 288,718</u>

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

	<u>2019</u>	<u>2018</u>
Equipment	\$ 11,639	\$ 8,701
Less accumulated depreciation	5,215	3,500
	<u>\$ 6,424</u>	<u>\$ 5,201</u>

Garnet Health Medical Center

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

5. Long-Term Debt and Finance Lease Obligations

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

	2019	2018
Series 2015 Bonds ^(a)	\$ 64,944	\$ 66,236
Series 2017 Bonds ^(b)	229,318	238,058
Finance lease and lease lines of credit ^(c)	5,755	4,819
	300,017	309,113
Deferred financing costs, net	(4,408)	(4,774)
	295,609	304,339
Current installments	(12,911)	(11,579)
Long-term debt and finance lease obligations, net of current installments	\$ 282,698	\$ 292,760

GHMC maintains an “Obligated Group” for the purposes of issuing debt instruments under an MTI. GHMC 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.

- ^(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, 2019, the Hospital was in compliance with its debt covenants.

Garnet Health Medical Center

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

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

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%.

- (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 Orange Regional Medical Center Obligated Group Revenue Bonds Series 2008, 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.

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, 2019, the Hospital was in compliance with its debt covenants.

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"

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

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, 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 GHMC achieves the Release Requirements, all amounts on deposit in the debt service reserve fund will be transferred to the construction fund and GHMC 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 GHMC Facility (collectively, the Additional Equipment) and related renovations, alterations and improvements to the GHMC Facility necessary to accommodate the installation of the Additional Equipment. During 2019, GHMC met the Release Requirements and the transfer to the construction fund occurred in December 2019.

- (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 finance lease agreement for \$1,201, maturing in April 2021. During 2019, the Hospital entered into a finance lease agreement for \$2,938, with interest at 3.73%, maturing in October 2024.

The Hospital has a \$10,000 working capital line of credit under which no amounts were outstanding as of December 31, 2019 and 2018. 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, 2020, and is renewable annually.

Aggregate principal payments on long-term debt and finance lease obligations as of December 31, 2019, for the next five years and thereafter are as follows: 2020 – \$12,911; 2021 – \$12,264; 2022 – \$11,705; 2023 – \$12,175; 2024 – \$12,535; and thereafter – \$238,427.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

GHMC and GHMC – Catskills' 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 GHMC and GHMC – Catskills. Prior to September 1, 2016, GHMC and GHMC – Catskills' professional liability programs were written separately.

Prior to September 1, 2016, GHMC 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, 2019 and 2018, the Hospital has recorded the following:

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Commitments and Contingencies (continued)

	<u>2019</u>	<u>2018</u>
Estimated current malpractice liabilities	\$ 2,112	\$ 4,206
Estimated malpractice liabilities, net of current portion	18,473	18,318
Insurance claims receivable (included in other current assets)	(2,112)	(4,206)
Insurance claims receivable, net of current portion	(14,619)	(14,429)

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 GHMC. In addition, there are known, and possibly unknown, incidents occurring through December 31, 2019, 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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(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, 2019 and 2018.

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 \$10,326 and \$11,598 within other liabilities related to those claims including IBNR claims as actuarially determined as of December 31, 2019 and 2018, 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 \$6,654 and \$7,637 at December 31, 2019 and 2018, respectively, and is included within other assets.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued) *(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 \$953 and \$903 at December 31, 2019 and 2018, respectively, and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Leases and Right-of-Use Assets

As described in Note 2, GHMC adopted ASU 2016-02 effective January 1, 2019. GHMC leases certain property and equipment under finance and operating leases, the classification of which is based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than a year, GHMC records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. GHMC's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless GHMC is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, GHMC has elected to use their incremental borrowing rate, which is the rate of interest that the Hospital would expect to pay to borrow on a collateralized basis over a period comparable with that of the lease term. GHMC has made an accounting policy election not to separate lease components from nonlease components in contracts when determining its lease payments for its asset classes except for medical equipment, as permitted by ASU 2016-02. As such, GHMC accounts for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities.

