

The Guthrie Clinic and Affiliates

Consolidated Financial Statements

June 30, 2018 and 2017



BAKER TILLY

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The Guthrie Clinic and Affiliates

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Independent Auditors' Report

Board of Directors
The Guthrie Clinic and Affiliates

We have audited the accompanying consolidated financial statements of The Guthrie Clinic and Affiliates, which comprise the consolidated balance sheet as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Guthrie Clinic and Affiliates as of June 30, 2018 and 2017, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
September 18, 2018

The Guthrie Clinic and Affiliates

Consolidated Balance Sheet

June 30, 2018 and 2017

(In Thousands of Dollars)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,449	\$ 15,526
Patient accounts receivable, net of estimated uncollectibles of \$95,928 and \$91,828	82,676	83,943
Inventories	12,638	11,852
Prepaid expenses and other current assets	21,900	17,949
Total current assets	<u>140,663</u>	<u>129,270</u>
Assets limited as to use:		
Trustee held funds under indenture agreement	26	1,324
Board-designated funds	158,406	150,023
Self-insured trust funds	78,325	78,933
Other	62,761	60,119
Total assets limited as to use	<u>299,518</u>	<u>290,399</u>
Investments	515,443	502,025
Property and equipment, net	344,179	353,959
Prepaid pension	21,018	14,104
Other assets, net	5,577	6,238
Total assets	<u>\$ 1,326,398</u>	<u>\$ 1,295,995</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term obligations	\$ 9,515	\$ 9,170
Accounts payable and accrued expenses	57,382	50,494
Accrued payroll, taxes and vacation	46,270	49,094
Estimated third-party payables, net	6,131	11,457
Other	1,075	1,311
Total current liabilities	<u>120,373</u>	<u>121,526</u>
Long-term obligations, net of current maturities, bond discount and bond premium	248,192	256,364
Accrued pension cost	-	2,715
Asset retirement obligation	8,598	8,767
Insurance liabilities, net of current portion	72,372	75,008
Other	14,511	21,950
Total liabilities	<u>464,046</u>	<u>486,330</u>
Net Assets		
Net assets without donor restrictions	799,177	749,525
Net assets with donor restrictions	63,175	60,140
Total net assets	<u>862,352</u>	<u>809,665</u>
Total liabilities and net assets	<u>\$ 1,326,398</u>	<u>\$ 1,295,995</u>

See notes to consolidated financial statements

The Guthrie Clinic and Affiliates

Consolidated Statement of Operations and Changes in Net Assets

Years Ended June 30, 2018 and 2017

(In Thousands of Dollars)

	<u>2018</u>	<u>2017</u>
Revenues and Other Support		
Patient service revenue, net of contractual and other allowances	\$ 772,134	\$ 707,651
Provision for bad debts	(45,076)	(45,804)
Net patient service revenue	727,058	661,847
Other operating revenue	18,726	20,500
Total revenues and other support	<u>745,784</u>	<u>682,347</u>
Expenses		
Salaries and wages	354,566	343,519
Employee benefits	69,711	68,378
Purchased services	64,584	47,097
Supplies	74,924	69,500
Pharmaceuticals	63,265	62,396
Insurance	6,673	4,659
Other expenses	59,856	54,609
Depreciation and amortization	41,561	42,503
Interest	8,422	8,422
Early extinguishment of debt	-	672
Total expenses	<u>743,562</u>	<u>701,755</u>
Income (loss) from operations before adjustment to asset retirement obligation	2,222	(19,408)
Adjustment to asset retirement obligation	1,617	-
Income (loss) from operations after adjustment to asset retirement obligation	605	(19,408)
Nonoperating Income		
Restructuring gain (expense)	430	(2,965)
Other income, net (Note 9)	43,814	66,476
Total nonoperating income	<u>44,244</u>	<u>63,511</u>
Excess of revenues over expenses	<u>\$ 44,849</u>	<u>\$ 44,103</u>

See notes to consolidated financial statements

The Guthrie Clinic and Affiliates

Consolidated Statement of Operations and Changes in Net Assets

Years Ended June 30, 2018 and 2017

(In Thousands of Dollars)

	<u>2018</u>	<u>2017</u>
Changes in Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 44,849	\$ 44,103
Decrease in pension obligation	3,066	12,806
Net assets released from restrictions used for purchase of property and equipment	<u>1,737</u>	<u>3,384</u>
Change in net assets without donor restrictions	<u>49,652</u>	<u>60,293</u>
Changes in Net Assets With Donor Restrictions		
Contributions and grant income	2,559	2,919
Interest and dividends, net of investment fees	370	368
Net realized and unrealized gains on investments	4,094	5,765
Net assets released from restrictions	<u>(3,988)</u>	<u>(5,899)</u>
Change in net assets with donor restrictions	<u>3,035</u>	<u>3,153</u>
Change in net assets	52,687	63,446
Net Assets		
Beginning of year	<u>809,665</u>	<u>746,219</u>
End of year	<u>\$ 862,352</u>	<u>\$ 809,665</u>

The Guthrie Clinic and Affiliates

Consolidated Statement of Cash Flows

Years Ended June 30, 2018 and 2017

(In Thousands of Dollars)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 52,687	\$ 63,446
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,561	42,503
Net realized and unrealized gains on investments	(29,740)	(55,060)
Loss on sale of property and equipment	181	129
Accretion expense	270	258
Gain on elimination of ARO	-	(70)
Provision for bad debts	45,076	45,804
Pension obligation adjustment	(3,066)	(12,806)
Restricted contributions received	(1,655)	(1,863)
Change in fair value of derivative instrument	(6,610)	(9,326)
Early extinguishment of debt	-	672
Changes in operating assets and liabilities:		
Patient accounts receivable	(43,808)	(57,764)
Inventories	(786)	(264)
Prepaid expenses and other assets	(7,799)	(12,863)
Accounts payable and accrued expenses	(434)	9,273
Estimated third-party payables, net	(5,326)	854
Other	(3,388)	(9,731)
Net cash provided by operating activities	<u>37,163</u>	<u>3,192</u>
Cash Flows from Investing Activities		
Cash received from sale of investments	381,270	389,868
Purchase of investments	(374,067)	(352,539)
Purchases of property and equipment	(29,169)	(39,878)
Proceeds from sale of property and equipment	244	298
Net cash used in investing activities	<u>(21,722)</u>	<u>(2,251)</u>
Cash Flows from Financing Activities		
Proceeds from long-term obligations	-	220
Payments of long-term obligations	(9,173)	(7,958)
Restricted contributions received	1,655	1,863
Net cash used in financing activities	<u>(7,518)</u>	<u>(5,875)</u>
Net increase (decrease) in cash and cash equivalents	7,923	(4,934)
Cash and Cash Equivalents		
Beginning of year	15,526	20,460
End of year	<u>\$ 23,449</u>	<u>\$ 15,526</u>
Supplementary Information of Noncash Transactions		
Purchase of property and equipment in accounts payable and accrued expenses	<u>\$ 8,128</u>	<u>\$ 6,344</u>
Long-term debt refinanced	<u>\$ -</u>	<u>\$ 47,015</u>
Acquisition of Southern Tier Pediatrics	<u>\$ 1,252</u>	<u>\$ -</u>

See notes to consolidated financial statements

The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands of Dollars)

1. Significant Accounting Policies

Organization and Principles of Consolidation

The Guthrie Clinic ("TGC") is a not-for-profit corporation formed to serve as the parent of an integrated healthcare delivery system. TGC and its Affiliates principally serve residents in Northern Central Pennsylvania and Southern Central New York and provide a broad range of the following health care services: inpatient, outpatient, emergency care, home care services, primary care services and specialty care services.

