



# **The Guthrie Clinic and Affiliates**

Consolidated Financial Statements

June 30, 2019 and 2018

# The Guthrie Clinic and Affiliates

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June 30, 2019 and 2018

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## Independent Auditors' Report

To the Board of Directors of  
The Guthrie Clinic and Affiliates

We have audited the accompanying consolidated financial statements of The Guthrie Clinic and Affiliates, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019

## The Guthrie Clinic and Affiliates

Consolidated Balance Sheets

June 30, 2019 and 2018

(In Thousands of Dollars)

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,689	\$ 23,449
Patient accounts receivable, net	84,084	82,676
Inventories	14,228	12,638
Prepaid expenses and other current assets	27,230	21,900
	<u>147,231</u>	<u>140,663</u>
Total current assets		
Assets limited as to use:		
Trustee held funds under indenture agreement	-	26
Board-designated funds	173,637	158,406
Self-insured trust funds	73,365	78,325
Other	70,542	62,761
	<u>317,544</u>	<u>299,518</u>
Total assets limited as to use		
Investments	485,832	515,443
Property and equipment, net	424,219	344,179
Prepaid pension	20,828	21,018
Other assets, net	8,078	5,577
	<u>1,403,732</u>	<u>1,326,398</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term obligations	\$ 7,965	\$ 9,515
Accounts payable and accrued expenses	61,210	57,382
Accrued payroll, taxes and vacation	58,541	46,270
Estimated third-party payables, net	7,902	6,131
Other	2,113	1,075
	<u>137,731</u>	<u>120,373</u>
Total current liabilities		
Long-term obligations, net of current maturities, bond discount and bond premium	232,852	248,192
Accrued pension cost	17,208	-
Asset retirement obligation	8,036	8,598
Insurance liabilities, net of current portion	61,801	72,372
Other	20,912	14,511
	<u>478,540</u>	<u>464,046</u>
Total liabilities		
<b>Net Assets</b>		
Net assets without donor restrictions	856,703	799,177
Net assets with donor restrictions	68,489	63,175
	<u>925,192</u>	<u>862,352</u>
Total net assets		
Total liabilities and net assets		
	<u>\$ 1,403,732</u>	<u>\$ 1,326,398</u>

See notes to consolidated financial statements

## The Guthrie Clinic and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2019 and 2018

(In Thousands of Dollars)

	<u>2019</u>	<u>2018</u>
<b>Revenues and Other Support</b>		
Patient service revenue, net of contractual and other allowances	\$ 811,924	\$ 772,134
Provision for bad debts	-	(45,076)
Net patient service revenue	811,924	727,058
Other operating revenue	20,819	18,726
Total revenues and other support	<u>832,743</u>	<u>745,784</u>
<b>Expenses</b>		
Salaries and wages	400,279	354,566
Employee benefits	89,358	73,514
Purchased services	80,562	64,584
Supplies	86,087	74,924
Pharmaceuticals	75,105	63,265
Insurance	(2,320)	6,673
Other expenses	65,047	59,856
Depreciation	45,007	41,561
Interest	8,983	8,422
Bad debt expense	359	-
Early extinguishment of debt	81	-
Total expenses	<u>848,548</u>	<u>747,365</u>
Loss from operations before adjustment to asset retirement obligation and (loss) gain on sale of property and equipment	(15,805)	(1,581)
(Loss) gain on sale of property of equipment	(898)	144
Adjustment to asset retirement obligation	-	(1,617)
Loss from operations	(16,703)	(3,054)
<b>Nonoperating Income</b>		
Contribution from acquisition (Note 2)	45,123	-
Other income, net (Note 11)	36,073	47,903
Total nonoperating income	<u>81,196</u>	<u>47,903</u>
Excess of revenues over expenses (carried forward)	<u>\$ 64,493</u>	<u>\$ 44,849</u>

See notes to consolidated financial statements

## The Guthrie Clinic and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2019 and 2018

(In Thousands of Dollars)

	<u>2019</u>	<u>2018</u>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Excess of revenues over expenses (brought forward)	\$ 64,493	\$ 44,849
Change in pension obligation	(7,892)	3,066
Net assets released from restrictions used for purchase of property and equipment	<u>925</u>	<u>1,737</u>
Change in net assets without donor restrictions	<u>57,526</u>	<u>49,652</u>
<b>Changes in Net Assets With Donor Restrictions</b>		
Contributions and grant income	1,946	2,559
Interest and dividends, net of investment fees	654	370
Net realized and unrealized gains on investments	1,258	4,094
Net assets released from donor restrictions	(2,425)	(3,988)
Contribution from acquisition (Note 2)	<u>3,881</u>	<u>-</u>
Change in net assets with donor restrictions	<u>5,314</u>	<u>3,035</u>
Change in net assets	62,840	52,687
<b>Net Assets</b>		
Beginning of year	<u>862,352</u>	<u>809,665</u>
End of year	<u>\$ 925,192</u>	<u>\$ 862,352</u>

See notes to consolidated financial statements

## The Guthrie Clinic and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2019 and 2018

(In Thousands of Dollars)