Garnet Health Medical Center

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

6. Commitments and Contingencies (continued)

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

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

Lease cost for the year ended December 31, 2019:

Finance lease cost:	
Amortization of right-of-use asset	\$ 1,715
Interest on lease liabilities	131
Operating lease cost	<u>4,338</u>
Total lease cost	<u><u>\$ 6,184</u></u>

Right-of-use assets and liabilities as of December 31, 2019:

Right-of-use assets – finance leases	\$ 6,424
Lease liability – finance leases	5,755
Right-of-use assets – operating leases	17,905
Lease liability – operating leases	18,823

Other information:

Cash paid for amounts included in the measurement of lease liabilities (year ended December 31, 2019):	
Operating cash flows from finance leases	2,002
Operating cash flows from operating leases	4,279

Right-of-use assets obtained in exchange for new finance lease liabilities (year ended December 31, 2019)	2,938
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Right-of-use assets obtained in exchange for new operating lease liabilities (year ended December 31, 2019)	6,149
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Weighted-average remaining lease term – finance leases	37 months
Weighted-average remaining lease term – operating leases	57 months
Weighted-average discount rate – finance leases	3.91%
Weighted-average discount rate – operating leases	5.00%

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Commitments and Contingencies (continued)

For finance leases, right-of-use assets are recorded in property and equipment and lease liabilities are recorded in long-term debt in the accompanying consolidated balance sheet. For operating leases, right-of-use assets and lease liabilities are recorded in the accompanying consolidated balance sheet.

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

	Finance Leases	Operating Leases
2020	\$ 2,675	\$ 4,816
2021	1,600	4,445
2022	645	3,972
2023	645	4,069
2024	537	2,774
Thereafter	–	1,219
Total lease payments	6,102	21,295
Less imputed interest	(347)	(2,472)
Total lease obligation	5,755	18,823
Less current portion	(2,516)	(3,965)
Long-term portion	<u>\$ 3,239</u>	<u>\$ 14,858</u>

Collective-Bargaining Agreements

Approximately 80% 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 expires on September 30, 2021. The collective-bargaining agreement with Local 1199 SEIU covering nursing staff expires on September 30, 2022. 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.

Garnet Health Medical Center

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

6. Commitments and Contingencies (continued)

Construction

During 2019, GHMC began planning for the construction of a parking structure and a significant expansion of the Emergency Department. Construction is anticipated to begin in 2020 and be completed in 2023, at a total cost of approximately \$50,000. The first phase of the project will consist of the construction of the parking structure and is estimated to be completed in 2021, at a cost of approximately \$18,500. At December 31, 2019 GHMC had entered into various architectural and design contracts related to the project in the total amount of \$856.

7. Pension and Other Postretirement Benefits

GHMC'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 2019 and 2018, the base employer contribution was \$955 and \$1,270, 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, GHMC makes a matching contribution equal to 100% of the employee's 403(b) contribution, up to 4% of the employee's compensation. During 2019 and 2018, the matching contribution was \$1,346 and \$1,333, respectively, which was included within employee benefits expense in the accompanying consolidated statements of operations.

GHMC 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, GHMC froze participation in the pension plan to any employees hired after December 31, 2005. Effective January 1, 2008, GHMC 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.

GHMC 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

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension and Other Postretirement Benefits (continued)

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, GHMC 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, 2019 and 2018, 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 2019 and 2018 is for the plan’s year-end at December 31, 2018 and 2017, 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		FIP/RP Status Pending/Implemented	Contributions of GHMC		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		January 1, 2019	January 1, 2018		2019	2018		
1199 SEIU Health Care Employees Pension Fund	13-3604862 Plan No. 001	Green	Green	No	\$ 17,694	\$ 12,890	No	9/30/2021 and 9/30/2022

Total amounts expensed under the union-sponsored multiemployer plans were \$17,068 and \$13,893 for the years ended December 31, 2019 and 2018, respectively. GHMC 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, 2018 and 2017. At the date the consolidated financial statements were issued, Form 5500 was not available for the plan year ended December 31, 2019.

GHMC 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.

Garnet Health Medical Center

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

7. Pension and Other Postretirement Benefits (continued)

GHMC 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.