TGC is the sole corporate member of Donald Guthrie Foundation ("GF"), Robert Packer Hospital ("RPH"), Troy Community Hospital, Inc. ("TCH"), Corning Hospital ("CH"), Guthrie Towanda Memorial Hospital ("GTMH"), Guthrie Home Care, Sayre House of Hope, and Twin Tier Management Corporation, Inc. and holds structural and financial control of Guthrie Medical Group, PC ("GMG") as parent of the integrated system. GTMH is the sole corporate member of Community Health Associates, LLC ("CHA") and The Memorial Hospital Foundation ("MHF"). CH is the sole corporate member of Corning Properties, Inc.

Guthrie Risk Retention Group ("GRRG"), a wholly owned subsidiary, provides primary professional and general liability insurance coverage for certain affiliates of TGC.

The accompanying financial statements include the accounts of the above entities (collectively, the "Corporation"). All significant intercompany transactions and balances within the Corporation have been eliminated.

Subsequent Events

The Corporation has performed an evaluation of subsequent events through September 18, 2018, which is the date the consolidated financial statements were issued.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made by the Corporation include, but are not limited to, accruals, estimated fair value of investment securities and swap agreements, allowance for uncollectible accounts and third-party payor contractual adjustments, estimated third-party payor settlements, insurance reserves for employee health insurance, workers' compensation and professional and general liability and assumptions used in determining pension liabilities and asset retirement obligations.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, excluding amounts held as assets limited as to use and investments.

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(In Thousands of Dollars)

Patient Accounts Receivable

The Corporation grants credit without collateral to its patients, health maintenance organizations, commercial payors, and government programs. The mix of receivables, before allowances for doubtful accounts, at June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	29 %	30 %
Pennsylvania Medicaid/New York Medicaid	11 %	15 %
Other third-party payors	33 %	28 %
Self-pay	<u>27 %</u>	<u>27 %</u>
	<u>100 %</u>	<u>100 %</u>

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a provision for bad debts in the period of service on the basis of its past experience. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Corporation has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017.

Inventory Valuation

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

Assets Limited as to Use

Assets limited as to use primarily include funds held in trust by others, assets held by trustees under indenture agreements, self-insured trust funds for insurance, and designated assets set aside by the Board of Directors for future capital improvements and an operating reserve, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets limited as to use, other on the accompanying consolidated balance sheet are comprised of certain donor restricted investment accounts.

Investments, Investment Income, and Investment Risk

Investment securities (debt and equity) are recorded at fair value based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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Investments in hedge funds are valued based on valuations provided by the investment managers of the underlying funds. As a general rule, investment managers of funds value investments based upon the best information available for given circumstances and may incorporate assumptions that are the investment manager's best estimates after considerations of a variety of internal and external factors. The funds may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. Investments for which observable market prices do not exist are reported at fair value as determined by the fund's investment manager. The fair value of the funds represents the amount the Corporation expects to receive at June 30, 2018 and 2017, if it had liquidated its investments in the funds on these dates. Because hedge funds may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed.

The cost of sold investments is based upon the specific identification method. Realized and unrealized gains, interest income, and dividends from unrestricted investments are recorded as other income in the consolidated statements of operations and changes in net assets. The Corporation records investment returns in accordance with accounting guidance related to the fair value option and has appropriately included all investment returns in excess of revenues over expenses. Unrealized and realized gains, interest income and dividends on investments from restricted assets are included as additions to either unrestricted or restricted net assets in accordance with donor intent.

The Corporation has investments in U.S. and international government and agency obligations, corporate obligations, mutual funds, equity securities, hedge funds and real assets. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term would materially affect the net assets of the Corporation.

Property and Equipment

Property and equipment are recorded at cost less the amount for accumulated depreciation. Expenditures for maintenance, repairs and renewals of minor items are charged to operations as incurred. Major renewals and improvements are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, which ranges from three to forty years. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. 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. Gifts of land, buildings, or equipment are reported as additions to net assets without donor restrictions, and are excluded from the excess of revenues over expenses. 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 net assets with donor restrictions until placed in service.

In accordance with authoritative guidance, the Corporation assesses its assets for impairment whenever events or changes in circumstances indicate the carrying amount of a respective asset may exceed the expected cash flows from use and eventual disposition. Any impairment is measured by the amount the carrying value exceeds fair value. There were no significant impairment losses during the years ended June 30, 2018 and 2017.

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Deferred Financing Costs and Bond Discount/Premium Amortization

Deferred financing costs and bond discount/premium relate to costs incurred in connection with obtaining long-term obligations, which are being amortized over the term of the related obligations, using the straight-line method, which approximates the effective interest method. Amortization expense related to deferred financing costs was \$148 and \$142 for the years ended June 30, 2018 and 2017, respectively. Premium amortization was \$45 and \$45 for the years ended June 30, 2018 and 2017, respectively. All such amortization is recorded as a component of interest expense.

Insurance Liabilities

The Corporation, under certain insurance programs, maintains reserves for expected losses primarily relating to professional and general liability, workers' compensation and employees' medical insurance. A provision for claims under self-insured programs is recorded based upon the Corporation's estimate, after consultation with actuaries, of the aggregate liability for claims incurred.

Asset Retirement Obligations

The Corporation accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its estimated settlement value. Upon settlement of the liability, the Corporation will recognize a gain or loss for any difference between the settlement amount and liability recorded. Such gains amounted to \$70 in 2017. No such gains were recorded in 2018. During 2018 there was a change in the estimated asset retirement obligation based on additional information available which increased the estimated fair value of the obligation by approximately \$1,617, which is included in the accompanying consolidated statement of operations. Accretion expense for the years ended June 30, 2018 and 2017 was \$270 and \$258, respectively, and disposals totaled \$2,056 and \$2,599, respectively.

Derivative Financial Instruments

The Corporation has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage interest rate exposure on certain bonds payable. The interest rate swap agreements are reported at fair value in the consolidated balance sheet and related net changes in fair value are reported in other income in the consolidated statement of operations and changes in net assets.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

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(In Thousands of Dollars)

Net Assets With Donor Restrictions – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When the donor restriction expires, that is when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions are comprised primarily of trust and endowment funds, and the related net realized and unrealized gains and losses on those funds as established by donor restricted gifts. Most of the trust assets are with one trustee. The principal of the trusts is primarily restricted to capital expenditures. Expenditures must be approved by the trustee and cannot exceed one-tenth of the original principal balance in any one year.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported in net assets with donor restriction if they are received with donor stipulations that limit the use of the donated assets.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses include adjustments to pension obligations and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Third-party payors retain the right to review and propose adjustments to amounts paid to the Corporation. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is provided below.

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Notes to Consolidated Financial Statements

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(In Thousands of Dollars)

Medicare and Medicaid

Revenue from Medicare and Medicaid accounted for approximately 39% and 9%, respectively, for the year ended June 30, 2018, and 38% and 9%, respectively, for the year ended June 30, 2017 of the Corporation's net patient service revenue. Inpatient acute care, professional and outpatient ancillary services rendered by GMG, RPH, CH, and GTMH to Medicare and Medicaid program beneficiaries, and TCH services rendered to Medicaid beneficiaries, are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

TCH is a critical access hospital and is reimbursed at cost plus 1% for all services rendered to Medicare beneficiaries.

RPH, TCH, CH, and GTMH's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2015, June 30, 2016, December 31, 2015, and June 30, 2016, respectively.