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 62,840	\$ 52,687
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,007	41,561
Net realized and unrealized gains on investments	(27,359)	(29,740)
Loss (gain) on sale of property and equipment	898	(144)
Accretion expense	283	270
Provision for bad debts	-	45,076
Pension obligation adjustment	7,892	(3,066)
Restricted contributions received	(928)	(1,655)
Change in fair value of derivative instrument	4,260	(6,610)
Contribution from acquisition, net of cash received	(45,617)	-
Early extinguishment of debt	81	-
Changes in operating assets and liabilities:		
Patient accounts receivable	6,782	(43,808)
Inventories	(369)	(786)
Prepaid expenses and other assets	(11,230)	(7,799)
Accounts payable and accrued expenses	2,817	(434)
Estimated third-party payables, net	(3,387)	(5,326)
Other	(12,023)	(3,388)
Net cash provided by operating activities	<u>29,947</u>	<u>36,838</u>
<b>Cash Flows from Investing Activities</b>		
Cash received from sale of investments	724,421	381,270
Purchase of investments	(667,243)	(374,067)
Purchases of property and equipment	(76,146)	(28,844)
Proceeds from sale of property and equipment	3,479	244
Net cash used in investing activities	<u>(15,489)</u>	<u>(21,397)</u>
<b>Cash Flows from Financing Activities</b>		
Payments of long-term obligations	(17,146)	(9,173)
Restricted contributions received	928	1,655
Net cash used in financing activities	<u>(16,218)</u>	<u>(7,518)</u>
Net (decrease) increase in cash and cash equivalents	(1,760)	7,923
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>23,449</u>	<u>15,526</u>
End of year	<u>\$ 21,689</u>	<u>\$ 23,449</u>
<b>Supplementary Information of Noncash Transactions</b>		
Purchase of property and equipment in accounts payable and accrued expenses	<u>\$ 7,890</u>	<u>\$ 8,128</u>
Acquisition of Southern Tier Pediatrics	<u>\$ -</u>	<u>\$ 1,252</u>

See notes to consolidated financial statements

# The Guthrie Clinic and Affiliates

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(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 Cortland Medical Center ("GCMC"), 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. Effective June 30, 2019, Community Health Associates, LLC ("CHA") and The Memorial Hospital Foundation ("MHF") were merged into GTMH; there was no impact on the accompanying consolidated financial statements as a result of this corporate restructuring. CH is the sole corporate member of Corning Properties, Inc. GCMC is the sole corporate member of Regional Medical Practice, P.C. ("RMP"), Cortland Memorial Foundation, Inc. ("CMF"), and CMH Services, Inc. ("CSI").

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, 2019, 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.

## The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements  
June 30, 2019 and 2018  
(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 at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	38 %	32 %
Pennsylvania Medicaid/New York Medicaid	13	11
Other third-party payors	38	40
Self-pay	11	17
	<u>100 %</u>	<u>100 %</u>

The Corporation assesses collectability on patient contracts prior to the recognition of net patient service revenue. Patient accounts receivable are recorded at net realizable value. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and determines accounts are impaired based on changes in patient credit worthiness.

Prior to July 1, 2018, accounts receivable were reduced by an allowance for doubtful accounts. Such allowance was \$95,928 at June 30, 2018. In evaluating the collectability of accounts receivable, the Corporation analyzed its past history and identified trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The difference between standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts were exhausted was charged off against the allowance for doubtful accounts.

The Corporation has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018.

### 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, executive deferred compensation plan, 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 sheets 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.

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 Guthrie Clinic and Affiliates**

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In Thousands of Dollars)

The fair value of the funds represents the amount the Corporation expects to receive at June 30, 2019 and 2018, 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.

Investments in private equity companies are recorded on the cost basis.

Realized and unrealized (losses) 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 (losses) gains, interest income and dividends on investments from restricted assets are included as additions to either net assets without donor restrictions or net assets with donor restrictions 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 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 recognized during the years ended June 30, 2019 and 2018.

### **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 \$135 and \$148 for the years ended June 30, 2019 and 2018, respectively. Premium amortization was \$45 and \$45 for the years ended June 30, 2019 and 2018, 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.

## The Guthrie Clinic and Affiliates

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In Thousands of Dollars)

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. No such gains were recorded in 2019 or 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 \$1,617, which is included in the accompanying consolidated statements of operations and changes in net assets. Accretion expense for the years ended June 30, 2019 and 2018 was \$283 and \$270, respectively, and disposals totaled \$1,807 and \$2,056, 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 sheets and related net changes in fair value are reported in other income in the consolidated statements 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.

*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.

## **The Guthrie Clinic and Affiliates**

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In Thousands of Dollars)

### **Measure of Operations**

The consolidated statements of operations and changes in net assets reflects all changes in net assets without donor restrictions, including changes from both operating and non-operating activities. Operating revenues and expenses consist of those items that are an integral part of the Corporation's provision of healthcare and related supporting activities. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. As such, changes in excess of revenues over expenses that are excluded from operating income, consistent with industry practice, include contribution from acquisition, and other income, net.

### **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 recognized at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including commercial and governmental programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. The Corporation recognizes net operating revenues in the period in which it satisfies performance obligations under contracts by transferring services to customers (patients). Revenue for performance obligations satisfied over time is recognized based on the actual charges incurred in relation to total expected or actual charges. The Corporation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our facilities receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital, or the commencement of an outpatient service (including physician services), to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided and the Corporation does not believe it is required to provide additional services to the patient.