The following table sets forth the benefit obligations and fair value of plan assets at December 31, 2019 and 2018:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 123,893	\$ 135,898	\$ 2,888	\$ 3,137
Service cost	–	–	42	50
Interest cost	5,195	4,832	114	104
Actuarial loss (gain)	13,593	(9,525)	1,044	(137)
Plan participant contributions	–	–	22	35
Benefits paid and administrative expenses	(7,371)	(7,312)	(662)	(301)
Projected benefit obligation at end of year	<u>\$ 135,310</u>	<u>\$ 123,893</u>	<u>\$ 3,448</u>	<u>\$ 2,888</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 89,234	\$ 92,013	\$ –	\$ –
Actual return on plan assets	17,348	(4,367)	–	–
Employer and participant contributions	8,975	8,900	662	301
Benefits paid and administrative expenses	(7,371)	(7,312)	(662)	(301)
Fair value of plan assets at end of year	<u>\$ 108,186</u>	<u>\$ 89,234</u>	<u>\$ –</u>	<u>\$ –</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(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, 2019 and 2018:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Benefit obligation	\$ (135,310)	\$ (123,893)	\$ (3,448)	\$ (2,888)
Fair value of plan assets	108,186	89,234	–	–
Funded status	<u>\$ (27,124)</u>	<u>\$ (34,659)</u>	<u>\$ (3,448)</u>	<u>\$ (2,888)</u>
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	\$ –	\$ –	\$ (520)	\$ (400)
Noncurrent liabilities	<u>(27,124)</u>	<u>(34,659)</u>	<u>(2,928)</u>	<u>(2,488)</u>
	<u>\$ (27,124)</u>	<u>\$ (34,659)</u>	<u>\$ (3,448)</u>	<u>\$ (2,888)</u>

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

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Prior service cost	\$ –	\$ –	\$ (20)	\$ (25)
Net actuarial loss	68,353	69,150	3,410	2,706
	<u>\$ 68,353</u>	<u>\$ 69,150</u>	<u>\$ 3,390</u>	<u>\$ 2,681</u>

The estimated amount that will be amortized from net assets without donor restrictions into net periodic pension cost in 2020 is \$2,417 for the pension plan and \$414 for the postretirement plan related to actuarial gains and losses and prior service costs.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(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	
	2019	2018	2019	2018
Net actuarial (loss) gain	\$ (1,620)	\$ (1,319)	\$ (1,044)	\$ 137
Amortization of net loss	2,417	2,294	340	399
Amortization of prior service credit	—	—	(5)	(6)
Total recognized in net assets without donor restrictions	\$ 797	\$ 975	\$ (709)	\$ 530

The components of net periodic pension cost for the years ended December 31, 2019 and 2018, are as follows:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Service cost	\$ —	\$ —	\$ 42	\$ 50
Interest cost	5,195	4,832	114	104
Expected return on assets	(5,375)	(6,477)	—	—
Amortization of prior service cost	—	—	(5)	(6)
Recognized net actuarial loss	2,417	2,294	340	399
Net periodic benefit cost	\$ 2,237	\$ 649	\$ 491	\$ 547

Garnet Health Medical Center

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

7. Pension and Other Postretirement Benefits (continued)

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Weighted average assumptions used to determine benefit obligations:				
Discount rate	3.33%	4.32%	3.32%	4.25%
Weighted average assumptions used to determine net benefit cost:				
Discount rate	4.32	3.65	4.25	3.56
Expected return on plan assets	6.00	7.00	—	—

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, 2019, the annual rate of increase in the per capita cost of covered healthcare benefits was 6.75% and assumed to decrease to 4.50% by 2030.

Plan Assets

The weighted average asset allocation of the plan assets, excluding cash, at December 31, 2019 and 2018, was as follows:

	2019	2018
Asset category:		
Commingled/collective funds	64%	65%
Mutual funds	31	29
Alternative investments	5	6
	100%	100%

Garnet Health Medical Center

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

7. Pension and Other Postretirement Benefits (continued)

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, 2019 and 2018:

	December 31, 2019		
	Total	Level 1	Level 2
Asset category:			
Cash	\$ 1,270	\$ 1,270	\$ —
Mutual funds – domestic equities	23,484	23,484	—
Mutual funds – foreign equities	9,298	9,298	—
		<u>\$ 34,052</u>	<u>\$ —</u>
Commingled/collective funds measured at net asset value	68,617		
Investments in partnerships measured at net asset value	5,517		
Total	<u>\$ 108,186</u>		

	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	—
		<u>\$ 26,927</u>	<u>\$ —</u>
Commingled/collective funds measured at net asset value	56,644		
Investments in partnerships measured at net asset value	5,663		
Total	<u>\$ 89,234</u>		

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension and Other Postretirement Benefits (continued)

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, 2019 and 2018. Total funding commitment for these investments is a total of \$6,000 of which \$5,585 has been invested as of December 31, 2019. 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, 2019 and 2018, the Hospital had no assets measured at fair value based upon Level 3 inputs.