Blue Cross

Inpatient and outpatient surgery services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per case; outpatient services are paid based on a percentage of established rates at each hospital. Approximately 29% and 30% of net patient service revenue was attributable to various Blue Cross plans in 2018 and 2017, respectively.

Other Payors

The basis for payment by commercial insurance carriers and health maintenance organizations for inpatient, outpatient, and professional services include per diem rates, cost reimbursement, prospectively determined rates, fee schedules, and discounts from established charges.

Charity Care and Community Service

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Cost for services and supplies furnished under the Corporation's charity care policy amounted to approximately \$1,206 and \$1,346 in 2018 and 2017, respectively, when measured at the Corporation's estimated cost. The Corporation estimates the cost of charity care based on the ratio of cost to charge method and estimated actual costs.

As part of its charitable mission, the Corporation provides care through its emergency departments. It ensures that an emergency admission or treatment is not delayed or denied pending determination of coverage or a requirement for prepayment or deposit. As a result of this policy, the Corporation had approximately \$2,159 and \$2,562 in bad debts in 2018 and 2017, respectively. The Corporation estimated these costs by application of the standard cost-to-charge ratio.

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In addition to the charity care program and the emergency department bad debts discussed above, the Corporation supports numerous other charitable and community activities. Examples of these activities include medical education for physicians and nurses, the trauma program, and medical research. The estimated cost, net of reimbursement, for these programs was \$16,208 and \$16,392 in 2018 and 2017, respectively. The Corporation estimated these costs by application of their standard cost-to-charge ratio.

Revenues generated from patients who participate in the Medicaid program are subject to substantial discounts that result in reimbursement for services rendered below the cost of providing such services. In order for patients to meet the guidelines for the Medicaid program, various income-based criteria must be met that validate the patient's inability to pay for services and ineligibility under other programs. The estimated loss incurred from providing services to Medicaid patients amounted to \$52,151 and \$43,120 in 2018 and 2017, respectively. The Corporation estimated these costs by application of their standard cost-to-charge ratio.

The total cost in supporting these charitable mission programs was approximately \$71,724 and \$63,420 in 2018 and 2017, respectively.

Income Taxes

The consolidated financial statements do not give consideration to income taxes, as each of the entities are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, except for Twin Tier Management Corporation, Inc., an affiliate, which is a taxable entity.

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service ("IRS"). The Corporation has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

New Accounting Pronouncements

In 2018, the Corporation early adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of the consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

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In 2018, the Corporation adopted FASB's ASU No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the Corporation is required to measure inventory, other than inventory measured using the last-in, first-out or retail inventory methods, at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. The effect of the required prospective application of this change did not have a material effect on the Corporation's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its year ending June 30, 2019; early application is permitted. The Corporation is currently assessing the effect that ASU No. 2014-09 will have on their consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07 was issued to provide guidance on the presentation of net periodic pension and net periodic postretirement benefit cost in the statement of operations and the components that are eligible for capitalization in assets. ASU No. 2017-07 requires that an employer report the service cost component of net periodic pension and net periodic postretirement benefit cost in the same line items used to record compensation expense for the related employees during the period. The other components are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2017-07 for its year ending June 30, 2019; early application is permitted. The Corporation is currently assessing the effect that ASU No. 2017-07 will have on their consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Corporation will be required to adopt the guidance in ASU No. 2018-08 for its year ending June 30, 2019. The Corporation is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

Reclassifications

Certain amounts relating to 2017 have been reclassified to conform to 2018 reporting format.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands of Dollars)

2. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Held by trustee under indenture agreement, Cash and cash equivalents	\$ 26	\$ 1,324
Funds held in trust by others	50,162	47,733
Pooled and other investments:		
Cash and cash equivalents	18,543	17,552
Marketable equity securities	125,996	113,384
Corporate obligations	109,184	106,259
U.S. government and agency obligations	126,382	142,026
Mutual funds:		
Equity mutual funds	224,216	160,380
Fixed income mutual funds	37,571	71,426
Real assets mutual funds	-	33,563
Alternative mutual funds	540	797
Other	1,168	1,168
Alternative investments	121,173	96,812
Total pooled and other investments	764,773	743,367
Total	<u>\$ 814,961</u>	<u>\$ 792,424</u>

Assets whose use is limited and investments are classified as follows in the accompanying consolidated balance sheet at June 30:

	<u>2018</u>	<u>2017</u>
Assets limited as to use:		
Trustee held funds under indenture agreement	\$ 26	\$ 1,324
Board-designated funds	158,406	150,023
Self-insured trust funds	78,325	78,933
Other	62,761	60,119
Investments	515,443	502,025
Total	<u>\$ 814,961</u>	<u>\$ 792,424</u>

The Corporation's return on investments for the years ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends, net of investment fees	\$ 14,529	\$ 11,882
Realized gains on investments, net	9,721	14,978
Change in net unrealized gains on investments	20,019	40,082
Total investment gain	<u>\$ 44,269</u>	<u>\$ 66,942</u>

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3. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Purchase of property and equipment	\$ 48,449	\$ 46,058
Healthcare services	5,102	4,766
Education and research	<u>5,595</u>	<u>5,379</u>
Total subject to expenditure for specified purposes	59,146	56,203
Endowment funds - income expendable to purchase capital equipment and support education and research	<u>4,029</u>	<u>3,937</u>
Total net assets with donor restrictions	<u>\$ 63,175</u>	<u>\$ 60,140</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors is as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Purchase of property and equipment	\$ 2,176	\$ 3,349
Healthcare services	1,199	2,099
Education and research	<u>613</u>	<u>451</u>
	<u>\$ 3,988</u>	<u>\$ 5,899</u>

4. Property and Equipment

Property and equipment, recorded at cost, consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 35,715	\$ 36,211
Buildings and building improvements	411,470	421,009
Permanent fixtures and equipment	<u>302,093</u>	<u>301,614</u>
	749,278	758,834
Less: accumulated depreciation	<u>(420,554)</u>	<u>(418,380)</u>
	328,724	340,454
Construction in progress	<u>15,455</u>	<u>13,505</u>
Property and equipment, net	<u>\$ 344,179</u>	<u>\$ 353,959</u>

Depreciation expense in 2018 and 2017 amounted to \$41,561 and \$42,446, respectively.

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The estimated cost to complete construction in progress projects at June 30, 2018 is approximately \$72,735.

5. Long-Term Obligations

Long-term obligations consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
The Guthrie Clinic		
Health Care Facilities Authority of Sayre, Health Care Revenue Bonds, Series 2007, due in varying annual principal installments through 2031, with interest payable quarterly at variable rates (ranging from 2.34% to 2.39%). Collateralized by buildings, equipment and accounts receivable. (a) (b) (d) (g) (i)	\$ 52,140	\$ 58,765
Central Bradford Progress Authority, Health Care Revenue Bonds, Series 2011, due in varying annual principal installments through 2041, with interest payable semi-annually at various rates (ranging from 4% to 5.25%). Collateralized by buildings, equipment and accounts receivable. (c) (d) (g) (i)	100,515	100,970
Central Bradford Progress Authority, Health Care Revenue Bonds, Series 2012, due in varying annual principal installments through 2042, with interest payable monthly at a variable rate (1.92% at June 30, 2018). Collateralized by buildings, equipment and accounts receivable. (g) (h) (i)	50,000	50,000
Central Bradford Progress Authority, Health Care Revenue Bonds, Series 2016, due in varying annual principal installments through 2041, with interest payable monthly at a variable rate (2.08% at June 30, 2018). Collateralized by buildings, equipment and accounts receivable. (g) (i) (l)	46,355	47,235
Towanda		
Central Bradford Progress Authority, Health Care Revenue Note, payable in monthly installments, including interest at 3.7%. Final payment due December 2019. (j)	1,195	1,962