All of the Corporation's performance obligations relate to contracts with a duration of less than one year, therefore the Corporation has elected to apply the optional exemptions provided in FASB ASC 606-10-50-14(a) and as a result 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. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Corporation's policies, and/or implicit price concessions provided to uninsured or underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimates of implicit price concessions based on its historical collection experience with a respective class of patient using a portfolio approach as a practical expedient to account for patient contracts as a collective group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third party payors for the effects of a significant financing component due to the Corporation'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. The Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. However, in these cases the financing component is not deemed to be significant to the contract.

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.

### **Medicare and Medicaid**

Inpatient acute care, professional and outpatient ancillary services rendered by GMG, RPH, CH, GTMH, and GCMC 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 percent for all services rendered to Medicare beneficiaries.

RPH, TCH, CH, GTMH and GCMC's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2015, June 30, 2017, December 31, 2015, June 30, 2017 and December 31, 2015, 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.

### **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.

## The Guthrie Clinic and Affiliates

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### 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 \$2,319 and \$1,206 in 2019 and 2018, 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 \$3,839 and \$2,159 in bad debts in 2019 and 2018, respectively. The Corporation estimated these costs by application of the standard cost-to-charge ratio.

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 \$20,529 and \$16,208 in 2019 and 2018, 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 \$53,631 and \$52,151 in 2019 and 2018, 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 \$80,318 and \$71,724 in 2019 and 2018, 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., Corning Properties, Inc. and CMH Services, Inc., affiliates, which are taxable entities.

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. The Corporation has concluded that as of June 30, 2019 and 2018, 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.

# The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements

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(In Thousands of Dollars)

## New Accounting Pronouncements

### Revenue Recognition

In 2019, the Corporation adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

The Corporation applied the modified retrospective approach to all contracts when adopting ASU No. 2014-09. As a result of the adoption, the majority of what was previously classified as the provision for bad debts in the consolidated statement of operations and changes in net assets is now reflected as implicit price concessions, as defined in Topic 606, and therefore included as a reduction of net patient service revenues. For changes in transaction price related to changes in patient circumstances, the Corporation will prospectively recognize those amounts as a provision for bad debts within operating expenses on the consolidated statement of operations and changes in net assets. For periods prior to July 1, 2018, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required separate presentation of these amounts as a component of net patient service revenue. Additionally, as a result of the adoption of ASU No. 2014-09, the allowance for doubtful accounts of \$95,928 as of July 1, 2018 became a component of patient accounts receivable, net.

### Pension

In 2019, the Corporation early adopted FASB’s 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 requires that an employer report the service cost component of net periodic pension 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 statements of operations and changes in net assets separately from the service cost component and outside a measure of operations, if one is presented. The effects of the retrospective application the guidance in ASU No. 2017-07 on the consolidated statements of operations and changes in net assets was the reclassification of the other components of net periodic pension cost (credit) which increased employee benefits expense and other income, net (nonoperating income) by \$3,803 in 2018. In addition, this change in presentation resulted in an increase in loss from operations and total nonoperating income of \$3,803 in 2018 in the consolidated statements of operations and changes in net assets.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU No. 2018-14 was issued as part of the disclosure framework project to improve financial statement disclosures related to defined benefit plans. This standard removes certain existing disclosure requirements, such as disclosure of amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. It also includes new disclosure requirements, such as disclosure of an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2018-14 for its fiscal year ending June 30, 2022.

## The Guthrie Clinic and Affiliates

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### Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2016-02 for its fiscal year ending June 30, 2020.

### Reclassifications

Certain amounts relating to 2018 have been reclassified to conform to 2019 reporting format.

## 2. Acquisition

Effective January 1, 2019, the Corporation acquired the assets of GCMC and its affiliates (RMP, CSI and CMF). The overall purpose of the transaction was to enhance the availability and delivery of healthcare services to patient in the communities that are served by the Corporation. Furthermore, this affiliation will allow the Corporation to participate in healthcare reform initiatives and other opportunities aimed at improving patient outcomes and managing the health and wellness of the communities served.

Assets acquired and liabilities assumed in the acquisition were recorded in the consolidated financial statements as of the acquisition date based upon their estimated fair values. The Corporation recorded a contribution totaling \$49,004 in 2019 which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed from the acquisition, as summarized below:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Totals</b>
Assets acquired:			
Cash and cash equivalents	\$ 3,387	\$ -	\$ 3,387
Patient accounts receivable	8,190	-	8,190
Inventory	1,220	-	1,220
Prepaid expenses and other current assets	1,802	-	1,802
Investments and assets limited as to use	14,354	3,881	18,235
Property and equipment	53,514	-	53,514
Other assets	1,302	-	1,302
	<hr/>	<hr/>	<hr/>
Total assets	83,769	3,881	87,650

## The Guthrie Clinic and Affiliates

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	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Totals</u>
Less liabilities assumed:			
Current and long-term debt	76	-	76
Accounts payable, accrued payroll, taxes, and other accrued expenses	14,936	-	0
Estimated third-party payable	5,158	-	0
Accrued pension cost	15,792	-	15,792
Asset retirement obligation	962	-	962
Other (current and long-term)	1,722	-	1,722
	<u>38,646</u>	<u>-</u>	<u>38,646</u>
Total liabilities assumed			
	<u>38,646</u>	<u>-</u>	<u>38,646</u>
Inherent contribution	<u>\$ 45,123</u>	<u>\$ 3,881</u>	<u>\$ 49,004</u>

The Corporation incurred non-recurring acquisition costs which were expensed as incurred.