Contributions

The Hospital expects to contribute \$9,000 to the pension plan and \$520 to its postretirement plan in 2020.

Estimated Future Benefit Payments

The benefits expected to be paid in each year from 2020 to 2024 for the pension plan are \$7,550, \$7,550, \$7,790, \$7,930, and \$8,070, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are \$40,690. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2019.

The benefits expected to be paid in each year from 2020 to 2024 for the postretirement plan are \$520, \$390, \$270, \$240, and \$240, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are \$1,010. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2019, and include estimated future employee service, as appropriate.

Garnet Health Medical Center

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

8. Net Assets with Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Programs, capital equipment, and improvements	\$ 8,686	\$ 7,579
Health education	24	34
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
	<u>\$ 10,968</u>	<u>\$ 9,871</u>

9. Related-Party Transactions

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

The Hospital recognizes its interest in the net assets of the ORMC Foundation and the changes in net assets of the ORMC Foundation.

The following table sets forth a summary of the balance sheets of the ORMC Foundation at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 8,513	\$ 7,419
Total liabilities	17	-
Total net assets	<u>\$ 8,496</u>	<u>\$ 7,419</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Related-Party Transactions (continued)

The following table sets forth a summary of the statements of activities of the ORMC Foundation for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total support and revenue	\$ 2,332	\$ 1,781
Total expenses, distributions, and other	1,255	1,643
Change in net assets	<u>\$ 1,077</u>	<u>\$ 138</u>

The Hospital incurred and paid expenses on behalf of the ORMC Foundation in the amount of \$785 and \$1,020 for the years ended December 31, 2019 and 2018, respectively.

As part of the affiliation agreement between GH and GHMC – Catskills entered into in 2007, GHMC is providing consulting and administrative services to GHMC – Catskills. 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 GHMC and GHMC – Catskills is charged their respective portion of the expense. Included within other current assets related to these shared expenses is a receivable of \$7,816 and \$4,783 at December 31, 2019 and 2018, respectively.

During 2019 and 2018, GHMC transferred to GH funding in the amount of \$2,564 and \$1,970, respectively, for the purpose of developing, implementing, and maintaining the EPIC system, an electronic health record system. This system is owned by GH and will be utilized by GHMC and the PC. For the years ended December 31, 2019 and 2018, included in purchased services and other expenses is an expense allocation from GH in connection with GHMC’s use of the EPIC system in the amount of \$2,623 and \$2,243, respectively, and a transfer from GH to GHMC for the same amount.

The PC furnishes services exclusively to GH, GHMC, and GHMC – Catskills, 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 GH, GHMC, and GHMC – Catskills. These services are governed by administrative and professional services agreements. Pursuant to the professional services agreement, at the direction of GH, GHMC, and GHMC – Catskills will provide payment to the PC for the amount

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Related-Party Transactions (continued)

by which the PC's expenses exceed its revenues. For the years ended December 31, 2019 and 2018, GHMC's share was \$21,057 and \$15,133, respectively, recorded in purchased services in the accompanying consolidated statements of operations. Related to these agreements, at December 31, 2019 and 2018, a receivable from the PC in the amount of \$10,730 and \$3,573, respectively, is included in other current assets and a payable to the PC in the amount of \$5,184 and \$1,452, respectively, is included in accounts payable and accrued expenses in the accompanying consolidated financial statements.

Urgent Care began operations separate from the PC in 2019. All management and administrative services in connection with the operation of the Urgent Care are performed by GH, GHMC, and GHMC – Catskills and the PC. These services are governed by administrative and professional services agreements. Pursuant to the professional services agreement, at the direction of GH, GHMC, and GHMC – Catskills will provide payment to Urgent Care for the amount by which Urgent Care's expenses exceed its revenues. For the year ended December 31, 2019 GHMC's share was \$211 recorded in purchased services in the accompanying consolidated statements of operations. Related to these agreements, at December 31, 2019, a receivable from the Urgent Care in the amount of \$456 is included in other current assets in the accompanying consolidated financial statements.

As of January 1, 2018, compensation of executives of GHMC, GHMC – Catskills and the PC was made by GH 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, 2019, and records its investment on the equity method. At December 31, 2019 and 2018, \$1,332 and \$1,543, respectively, has been recorded in other assets, net in the accompanying consolidated balance sheets. As of December 31, 2019, the Hospital has cumulatively invested \$440 in CRASC.