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	<u>2018</u>	<u>2017</u>
Towanda (Continued)		
GTMH refunding note, payable in monthly installments, including interest at 3.6% until October 2022, at which time, and five years thereafter, the interest rate will adjust to the US General Obligation A Municipal BVAL with a 5 year maturity as published by Bloomberg plus 200 basis points with an adjustment floor and cap of 7.5% from the previous rate. Final payment due October 2032. (k)	\$ 7,640	\$ 8,060
GTMH mortgage, payable in monthly installments, including interest at 5.5%, matures October 2020.	48	66
Guthrie Medical Group, PC		
GMG, note payable, payable in monthly installments, including interest (4.75% at June 30, 2018), matures May 2021. (m)	1,241	-
Total	259,134	267,058
Less: net unamortized bond premium and financing costs	(1,427)	(1,524)
Less: current portion of long-term obligations	(9,515)	(9,170)
	<u>\$ 248,192</u>	<u>\$ 256,364</u>

- a. TGC previously borrowed \$240,000 under a Loan Agreement from the sale of tax exempt Revenue Bonds (Guthrie Health Issue), Series A and B of 2002 (the "2002 Bonds") issued by Healthcare Facilities Authority of Sayre (the "Authority") pursuant to a Master Trust Indenture.

In April 2007, the Authority issued \$187,455 of tax-exempt Revenue Bonds (Guthrie Health Issue) Series 2007 (the "2007 Bonds") for the purpose of advance refunding a portion of the 2002A Series Bonds and all of the Series 2002B Bonds and to pay the costs of issuing the 2007 Bonds. Interest on the 2007 Bonds is adjusted quarterly equal to 67% of the three-month LIBOR rate for such period, plus a per annum spread with a maximum rate of 15% per annum. The spread is between 65 and 83 basis points dependent upon the term of the bonds.

In February 2009, the Board authorized the Corporation to repurchase a portion of the Bonds of the outstanding Health Care Facilities Authority of Sayre Revenue Bonds Series 2007. The bond repurchases occurred in April 2009 in three separate transactions totaling \$69,105 in repurchased bonds. The Guthrie Clinic has been released from obligation for the portion of the Series 2007 repurchased debt and the debt has been appropriately extinguished.

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- In December 2010, the Board authorized the Corporation to repurchase an additional portion of the 2007 Bonds. The Corporation purchased \$12,000 of the outstanding bonds at prices below par.
- b. TGC entered into an interest rate swap agreement for the purpose of managing its interest rate risk associated with the 2007 Bonds; see further disclosure below.
 - c. In September 2011, the Central Bradford Progress Authority (the "Bradford Authority") issued \$102,370 of tax-exempt Revenue Bonds (Guthrie Health Issue), Series 2011 (the "2011 Bonds"). The proceeds of the 2011 Bonds, together with other trustee-held funds, refunded the remaining Series 2002A Bonds, refinanced the 2007 Bonds that were repurchased in December 2010, provided financing for various equipment and facility projects including interest during construction, and funded the costs of issuing the bonds. The 2007 Bonds repurchased in December 2010 were extinguished effective with this refinancing.
 - d. The proceeds of the 2007 Bonds and the 2011 Bonds are loaned by TGC under loan agreements. TGC has loaned such bond proceeds to GMG, RPH, TCH, and CH to finance, reimburse, refinance or refund costs of capital projects of such affiliates. These loan agreements require the affiliates to make principal and interest payments to TGC. Affiliate loan documents, relating to the 2007 and 2011 Bonds, entered into by RPH are collateralized by mortgages on the Sayre, Pennsylvania campus. In addition, the Affiliate loan documents entered into by RPH and GMG are collateralized by a security interest in their respective Sayre, Pennsylvania campus accounts receivable.
 - e. In September 2011, the Bradford Authority issued \$50,000 of tax-exempt Revenue Bonds (Robert Packer Hospital Issue), Series 2011 (the "RPH Bonds"). The proceeds of the RPH Bonds, together with other trustee-held funds, refunded the remaining Series 2002A Bonds, provided financing for various equipment and facility projects including interest during construction, and funded the costs of issuing the bonds. The RPH Bonds were sold privately to Royal Bank of Canada Capital Market, LLC (RBC). This obligation was refinanced in 2017.
 - f. TGC entered into a Total Return Swap ("TRS") agreement for the purpose of reducing the overall cost of capital. This agreement was terminated in September 2016. See further disclosure below.
 - g. The 2007, 2011, 2012 and 2016 Bonds are collateralized by a pledge of the Gross Revenues of TGC. "Gross Revenues" include amounts payable by the Affiliates under the Affiliate loan documents, amounts received from the Affiliates by TGC as a result of the exercise of its reserved powers, any future unrestricted endowment of TGC and the unrestricted proceeds of any fund raising by TGC. Under the Affiliate loan documents, TGC may foreclose following certain defaults. Additionally, TGC has the power to cause Affiliates to transfer funds annually for various purposes, including the payment of debt service.
 - h. In October 2012, the Bradford Authority issued \$50,000 of tax-exempt Revenue Bonds (Guthrie Health Issue) Series 2012 (the "2012 Bonds"). The proceeds of the 2012 Bonds were loaned to RPH and CH to provide financing for the construction of a new hospital, other facility projects, and funded the costs of issuing the bonds. The 2012 Bonds were sold privately to PNC Bank. Interest on the 2012 Bonds is adjusted monthly equal to 65% of the one-month LIBOR rate for such period, plus a negotiated spread.

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- i. The restrictive covenants relate to the maintenance of certain financial ratios and disposition of real property. TGC was in compliance with these debt covenants at June 30, 2018 and 2017.
- j. The Municipal Hospital Authority of the Township of North Towanda, Bradford County, Pennsylvania (the "Towanda Authority") provides financing assistance to GTMH through a loan agreement with a local financial institution (the "Bank"). Simultaneously, GTMH executed notes payable to the Towanda Authority, the terms of which are identical to the terms payable by the Towanda Authority to the Bank. These notes payable have been assigned by the Towanda Authority to the Bank as collateral for the loans. GTMH also provided as collateral to the Bank a first lien mortgage on land and buildings of GTMH as well as a first lien security interest in substantially all assets of GTMH, including GTMH's revenue. The Towanda Authority loans are also unconditionally guaranteed by MHF. As part of the Authority debt agreements, GTMH has agreed to comply with, among other things, certain financial covenants including maintaining a minimum reserve with the Bank, consisting of unrestricted cash and marketable securities of an amount no less than 75% of the total outstanding principal balance of the 2004 and 2014 Refunding Notes Payable.
- k. In October 2012, GTMH entered into an Agreement with the Towanda Authority whereby the Towanda Authority issued, on behalf of GTMH, a \$10,000,000 tax-exempt project note, Series 2012 ("2012 Note"). The proceeds of the 2012 Note were used to refinance the existing refunding note, refund the existing term loan, pay for construction costs related to the personal care home expansion, and pay costs of issuance on the 2012 Note. Monthly principal and interest installments commenced thereafter. Such payments will be made in equal installments over a twenty year period of time with interest payable at an initial rate of 3.60%.
- l. In December 2016, the Central Bradford Progress Authority issued \$47,235,000 of tax exempt Revenue Bonds (The Guthrie Clinic Issue) Series 2016. The proceeds were used to refund a bridge loan from PNC Bank used to refinance the Central Bradford Progress Authority Revenue Bonds (Robert Packer Hospital Issue) Series 2011 and pay all bond issuance costs. The 2016 Bonds were sold privately to PNC Bank. Interest on the 2016 Bonds is adjusted monthly equal to 70% of the one-month LIBOR rate for such period, plus a spread of 70 basis points.
- m. During 2018, GMG assumed a note payable with L Enterprises, LLC, to fund construction of leasehold improvements to pediatric office space. Payments will be made in monthly installments with interest payable at a rate of 4.75% through May 2021, at which time the rate is adjusted to the five-year Treasury Note rate plus a spread of 3.25%, with a minimum rate of 4.75%. This note matures in June 2031.