No consideration was exchanged and no goodwill or other intangible assets were recognized as a result of this acquisition. The net assets without donor restrictions are recognized as contribution from acquisition in the accompanying consolidated statement of operations and changes in net assets, and is included in the excess of revenues over expenses.

The results of operations of these entities have been included in the accompanying consolidated statements of operations and changes in net assets since the acquisition date. Certain financial information related to these entities since the date of acquisition through June 30, 2019 are as follows:

Unrestricted revenues	<u>\$ 50,813</u>
Revenues in excess of expenses, including \$45,123 of contribution from acquisition	<u>\$ 44,193</u>
Increase in net assets:	
Without donor restrictions	\$ 41,065
With donor restrictions	<u>327</u>
Total	<u>\$ 41,392</u>

The following table presents certain pro-forma financial information for the years ending June 30, 2019 and 2018 to reflect consolidated revenues, the performance indicator, and changes in net assets (by class) as if this acquisition had taken place effective July 1, 2017 and July 1, 2018, respectively:

	<u>2019</u>	<u>2018</u>
Unrestricted revenues	<u>\$ 882,485</u>	<u>\$ 847,196</u>
Revenues in excess of expenses	<u>\$ 60,266</u>	<u>\$ 61,521</u>
Increase in net assets:		
Without donor restrictions	\$ 51,376	\$ 68,364
With donor restrictions	<u>5,641</u>	<u>1,465</u>
Total	<u>\$ 57,017</u>	<u>\$ 69,829</u>

## The Guthrie Clinic and Affiliates

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Notes to Consolidated Financial Statements

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### 3. Net Patient Service Revenue

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to 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 with the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as an adjustment to net patient service revenues in the period of the change. For the year ended June 30, 2019, the impact of changes in estimates of implicit price concessions, discounts and contractual adjustments used to determine the transaction price was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients.

The Corporation disaggregates revenue from contracts with customers by payor source and type of service as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

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Net patient service revenue disaggregated by payor for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 339,182	\$ 305,098
Blue Cross	241,855	222,334
Commercial	147,573	154,456
Medicaid	67,761	65,483
Self-pay	<u>15,553</u>	<u>24,763</u>
Total	<u>\$ 811,924</u>	<u>\$ 772,134</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

Net patient service revenue disaggregated by service type for the year ended June 30, 2019 is as follows:

	<u>2019</u>
Hospital-Inpatient	\$ 253,956
Hospital-Outpatient	325,572
Physician services	216,427
Home health and hospice	9,030
Retail sales	<u>6,939</u>
Total	<u>\$ 811,924</u>

The Corporation has not further disaggregated other revenue as the economic factors affecting the nature, timing, amount, and uncertainty of revenue and cash flows do not significantly vary within the revenue category.

## The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements

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### 4. Assets Limited as to Use and Investments

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

	<u>2019</u>	<u>2018</u>
Held by trustee under indenture agreement, Cash and cash equivalents	\$ -	\$ 26
Funds held in trust by others	50,082	50,162
Pooled and other investments:		
Cash and cash equivalents	13,186	18,543
Marketable equity securities	55,450	125,996
Fixed income securities, investment grade	107,577	109,184
U.S. government and agency obligations	138,476	126,382
Mutual funds:		
Equity mutual funds	289,329	224,216
Fixed income mutual funds	39,230	37,571
Real assets mutual funds	1,116	-
Alternative mutual funds	34	540
Other	1,306	1,168
Alternative investments	107,590	121,173
Total pooled and other investments	<u>753,294</u>	<u>764,773</u>
Total	<u>\$ 803,376</u>	<u>\$ 814,961</u>

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

	<u>2019</u>	<u>2018</u>
Assets limited as to use:		
Trustee held funds under indenture agreement	\$ -	\$ 26
Board-designated funds	173,637	158,406
Self-insured trust funds	73,365	78,325
Other	70,542	62,761
Investments	485,832	515,443
Total	<u>\$ 803,376</u>	<u>\$ 814,961</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of investment fees	\$ 15,560	\$ 14,529
Realized gains on investments, net	33,640	9,721
Change in net unrealized gains on investments	(6,281)	20,019
Total investment gain	<u>\$ 42,919</u>	<u>\$ 44,269</u>

## The Guthrie Clinic and Affiliates

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### 5. Net Assets with Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Purchase of property and equipment	\$ 49,421	\$ 48,449
Healthcare services	6,439	5,102
Education and research	5,765	5,595
Total subject to expenditure for specified purposes	61,625	59,146
Endowment funds, income expendable to purchase capital equipment and support education and research	6,864	4,029
Total net assets with donor restrictions	<u>\$ 68,489</u>	<u>\$ 63,175</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>2019</u>	<u>2018</u>
Purchase of property and equipment	\$ 1,519	\$ 2,176
Healthcare services	688	1,199
Education and research	218	613
Total net assets released from donor restrictions	<u>\$ 2,425</u>	<u>\$ 3,988</u>

### 6. Property and Equipment, Net

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 39,974	\$ 35,715
Buildings and building improvements	484,452	411,470
Permanent fixtures and equipment	335,835	302,093
	860,261	749,278
Less accumulated depreciation	(460,482)	(420,554)
	399,779	328,724
Construction in progress	24,440	15,455
Property and equipment, net	<u>\$ 424,219</u>	<u>\$ 344,179</u>

Depreciation expense in 2019 and 2018 amounted to \$45,007 and \$41,561, respectively.