On December 19, 2019, GHMC gave notice to CRASC of its intent to withdraw from the ambulatory surgery center. Under the terms of the December 5, 2008 amended and restated Operating Agreement, Crystal Run Healthcare LLP will purchase GHMC's interest in CRASC.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Joint Venture Agreements (continued)

Subsequent to December 31, 2019, the amount of the purchase was determined to be approximately \$1,300 to be paid over five years with interest at the prime rate plus 2%.

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, 2019, and records its investment on the equity method. At December 31, 2019 and 2018, \$51 and \$67, respectively, has been recorded in other assets, net in the accompanying consolidated balance sheets. As of December 31, 2019, 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.

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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Net Patient Service Revenue (continued)

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 GHMC'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, GHMC 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.

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.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Net Patient Service Revenue (continued)

As a result of monitoring and review conducted under the GHMC Corporate Compliance Program, GHMC 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, GHMC 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, 2019 and 2018.

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 PPSs 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. GHMC, as a member of GH, is participating in one PPS – the WMC Health Center for Regional Healthcare Innovation led by Westchester Medical Center. During 2019 and 2018, GH received \$213 and \$653, respectively, in distributions related to this program, included in other revenue.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(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, 2019 and 2018, are as follows:

	2019		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 178,710	\$ 21,423	\$ 200,133
Employee benefits	66,989	5,287	72,276
Supplies	100,369	738	101,107
Purchased services	61,536	7,090	68,626
Insurance	5,715	239	5,954
Interest	10,609	3,277	13,886
Depreciation and amortization	21,352	6,596	27,948
Other	24,563	11,270	35,833
	<u>\$ 469,843</u>	<u>\$ 55,920</u>	<u>\$ 525,763</u>

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

14. Functional Expenses (continued)

	2018		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 165,011	\$ 20,001	\$ 185,012
Employee benefits	62,644	6,376	69,020
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
	<u>\$ 429,582</u>	<u>\$ 54,478</u>	<u>\$ 484,060</u>

15. COVID-19 Pandemic

Due to the global viral outbreak caused by the Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects in the economy generally and the healthcare industry specifically which have and will continue to impact GHMC's financial condition, including significant capital market volatility, various temporary closures and cancellations, and other effects which have and will continue to result in supply disruptions and decisions to defer elective procedures and other medical treatments at GHMC.

The timing, source and rate of reimbursement for COVID-19 related patient care; ability to respond to patient demand; extent and timing of federal and state grants, reimbursements and other contributions, to compensate for revenue losses and increased expenses are as yet not fully known. Also unknown are the length of delay and level of attrition in elective procedures, expense increases and acceleration, impact of changes in payer mix, potential rise in uninsured patients, need for charity care, and effect of the economic downturn on the demand for elective procedures and billing cycle. GHMC expects to apply for all appropriate COVID-19 related resources, including supplies, financial support, and other assistance made available through local, state and federal government and community partners.

Garnet Health Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. COVID-19 Pandemic (continued)

Due to the rapidly evolving nature of COVID-19 response, the ultimate impact of these matters to GHMC and its financial condition is presently unknown. The accompanying consolidated financial statements as of December 31, 2019 and 2018 and for the years then ended do not reflect the complete effects of these subsequent impacts of COVID-19 (See Note 16, Subsequent Events).

16. Subsequent Events

In April 2020, GHMC received \$49,500 from the Centers for Medicare and Medicaid (CMS) as an advance payment under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The funds were provided through the expansion of the Accelerated and Advance Payment Program to ensure providers and suppliers have the resources needed to combat the Coronavirus Disease 2019 (COVID-19) pandemic. The advance and accelerated payments are a loan that providers must repay and CMS will begin to apply claims payments to offset the advance and accelerated payments 120 days after disbursement. Hospitals will have up to one year from the date the accelerated payment was made to repay the balance with interest, if the advance was in excess of the Medicare billing for the year following receipt.

In April 2020, GHMC received \$11,300 in stimulus funds as a part of the CARES Act. This payment was part of an additional \$100,000,000 in funding earmarked for hospitals and other providers to receive for support needed for COVID-19 related expenses and lost revenue. In May 2020, GHMC received \$27,600 of additional stimulus funds.

The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do not reflect these subsequent events.

The Hospital has evaluated and disclosed subsequent events (also see Notes 10 and 15) from the consolidated balance sheet date of December 31, 2019, through May 28, 2020, which is the date the consolidated financial statements were issued.

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