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A summary of the aggregate principal requirements on these long-term obligations as of June 30, 2018 are as follows:

2019	\$	9,515
2020		8,782
2021		8,793
2022		9,274
2023		9,551
Thereafter		<u>213,219</u>
Total	\$	<u>259,134</u>

Cash paid for interest was \$8,486 and \$8,154 in 2018 and 2017, respectively.

Derivative Financial Instruments

The Corporation's primary objective for holding derivative financial instruments is to manage interest rate risk. The Corporation does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes. The derivative financial instruments are recorded at fair value, which is the amount that the Corporation would pay to terminate the respective agreements, based upon information supplied by an independent third party valuation specialist.

In 2007, TGC entered into an interest rate swap agreement (the "2007 Agreement") in connection with the 2007 Bonds. The 2007 Agreement has a notional value of \$ 133,245 and \$139,870 at June 30, 2018 and 2017, respectively. The 2007 Agreement has maturity dates ranging from November 2017 to November 2031. The 2007 Agreement requires the Corporation to pay a fixed rate of 4.282% while receiving variable interest rates equal to the rate of interest on the 2007 Bonds. The 2007 Agreement was not amended as a result of the retirement of a portion of the 2007 Bonds. The fair value of the 2007 Agreement, which is the amount the Corporation would pay to terminate the agreement, was \$13,442 and \$20,052 at June 30, 2018 and 2017, respectively, and is included in other liabilities on the consolidated balance sheet.

In 2011, TGC entered into an interest rate swap agreement (the "2011 Agreement") in connection with the RPH Bonds. The 2011 Agreement matured on September 8, 2016 and the Corporation received a final cash settlement of \$722 which was recorded as a gain on termination and included in nonoperating income on the consolidated statement of operations and changes in net assets.

The Corporation elected not to designate the swaps as a hedge for financial reporting purposes; as such, gains or losses resulting from the change in fair value of the swap agreements is recognized as other income, net within excess of revenues over expenses in the consolidated statement of operations and changes in net assets. The gain (loss) amounted to \$6,610 in 2018 and \$9,326 in 2017 (Note 9).

The net cash paid or received under the swap agreements is also recognized as a component of other income, net within excess of revenues over expenses in the consolidated statement of operations and changes in net assets. Such loss on swap agreements was \$3,283 in 2018 and \$3,597 in 2017 (Note 9). No termination payments would be required if the swap agreements are held to maturity.

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Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. The notional amounts of the swap agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote.

6. Line of Credit

TGC has an available unsecured revolving line of credit which totals \$8,500 bearing interest at LIBOR plus 250 basis points. There was no outstanding balance as of June 30, 2018 or 2017.

7. Functional Expenses

The Corporation provides health care services, medical research and educational programs. Expenses related to providing these services are as follows for the years ended June 30:

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Research</u>	<u>Education</u>	<u>Total</u>
Salaries and wages	\$ 280,923	\$ 65,495	\$ 1,142	\$ 7,006	\$ 354,566
Employee benefits	46,753	21,157	319	1,482	69,711
Purchased services	39,869	22,168	263	2,284	64,584
Supplies	74,019	591	32	282	74,924
Pharmaceuticals	63,254	11	-	-	63,265
Insurance	1,993	4,283	-	397	6,673
Other expenses	11,847	46,553	226	1,230	59,856
Depreciation and amortization	8,133	33,375	32	21	41,561
Interest	15	8,407	-	-	8,422
Total	<u>\$ 526,806</u>	<u>\$ 202,040</u>	<u>\$ 2,014</u>	<u>\$ 12,702</u>	<u>\$ 743,562</u>

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

In 2017, approximately \$471,598 of expenses related to healthcare services, \$215,968 of expenses related to general and administrative, \$12,437 of expenses related to education, and \$1,752 of expenses related to research.

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8. Pension Plans

The Corporation provides various retirement plans. CH provides a defined benefit plan for bargaining unit members. Between July 1, 2013 and December 31, 2014, the remainder of the Corporation's employees were offered a defined benefit plan or defined contribution plan depending on their date of hire. In addition, certain TGC employees are eligible to contribute to a TGC tax sheltered annuity plan. Effective January 1, 2015, the Corporation's employees, excluding CH bargaining unit members, are offered the new Guthrie 403(b) Retirement Savings Plan.

Defined Benefit Plans

The Corporation has two defined benefit plans. The benefits for both plans are generally based on years of service and the employees' compensation.

The CH Plan covers all eligible employees of their facility. Other TGC entities provide a plan for those employees hired prior to July 1, 1997. In July 2014, the board approved the curtailment of the TGC Defined Benefit Pension Plan. Accrued benefits under the plan were frozen as of December 31, 2014 with respect to all plan participants.

The measurement date used to determine the pension plan asset and benefit obligation information was June 30.

The following tables set forth the changes in the Plans' combined benefit obligation, fair value of plan assets and accrued benefit cost at June 30:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 167,480	\$ 174,265
Service cost	1,440	1,576
Interest cost	5,365	4,746
Employee contribution	116	107
Actuarial loss (gain)	(7,807)	(5,355)
Expense paid	(355)	(406)
Benefits paid	(9,830)	(7,453)
	<u>\$ 156,409</u>	<u>\$ 167,480</u>
Benefit obligation at end of year	<u>\$ 156,409</u>	<u>\$ 167,480</u>
Accumulated benefit obligation, end of year	<u>\$ 154,095</u>	<u>\$ 165,001</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 178,869	\$ 166,557
Actual return on plan assets, net of expenses	4,510	15,064
Employer contribution	4,200	5,000
Employee contribution	116	107
Expense paid	(355)	(406)
Benefits paid	(9,830)	(7,453)
	<u>\$ 177,510</u>	<u>\$ 178,869</u>
Fair value of plan assets at end of year	<u>\$ 177,510</u>	<u>\$ 178,869</u>

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Amounts recognized on the consolidated balance sheet consist of:

	<u>2018</u>	<u>2017</u>
Noncurrent assets, Prepaid pension	\$ 21,018	\$ 14,104
Noncurrent liabilities, Accrued pension cost	-	(2,715)
Net amount recognized in balance sheet	<u>\$ 21,018</u>	<u>\$ 11,389</u>
Funded status:		
CH prepaid (accrued) pension cost	\$ 2,770	\$ (2,715)
TGC prepaid pension cost	18,248	14,104
Accrued pension cost	<u>\$ 21,018</u>	<u>\$ 11,389</u>
	<u>2018</u>	<u>2017</u>
Other changes in plan assets and benefit obligation recognized in net assets without donor restrictions:		
Net (gain) loss	\$ (679)	\$ (9,230)
Recognized gain (loss)	(2,452)	(3,558)
Prior service cost (credit)	83	-
Recognized prior service (cost) credit	(18)	(18)
Total	<u>\$ (3,066)</u>	<u>\$ (12,806)</u>

Amounts recognized in net assets without donor restrictions consist of an actuarial loss of \$56,832 and \$59,963 in 2018 and 2017, respectively, and a prior service cost of \$178 and \$113 in 2018 and 2017, respectively.