The estimated cost to complete construction in progress projects at June 30, 2019 is approximately \$55,050.

## The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements  
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### 7. Long-Term Obligations

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

	<u>2019</u>	<u>2018</u>
<b>The Guthrie Clinic</b>		
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) (e) (g)	\$ 46,990	\$ 52,140
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 5.43%). Collateralized by buildings, equipment and accounts receivable. (c) (d) (f) (h)	99,395	100,515
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 (2.25% at June 30, 2019). Collateralized by buildings, equipment and accounts receivable. (e) (f) (g)	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 (2.41% at June 30, 2019). Collateralized by buildings, equipment and accounts receivable. (e) (g) (h)	44,435	46,355
<b>Towanda</b>		
GTMH mortgage, payable in monthly installments, including interest at 5.5%, matures October 2020.	27	48
Early extinguishment of Towanda debt	-	8,835
<b>Guthrie Medical Group, PC</b>		
GMG, note payable, payable in monthly installments, including interest (4.75% at June 30, 2019), matures May 2021. (i)	1,170	1,241
<b>Guthrie Cortland Medical Center</b>		
GCMC, equipment lease, payable in monthly installments, including interest, matures February 2021.	56	-
Total	<u>242,073</u>	<u>259,134</u>
Less net unamortized bond premium and financing costs	(1,256)	(1,427)
Less current portion of long-term obligations	<u>(7,965)</u>	<u>(9,515)</u>
	<u>\$ 232,852</u>	<u>\$ 248,192</u>

## The Guthrie Clinic and Affiliates

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- 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 percent of the three-month LIBOR rate for such period, plus a per annum spread with a maximum rate of 15 percent 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.

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. 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.

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- f. 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 percent of the one-month LIBOR rate for such period, plus a negotiated spread.
- g. 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, 2019 and 2018.
- h. In December 2016, the Central Bradford Progress Authority issued \$47,235 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 percent of the one-month LIBOR rate for such period, plus a spread of 70 basis points.
- i. 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 percent through May 2021, at which time the rate is adjusted to the five-year Treasury Note rate plus a spread of 3.25 percent, with a minimum rate of 4.75 percent. This note matures in June 2031.

A summary of the aggregate principal requirements on these long-term obligations as of June 30, 2019 are as follows:

2020	\$	7,965
2021		8,346
2022		8,787
2023		9,045
2024		9,475
Thereafter		<u>198,455</u>
Total	\$	<u>242,073</u>

Cash paid for interest was \$9,168 and \$8,486 in 2019 and 2018, 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 \$126,330 and \$133,245 at June 30, 2019 and 2018, respectively. The 2007 Agreement has maturity dates ranging from November 2024 to November 2031. The 2007 Agreement requires the Corporation to pay a fixed rate of 4.282 percent 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 \$17,702 and \$13,442 at June 30, 2019 and 2018, respectively, and is included in other liabilities on the consolidated balance sheets.

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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 are recognized as other income, net within excess of revenues over expenses in the consolidated statements of operations and changes in net assets. The (loss) gain amounted to \$(4,260) in 2019 and \$6,610 in 2018 (Note 11).

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 statements of operations and changes in net assets. Such loss on swap agreements was \$2,346 in 2019 and \$3,283 in 2018 (Note 11). No termination payments would be required if the swap agreements are held to maturity.

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.

#### 8. 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, 2019 or 2018.

#### 9. 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:

	2019				
	Healthcare Services	General and Administrative	Research	Education	Total
Salaries and wages	\$ 316,842	\$ 75,522	\$ 1,132	\$ 6,783	\$ 400,279
Employee benefits	63,223	24,025	331	1,779	89,358
Purchased services	51,728	25,685	731	2,418	80,562
Supplies	84,517	1,169	30	371	86,087
Pharmaceuticals	74,884	221	-	-	75,105
Insurance	(7,164)	4,568	-	276	(2,320)
Other expenses	13,727	49,671	256	1,393	65,047
Depreciation	11,602	33,338	29	38	45,007
Interest	62	8,921	-	-	8,983
Provision for bad debts	359	-	-	-	359
Early extinguishment of debt	-	81	-	-	81
Total	<u>\$ 609,780</u>	<u>\$ 223,201</u>	<u>\$ 2,509</u>	<u>\$ 13,058</u>	<u>\$ 848,548</u>

## The Guthrie Clinic and Affiliates

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	2018				
	Healthcare Services	General and Administrative	Research	Education	Total
Salaries and wages	\$ 280,923	\$ 65,495	\$ 1,142	\$ 7,006	\$ 354,566
Employee benefits	49,304	22,311	336	1,563	73,514
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	8,133	33,375	32	21	41,561
Interest	15	8,407	-	-	8,422
Total	<u>\$ 529,357</u>	<u>\$ 203,194</u>	<u>\$ 2,031</u>	<u>\$ 12,783</u>	<u>\$ 747,365</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, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

## 10. 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. In connection with the acquisition of GCMC during 2019 (Note 2), the Corporation assumed the GCMC defined benefit plan. GCMC's employees were offered a defined benefit plan or defined contribution plan depending on their date of hire. Effective January 1, 2014 GCMC employees are offered elective participation in a tax sheltered annuity plan with salary deferral provisions under a 403(b) Retirement Savings Plan.

### Defined Benefit Plans

The Corporation has three 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. GCMC has a noncontributory defined benefit pension plan covering substantially all employees hired before December 31, 2013. The plan benefits are based on years of service and a percentage of the employee's compensation. Effective December 31, 2013, benefits under the plan were frozen and no new participants are eligible for benefits.

## The Guthrie Clinic and Affiliates

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(In Thousands of Dollars)

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>2019</u>	<u>2018</u>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 156,492	\$ 167,480
GCMC acquisition (Note 2)	46,413	-
Service cost	1,838	1,440
Interest cost	6,966	5,365
Employee contributions	116	116
Actuarial loss (gain)	22,972	(7,807)
Amendments	-	83
Expense paid	(424)	(355)
Benefits paid	(6,767)	(9,830)
	<u>\$ 227,606</u>	<u>\$ 156,492</u>
Benefit obligation at end of year	<u>\$ 227,606</u>	<u>\$ 156,492</u>
Accumulated benefit obligation, end of year	<u>\$ 224,889</u>	<u>\$ 154,095</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 177,510	\$ 178,869
GCMC acquisition (Note 2)	30,621	-
Actual return on plan assets, net of expenses	23,945	4,510
Employer contribution	6,225	4,200
Employee contributions	116	116
Expense paid	(424)	(355)
Benefits paid	(6,767)	(9,830)
	<u>\$ 231,226</u>	<u>\$ 177,510</u>
Fair value of plan assets at end of year	<u>\$ 231,226</u>	<u>\$ 177,510</u>
Amounts recognized on the consolidated balance sheets consist of the following for the years ended June 30:		
	<u>2019</u>	<u>2018</u>
Noncurrent assets,		
Prepaid pension	\$ 20,828	\$ 21,018
Noncurrent liabilities,		
Accrued pension cost	(17,208)	-
	<u>\$ 3,620</u>	<u>\$ 21,018</u>
Net amount recognized in consolidated balance sheets	<u>\$ 3,620</u>	<u>\$ 21,018</u>
<b>Funded status:</b>		
CH prepaid pension cost	\$ 6,263	\$ 2,770
TGC prepaid pension cost	14,565	18,248
GCMC accrued pension cost	(17,208)	-
	<u>\$ 3,620</u>	<u>\$ 21,018</u>
Prepaid pension cost	<u>\$ 3,620</u>	<u>\$ 21,018</u>

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(In Thousands of Dollars)

	<u>2019</u>	<u>2018</u>
Other changes in plan assets and benefit obligation recognized in net assets without donor restrictions:		
Net (gain) loss	\$ 10,483	\$ (679)
Recognized gain (loss)	(2,564)	(2,452)
Prior service cost (credit)	-	83
Recognized prior service (cost) credit	(27)	(18)
 Total	 <u>\$ 7,892</u>	 <u>\$ (3,066)</u>

Amounts recognized in net assets without donor restrictions consist of an actuarial loss of \$64,751 and \$56,832 in 2019 and 2018, respectively, and a prior service cost of \$151 and \$178 in 2019 and 2018, 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 \$3,236 and \$2,219, respectively.

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

	<u>2019</u>	<u>2018</u>
Service cost	\$ 1,838	\$ 1,440
Interest cost	6,966	5,365
Expected return on plan assets	(11,455)	(11,638)
Net amortization	2,590	2,470
 Total pension cost (credit)	 <u>\$ (61)</u>	 <u>\$ (2,363)</u>

The service cost component of the net periodic pension cost (credit) of \$1,838 and \$1,440 in 2019 and 2018, respectively, are included in employee benefits expense in the accompanying consolidated financial statements, while the other components of the net periodic pension cost (credit) totaling (\$1,899) and (\$3,803) in 2019 and 2018, respectively, are included in nonoperating other income, net.

### Assumptions

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

	<u>2019</u>	<u>2018</u>
Weighted average discount rate:		
Other TGC entities	3.42 %	4.12 %
CH Plan	3.50 %	4.16 %
GCMC Plan	3.83 %	N/A
Rate of increase in future compensation levels:		
Other TGC entities	N/A	N/A
CH Plan	2.50 %	2.50 %
GCMC Plan	N/A	N/A
Measurement date	June 30	June 30

## The Guthrie Clinic and Affiliates

### Notes to Consolidated Financial Statements

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(In Thousands of Dollars)

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

	<u>2019</u>	<u>2018</u>
Weighted average discount rate:		
Other TGC entities	4.12 %	3.76 %
CH Plan	4.16 %	3.83 %
GCMC Plan	4.52 %	N/A
Expected long-term rate of return on assets:		
Other TGC entities	5.50 %	6.25 %
CH Plan	7.00 %	7.50 %
GCMC Plan	6.50	N/A
Rate of increase in future compensation levels:		
Other TGC entities	N/A	N/A
CH Plan	2.50 %	2.50 %
GCMC Plan	N/A	N/A

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 \$7,889 to its pension plans in fiscal 2020.