The estimated amortization of actuarial net loss and prior service costs to be recognized in net periodic pension cost in the upcoming fiscal year will be \$2,219 and \$27, respectively.

The composition of net periodic pension cost (credit) for the years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 1,440	\$ 1,576
Interest cost	5,365	4,746
Expected return on plan assets	(11,638)	(11,189)
Net amortization	2,470	3,577
Total pension cost (credit)	<u>\$ (2,363)</u>	<u>\$ (1,290)</u>

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Assumptions

The significant assumptions used to determine the benefit obligations as of June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Weighted average discount rate:		
Other TGC entities	4.12 %	3.76 %
CH Plan	4.16 %	3.83 %
Rate of increase in future compensation levels:		
Other TGC entities	N/A	N/A
CH Plan	2.50 %	2.50 %
Measurement date	June 30	June 30

The significant assumptions used to determine net periodic pension cost (credit) for the years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Weighted average discount rate:		
Other TGC entities	3.76 %	3.45 %
CH Plan	3.83 %	3.58 %
Expected long-term rate of return on assets:		
Other TGC entities	6.25 %	6.50 %
CH Plan	7.50 %	7.50 %
Rate of increase in future compensation levels:		
Other TGC entities	N/A	N/A
CH Plan	2.50 %	3.50 %

The expected long-term rate of return on plan assets is determined considering the investment policy, asset allocation, and expected future returns. Historical returns and future economic forecasts are also reviewed to assess the reasonableness of the assumptions.

Cash Flows

The Corporation expects to contribute approximately \$5,600 to its pension plans in fiscal 2019.

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Investment Policy

The Guthrie Clinic Investment Sub-committee is responsible for establishing investment objectives, guidelines, and target allocations of plan assets. The committee utilizes investment consultants to analyze returns compared to benchmarks, and to ensure compliance with all objectives, guidelines, and targets. Investment managers are utilized based on the asset allocation strategy. Subsequent to the December 31, 2014 TGC DB Pension Plan freeze, a liability driven investment strategy has been implemented for assets within that plan. Performance is monitored by the committee on a quarterly basis.

Plan Assets

The weighted average asset allocations of the plans by asset category are as follows at the plan measurement dates:

	<u>Target</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	0 %	2 %	1 %
Equities	20 – 50 %	27 %	45 %
Fixed income securities	50 – 80 %	71 %	54 %
		<u>100 %</u>	<u>100 %</u>

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The following table represents the Plan's financial instruments as of June 30, 2018 and 2017, measured at fair market value on a recurring basis using the fair value hierarchy as defined by the authoritative guidance.

	2018				Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV (1)	
Cash and cash equivalents	\$ 4,119	\$ -	\$ -	\$ -	\$ 4,119
Fixed income securities, investment grade	-	82,384	-	-	82,384
Government securities & agency obligations	-	31,629	-	-	31,629
Equity securities:				-	
Consumer discretionary	1,651	-	-	-	1,651
Consumer staples	1,264	-	-	-	1,264
Energy	508	-	-	-	508
Financials	609	-	-	-	609
Health care	1,842	-	-	-	1,842
Information technology	2,171	-	-	-	2,171
Industrials	1,308	-	-	-	1,308
Materials	819	-	-	-	819
Real estate	351	-	-	-	351
Telecommunication services	99	-	-	-	99
Utilities	304	-	-	-	304
Equity mutual funds:				-	
Small cap	5,291	-	-	-	5,291
Large cap	18,304	-	-	-	18,304
International	13,019	-	-	-	13,019
Alternative investments	-	-	-	11,838	11,838
	<u>\$ 51,659</u>	<u>\$ 114,013</u>	<u>\$ -</u>	<u>\$ 11,838</u>	<u>\$ 177,510</u>

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheet.

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	2017			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	\$ 2,294	\$ -	\$ -	\$ 2,294
Fixed income securities, investment grade	-	66,487	-	66,487
Fixed income mutual funds:				
Global bond fund	4,510	-	-	4,510
Strategic income fund	6,879	-	-	6,879
Government securities & agency obligations	-	19,210	-	19,210
Equity securities:				
Consumer discretionary	4,027	-	-	4,027
Consumer staples	1,725	-	-	1,725
Energy	1,342	-	-	1,342
Financials	1,975	-	-	1,975
Health care	3,425	-	-	3,425
Information technology	2,968	-	-	2,968
Industrials	3,778	-	-	3,778
Materials	1,348	-	-	1,348
Real estate	535	-	-	535
Telecommunication services	628	-	-	628
Utilities	440	-	-	440
Equity mutual funds:				
Small cap	9,751	-	-	9,751
Large cap	28,550	-	-	28,550
International	18,997	-	-	18,997
	<u>\$ 93,172</u>	<u>\$ 85,697</u>	<u>\$ -</u>	<u>\$ 178,869</u>

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2019	\$ 7,019
2020	7,428
2021	7,895
2022	8,169
2023	8,470
2024 to 2028	46,089

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(In Thousands of Dollars)

Defined Contribution Plans

Through December 31, 2014 and prior, employees of TGC and GMG had various defined contribution plans in effect. Effective January 1, 2015, the Corporation established a new 403(b) Retirement Savings Plan for all eligible employees. The plan is funded by TGC at a matching formula of 50% of employee contribution up to a maximum employer contribution of 3%. A non-elective employer contribution will be made annually based on an age graded formula. For employer contributions, participants are 100% vested after three years of credited service.

Pension expense under TGC defined contribution plans for the years ended June 30, 2018 and 2017 was approximately \$14,163 and \$13,291, respectively.

9. Other Income, Net

Other income, net for the years ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends, net of investment fees	\$ 14,160	\$ 11,514
Gain on sale of investments, net	7,219	13,432
Unrealized gain on investments, net	18,427	35,863
Change in fair value of derivative instruments	6,610	9,326
Loss on derivative instruments	(3,283)	(3,597)
Merger and acquisition costs	(1,052)	-
Other	1,733	(62)
	<u>\$ 43,814</u>	<u>\$ 66,476</u>

10. Insurance Coverage

Professional and General Liability Insurance

GRRG provides primary medical malpractice and general liability insurance coverage for certain affiliates effective July 1, 2004. Total amounts accrued for claims incurred but not reported under the claims made policies approximate \$78,184 and \$77,996 at June 30, 2018 and 2017, respectively. Amounts included in current liabilities (accounts payable and accrued expenses) at June 30, 2018 and 2017 are \$15,120 and \$14,224, respectively. Amounts recognized as anticipated insurance recoveries related to the claims approximate \$1,980 and \$1,956 at June 30, 2018 and 2017, respectively, which are included in other assets, net.

In addition, the Corporation provides insurance coverage through the Pennsylvania Medical Care Availability and Reduction of Error Fund (the "Mcare Fund") for services rendered in the Commonwealth of Pennsylvania and purchases excess coverage through a commercial insurer.

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GTMH medical malpractice and general liability insurance coverages were provided separately from TGC under the provisions of several insurance arrangements through December 31, 2016. The GTMH primary, umbrella, and excess coverages were provided by Community Hospital Alternative for Risk Transfer ("CHART"). Effective May 1, 2002, GTMH became a subscriber in CHART. GTMH has invested \$1,168 at June 30, 2018 and June 30, 2017 in CHART; this investment is included in other investments in the accompanying consolidated balance sheet. This investment is accounted for using the cost method since GTMH's ownership interest is less than twenty percent.