### 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>2019</u>	<u>2018</u>
Cash and cash equivalents	0 %	2 %	2 %
Equities	20-50 %	38	27
Fixed income securities	50-80 %	60	71
		<u>100 %</u>	<u>100 %</u>

## The Guthrie Clinic and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In Thousands of Dollars)

The following tables represent the Plan's financial instruments as of June 30, 2019 and 2018, measured at fair market value on a recurring basis using the fair value hierarchy as defined by the authoritative guidance.

	2019				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV (1)	Total
Cash and cash equivalents	\$ 3,676	\$ -	\$ -	\$ -	\$ 3,676
Fixed income securities, investment grade	-	77,250	-	-	77,250
Fixed income mutual funds:					
High yield	3,518	-	-	-	3,518
Strategic income fund	5,453	5,101	-	-	10,554
Government securities and agency obligations	-	47,370	-	-	47,370
Equity securities:					
Consumer discretionary	642	-	-	-	642
Consumer staples	624	-	-	-	624
Energy	264	-	-	-	264
Financials	173	-	-	-	173
Health care	823	-	-	-	823
Information technology	586	-	-	-	586
Industrials	1,214	-	-	-	1,214
Materials	452	-	-	-	452
Real estate	259	-	-	-	259
Utilities	193	-	-	-	193
Equity mutual funds:					
Small cap	4,847	-	-	-	4,847
Mid cap	2,111	-	-	-	2,111
Large cap	16,172	2,199	-	-	18,371
International	13,338	-	-	-	13,338
Index funds	6,508	-	-	-	6,508
Real estate assets, mutual funds	1,759	-	-	-	1,759
Alternative investments	-	-	-	36,694	36,694
<b>Total</b>	<b>\$ 62,612</b>	<b>\$ 131,920</b>	<b>\$ -</b>	<b>\$ 36,694</b>	<b>\$ 231,226</b>

## The Guthrie Clinic and Affiliates

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June 30, 2019 and 2018

(In Thousands of Dollars)

	2018				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV (1)	Total
Cash and cash equivalents	\$ 4,119	\$ -	\$ -	\$ -	\$ 4,119
Fixed income securities, investment grade	-	82,384	-	-	82,384
Government securities and 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 investment	-	-	-	11,838	11,838
<b>Total</b>	<b>\$ 51,659</b>	<b>\$ 114,013</b>	<b>\$ -</b>	<b>\$ 11,838</b>	<b>\$ 177,510</b>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.

The following table presents a list of the Plan's alternative investment as of June 30:

Name of Fund	2019	2018	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Wellington Management CF WTC-CIF II US Inv. Grade Corp Long Bond Fund	\$ 36,694	\$ 11,838	To consistently outperform the Bloomberg Barclays Long U.S. Corporate Index through investment in a diversified portfolio of debt obligations	N/A	Daily	5 days

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### Benefit Payments

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

2020	\$	11,100
2021		9,980
2022		10,355
2023		10,770
2024		11,153
2025 to 2029		60,859

### 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 percent of employee contribution up to a maximum employer contribution of 3 percent. A non-elective employer contribution will be made annually based on an age graded formula. For employer contributions, participants are 100 percent vested after three years of credited service. GCMC also offers their eligible employees elective participation in a 403(b) Retirement Savings Plan. GCMC matches 75% - 100% of participant contributions up to 4% of eligible compensation.

Pension expense under defined contribution plans for the years ended June 30, 2019 and 2018 was \$14,926 and \$14,163, respectively.

## 11. Other Income, Net

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

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of investment fees	\$ 14,906	\$ 14,160
Gain on sale of investments, net	30,979	7,219
Change in unrealized (loss) gain on investments, net	(4,878)	18,427
Change in fair value of derivative instruments	(4,260)	6,610
Loss on derivative instruments	(2,346)	(3,283)
Merger and acquisition costs	(709)	(1,052)
Other components of net periodic pension costs	1,899	3,803
Restructuring costs	-	430
Other	482	1,589
	<u>\$ 36,073</u>	<u>\$ 47,903</u>

## The Guthrie Clinic and Affiliates

Notes to Consolidated Financial Statements

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### 12. 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 \$66,493 and \$78,184 at June 30, 2019 and 2018, respectively. Amounts included in current liabilities (accounts payable and accrued expenses) at June 30, 2019 and 2018 are \$12,877 and \$15,120, respectively. Amounts recognized as anticipated insurance recoveries related to the claims approximate \$3,294 and \$1,980 at June 30, 2019 and 2018, 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.

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, 2019 and 2018 in CHART; this investment is included in investments in the accompanying consolidated balance sheets. 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.

Effective January 1, 2019, GCMC purchased extended reporting (TAIL) for primary coverage provided by MLMIC and additional tail in excess coverage provided by Med Pro.