Effective January 1, 2016, GTMH withdrew their membership from CHART. GTMH purchased extended reporting (TAIL) for primary, umbrella, and excess coverages provided by CHART in the amount of \$709. GTMH made withdrawal payments of \$101 as required by the CHART Rules and Regulations and Deductible Deposit Agreements. The GTMH investment of \$1,168 in CHART is scheduled to be returned to GTMH on January 21, 2021 as required by CHART's Standards and Formulas for Surplus Allocations and Distributions.

Effective January 1, 2016, GTMH became an insured of the GRRG under TGC subscriber coverage. The GTMH medical malpractice and general liability insurance coverages for primary, Mcare Fund, and excess are provided through TGC insurance coverages.

The Mcare Fund

Most of the Corporation's entities providing services in Pennsylvania are required to participate in the Mcare Fund. The Mcare Fund, an agency fund of the Commonwealth of Pennsylvania, provides coverage in excess of the required primary layer. The Mcare Fund exposure was capped at \$500 per incident and \$1,500 in aggregate for fiscal 2018 and 2017.

The actuarially computed liability to all health care providers (hospitals, physicians and others) participating in the Mcare Fund at June 30, 2018 is expected to be substantially in excess of the amount the Mcare Fund has available to pay these claims. The Corporation's annual surcharge premium for participation in the Mcare Fund was approximately \$863 and \$767 in 2018 and 2017, respectively. No provision has been made for any future Mcare Fund assessments in the accompanying consolidated financial statements as the Corporation's portion of the Mcare Fund unfunded liability could not be reasonably estimated.

Workers' Compensation Claims

Certain of the Corporation's entities are partially self-insured for workers' compensation claims. The Corporation estimates and accrues the ultimate undiscounted costs, including incurred but not reported costs, of the settlement of such claims. Total amounts accrued under this program approximate \$10,139 and \$11,816 at June 30, 2018 and 2017, respectively. Amounts included in current liabilities (accounts payable and accrued expenses) at June 30, 2018 and 2017 are \$831 and \$580, respectively. Amounts recognized as anticipated insurance recoveries related to the claims approximate \$2,354 and \$2,505 at June 30, 2018 and 2017, respectively, which are included in other assets, net. At June 30, 2018, the Corporation maintains letters of credit totaling \$1,701 under its workers compensation program in order to collateralize potential payments of claims.

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11. Fair Value of Financial Instruments

The Corporation follows authoritative guidance, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. Assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchical levels, defined by authoritative guidance, are directly related to the amount of subjectivity associated with the valuation inputs for these assets and liabilities as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally internally generated inputs and are not market based inputs.

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Financial assets recorded at fair value and financial instruments disclosed at fair value were measured using the following inputs at June 30, 2018 and 2017:

	2018				
	Level 1	Level 2	Level 3	NAV (1)	Total
Assets, recurring fair value measurements:					
Assets limited as to use and investments (Note 2):					
Cash and cash equivalents	\$ 18,950	\$ -	\$ -	\$ -	\$ 18,950
Fixed income securities, investment grade	-	116,293	-	-	116,293
Fixed income mutual funds:					
High yield	650	-	-	-	650
Global bond fund	15,319	-	-	-	15,319
Strategic income	23,243	-	-	-	23,243
U.S. gov't securities	24	-	-	-	24
Alternative mutual funds	2,558	-	-	-	2,558
U.S. government and agency obligations		126,382	-	-	126,382
Equity securities:					
Consumer discretionary	21,329	-	-	-	21,329
Consumer staples	12,236	-	-	-	12,236
Energy	6,471	-	-	-	6,471
Financials	18,882	-	-	-	18,882
Health care	25,041	-	-	-	25,041
Industrials	26,665	-	-	-	26,665
Information technology	22,634	-	-	-	22,634
Materials	7,540	-	-	-	7,540
Real estate	4,109	-	-	-	4,109
Telecommunication services	2,357	-	-	-	2,357
Utilities	3,111	-	-	-	3,111
Equity mutual funds:					
Small cap	14,361	-	-	-	14,361
Mid cap	1,316	-	-	-	1,316
Large cap	129,818	-	-	-	129,818
International	91,220	-	-	-	91,220
Index funds	2,046	-	-	-	2,046
Real assets, mutual funds	65	-	-	-	65
Alternative investments	-	-	-	121,173	121,173
Other	1,168	-	-	-	1,168
Total assets	\$ 451,113	\$ 242,675	\$ -	\$ 121,173	\$ 814,961

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	2018				Total
	Level 1	Level 2	Level 3	NAV (1)	
Assets disclosed at fair value:					
Cash and cash equivalents	\$ 23,449	\$ -	\$ -	\$ -	\$ 23,449
Pledges receivable (included in other assets)	-	721	-	-	721
Total	<u>\$ 23,449</u>	<u>\$ 721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,170</u>
Liabilities, recurring fair value measurements,					
Derivative financial instruments (included in other liabilities)	<u>\$ -</u>	<u>\$ 13,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,442</u>
Liabilities disclosed at fair value,					
Long-term debt, with a carrying value of \$260,177	<u>\$ -</u>	<u>\$ 269,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,008</u>

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	2017				
	Level 1	Level 2	Level 3	NAV (1)	Total
Assets, recurring fair value measurements:					
Assets limited as to use and investments (Note 2):					
Cash and cash equivalents	\$ 19,101	\$ -	\$ -	\$ -	\$ 19,101
Fixed income securities, investment grade	-	113,654	-	-	113,654
Fixed income mutual funds:					
High yield	673	-	-	-	673
Global bond fund	35,893	-	-	-	35,893
Strategic income	36,087	-	-	-	36,087
U.S. gov't securities	22	-	-	-	22
Alternative mutual funds	2,787	-	-	-	2,787
U.S. government and agency obligations	-	142,026	-	-	142,026
Equity securities:					
Consumer discretionary	20,676	-	-	-	20,676
Consumer staples	9,108	-	-	-	9,108
Energy	6,610	-	-	-	6,610
Financials	17,883	-	-	-	17,883
Health care	20,804	-	-	-	20,804
Industrials	23,229	-	-	-	23,229
Information technology	22,569	-	-	-	22,569
Materials	6,083	-	-	-	6,083
Real estate	3,026	-	-	-	3,026
Telecommunication services	3,132	-	-	-	3,132
Utilities	2,837	-	-	-	2,837
Equity mutual funds:					
Small cap	3,026	-	-	-	3,026
Mid cap	150	-	-	-	150
Large cap	101,613	-	-	-	101,613
International	67,886	-	-	-	67,886
Index funds	1,970	-	-	-	1,970
Real assets, mutual funds	33,599	-	-	-	33,599
Alternative investments	-	-	-	96,812	96,812
Other	1,168	-	-	-	1,168
Total assets	\$ 439,932	\$ 255,680	\$ -	\$ 96,812	\$ 792,424

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	2017				
	Level 1	Level 2	Level 3	NAV (1)	Total
Assets disclosed at fair value:					
Cash and cash equivalents	\$ 15,526	\$ -	\$ -	\$ -	\$ 15,526
Pledges receivable (included in other assets)	-	-	337	-	337
Total	<u>\$ 15,526</u>	<u>\$ -</u>	<u>\$ 337</u>	<u>\$ -</u>	<u>\$ 15,863</u>
Liabilities, recurring fair value measurements,					
Derivative financial instruments (included in other liabilities)	<u>\$ -</u>	<u>\$ 20,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,052</u>
Liabilities disclosed at fair value,					
Long-term debt, with a carrying value of \$268,147	<u>\$ -</u>	<u>\$ 277,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,121</u>

- (1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheet.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Cash and Cash Equivalents - The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

Fixed Income Securities - The estimated fair value of fixed income securities are based on quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Fixed Income Mutual Funds - Fair value estimates for publicly traded securities are based on quoted market prices.

U.S. Government and Agency Obligations - The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2.

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Real Assets, Mutual Funds - Fair value estimates for publicly traded securities are based on quoted market prices.

Equity Mutual Funds - Fair value estimates for publicly traded securities are based on quoted market prices.

Alternative Mutual Funds - Fair value estimates for publicly traded securities are based on quoted market prices.

Equity Securities - Fair value estimates for publicly traded securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices.

Alternative Investments - Alternative investments are comprised of hedge funds and private equity investments. The Corporation measures the fair value of the hedge funds based on the net asset value per share (the "NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The Corporation measures the fair value of an investment that does not have a readily determinable fair value based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the Corporation as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. Private equity investments are recorded on the cost basis.

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The following table presents a list of the Corporation's alternative investments as of June 30:

Name of Fund	Fair Value June 30, 2018	Fair Value June 30, 2017	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Lighthouse Global Long/Short Fund Limited	\$ 76,644	\$ 69,617	To achieve modest rates of return by allocating the majority of its assets to segregated portfolio companies and sub-trusts managed by a select group of alternative asset managers	N/A	Monthly; quarterly	60 - 90 days
Rimrock High Income Plus (Cayman) Fund, Ltd	13,308	7,010	To exploit structural and technical inefficiencies in the market, especially in the short-end of the yield curve, and to enhance returns through the use of hedging, modest leverage and select longer-term total return investments	N/A	Quarterly; one year lock-up on underlying funds	45 days
River Birch International, Ltd	7,282	7,091	Invests primarily in corporate credit situations with the philosophy of a globally-focused investment and trading firm	N/A	Quarterly	90 days
Aurelius Capital International II, Ltd	7,278	7,019	To maximize returns subject to preserving capital and minimizing correlation with the overall financial markets while managing risk	N/A	Quarterly; eighteen- month lock-up on underlying funds	65 days
Chatham Asset High Yield Offshore Fund, Ltd	7,736	-	Long/short high yield bond and leveraged loan fund. Invested primarily in U.S. high yield debt consisting of securities lower than Baa3/BBB-	N/A	Quarterly; one year lock up	45 Days
Golub Capital Investment Corporation *	8,925	6,075	Middle market lender of unitranche, senior, second lien, subordinated debt, preferred stock and co-investment equity investments; has also opportunistically offered investment strategies focused on secondary purchases of both public and private middle-market debt	\$ 6,075	N/A	N/A
	<u>\$ 121,173</u>	<u>\$ 96,812</u>				

* Investment is recorded at cost

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Pledges Receivable - Fair value estimates are based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

Derivative Financial Instruments - Valued at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the Corporation and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the Corporation would pay to terminate the agreements.

Long-Term Debt - The fair value of long-term debt is based on the quoted market prices or estimated using a discounted cash flow analysis, based on the participating institution's incremental borrowing rates for similar types of borrowing arrangements.

12. Liquidity and Availability

As of June 30, 2018, the Corporation has working capital of approximately \$20,290, and approximately 362 days cash on hand. The Corporation has \$8,500 available under its revolving line of credit (Note 6).

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at June 30, 2018:

Cash and cash equivalents	\$	23,449
Accounts receivable, net		82,676
Notes receivable		131
Assets limited as to use:		
Board Designated Funds		128,309
Investments		417,509
		<hr/>
	\$	<u>652,074</u>

The Corporation estimates that approximately 81% of the board designated funds and investments are available for general expenditure within one year in the normal course of operations. The Corporation has other assets whose use is limited for debt service, for the professional and general liability insurance program, for donor-restricted purposes, for patient escrow purposes, and unfunded commitments in the investment portfolio. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

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13. Commitments and Contingencies

The Corporation has various noncancelable operating lease agreements expiring through 2040. The rents under these agreements and cancelable rental agreements charged to operations amounted to \$5,747 and \$4,964 in 2018 and 2017, respectively.

The Corporation's noncancelable rental commitments as of June 30, 2018, are as follows:

Years ending June 30:	
2019	\$ 2,334
2020	1,293
2021	1,071
2022	1,036
2023	872
Thereafter	<u>3,546</u>
Total	<u>\$ 10,152</u>

The Corporation is involved in certain claims and legal proceedings in the normal course of business in which monetary damages and other relief are sought. The Corporation is vigorously contesting these claims. However, resolution of these claims is not expected to occur quickly and their ultimate outcome cannot presently be determined. In any event, it is the opinion of management, after considering the effects of insurance coverage and related reserve estimates, the liability to the Corporation, if any, for claims or proceedings will not materially affect its consolidated financial position.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time.

14. Significant Concentrations of Credit Risk

The Corporation grants credit to patients, substantially all of whom are local residents. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies.

The Corporation's allowance for doubtful accounts for self-pay patients increased from 86% of self-pay accounts receivable at June 30, 2017, to 88% of self-pay accounts receivable at June 30, 2018. In addition, the Corporation's self-pay write-offs (net of recoveries) decreased to approximately \$23,987 in 2018, from approximately \$24,251 in 2017, which is the result of a shift in payor mix as more patients qualify for Medical Assistance. The Corporation's allowance for doubtful accounts for third-party payors increased from 11.8% of third-party payor accounts receivable at June 30, 2017, to 18.5% of third-party payor accounts receivable at June 30, 2018. The Corporation did not have significant write-offs from third-party payors in 2018 or 2017.

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Patient service revenues, net of contractual adjustments and discounts (but before the provision for bad debts) recognized from these major payor sources, are as follows:

Year Ended June 30	Third Party Government Payors	Third Party Non- Government Payors	Self-Pay	Total All Payors
2018	\$ 370,581	\$ 376,790	\$ 24,763	\$ 772,134
2017	\$ 335,047	\$ 341,170	\$ 31,434	\$ 707,651

Approximately 10% of the Corporation's employees are covered by a collective bargaining agreement, which expires on April 30, 2021.

The Corporation maintains substantially all of its cash and cash equivalent balances with financial institutions. Cash and equivalents on deposit with any one financial institution is insured to \$250,000.

The Corporation maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance Corporation Limits.

15. Subsequent Event

On July 20, 2018, the Corporation entered into a Definitive Agreement with C.M.H. Group, Inc. ("CMHG") and its affiliates. CMHG is an acute care focused, integrated health care delivery system located in Cortland, New York. CMHG's affiliates include Cortland Regional Medical Center, Inc. ("CRMC"), Cortland Memorial Foundation, Inc. (the "Foundation"), CMH Services, Inc. d/b/a Cortland Medical Supply ("CMS"), Cortland Memorial Properties, Inc. ("CMP"), and Regional Medical Practice, P.C. d/b/a Cortland Regional Medical Practice ("RMP"). Upon closing of the transactions pursuant to the Affiliation Agreement, Guthrie will become the sole corporate member of CMHG and CRMC, and CRMC will become the sole member or shareholder (as applicable) of each of the Foundation, CMS and CMP. No proceeds will be paid as part of this transaction. The affiliation is subject to certain conditions and approvals including regulatory review by both New York State and Pennsylvania regulatory agencies.