Effective January 1, 2019, GCMC and RMP became insureds of the GRRG under TGC subscriber coverage. The GCMC and RMP medical malpractice and general liability insurance coverages for primary and excess are provided through TGC insurance coverage.

#### 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 2019 and 2018.

The actuarially computed liability to all health care providers (hospitals, physicians and others) participating in the Mcare Fund at June 30, 2019 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 \$880 and \$863 in 2019 and 2018, 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.

## The Guthrie Clinic and Affiliates

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Notes to Consolidated Financial Statements

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(In Thousands of Dollars)

### Workers' Compensation Claims

Certain of the Corporation's entities are partially self-insured for workers' compensation claims, up to \$250 per claim, which represents the maximum deductible per claim under the Corporation's high deductible plan. 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 \$10,356 and \$10,139 at June 30, 2019 and 2018, respectively. Amounts included in current liabilities (accounts payable and accrued expenses) at June 30, 2019 and 2018 are \$2,172 and \$831, respectively. Amounts recognized as anticipated insurance recoveries related to the claims approximate \$2,788 and \$2,354 at June 30, 2019 and 2018, respectively, which are included in other assets, net. At June 30, 2019, the Corporation maintains letters of credit totaling \$1,701 under its workers compensation program in order to collateralize potential payments of claims.

### 13. 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 sheets 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.

## The Guthrie Clinic and Affiliates

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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, 2019 and 2018:

	2019				Total
	Level 1	Level 2	Level 3	NAV and Cost (1)	
<b>Assets, recurring fair value measurements:</b>					
Assets limited as to use and investments (Note 4):					
Cash and cash equivalents	\$ 13,738	\$ -	\$ -	\$ -	\$ 13,738
Fixed income securities, investment grade	176	115,017	-	-	115,193
Fixed income mutual funds:					
High yield	1,713	-	-	-	1,713
Global bond fund	13,720	-	-	-	13,720
Strategic income	27,421	-	-	-	27,421
U.S. government securities	48	-	-	-	48
Alternative mutual funds	1,386	-	-	-	1,386
U.S. government and agency obligations	-	138,476	-	-	138,476
Marketable equity securities:					
Communication services	747	-	-	-	747
Consumer cyclical	183	-	-	-	183
Consumer defensive	193	-	-	-	193
Consumer discretionary	9,124	-	-	-	9,124
Consumer staples	6,010	-	-	-	6,010
Energy	3,409	-	-	-	3,409
Financials	8,246	-	-	-	8,246
Health care	11,345	-	-	-	11,345
Industrials	12,882	-	-	-	12,882
Information technology	12,753	-	-	-	12,753
Materials	4,341	-	-	-	4,341
Real estate	5,296	-	-	-	5,296
Telecommunication services	2,010	-	-	-	2,010
Utilities	2,531	-	-	-	2,531
Equity mutual funds:					
Small cap	7,556	-	-	-	7,556
Mid cap	2,265	-	-	-	2,265
Large cap	174,947	-	-	-	174,947
International	116,207	-	-	-	116,207
Index funds	1,562	-	-	-	1,562
Real assets, mutual funds	1,177	-	-	-	1,177
Alternative investments	-	-	-	107,590	107,590
Other	1,307	-	-	-	1,307
<b>Total assets</b>	<b>\$ 442,293</b>	<b>\$ 253,493</b>	<b>\$ -</b>	<b>\$ 107,590</b>	<b>\$ 803,376</b>

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	2019				Total
	Level 1	Level 2	Level 3	NAV and Cost (1)	
<b>Assets disclosed at fair value:</b>					
Cash and cash equivalents	\$ 21,689	\$ -	\$ -	\$ -	\$ 21,689
Pledges receivable (included in other assets)	-	1,473	-	-	1,473
Total	<u>\$ 21,689</u>	<u>\$ 1,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,162</u>
<b>Liabilities, recurring fair value measurements,</b>					
Derivative financial instruments (included in other liabilities)	<u>\$ -</u>	<u>\$ 17,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,702</u>
<b>Liabilities disclosed at fair value,</b>					
Long-term debt, with a carrying value of \$243,017	<u>\$ -</u>	<u>\$ 249,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,259</u>

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June 30, 2019 and 2018

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	2018				Total
	Level 1	Level 2	Level 3	NAV and Cost (1)	
<b>Assets, recurring fair value measurements:</b>					
Assets limited as to use and investments (Note 4):					
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. government securities	24	-	-	-	24
Alternative mutual funds	2,558	-	-	-	2,558
U.S. government and agency obligations	-	126,382	-	-	126,382
Marketable 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
<b>Total assets</b>	<b>\$ 451,113</b>	<b>\$ 242,678</b>	<b>\$ -</b>	<b>\$ 121,173</b>	<b>\$ 814,961</b>

## The Guthrie Clinic and Affiliates

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(In Thousands of Dollars)

	2018				
	Level 1	Level 2	Level 3	NAV and Cost (1)	Total
<b>Assets disclosed at fair value:</b>					
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>
<b>Liabilities, recurring fair value measurements,</b>					
Derivative financial instruments (included in other liabilities)	<u>\$ -</u>	<u>\$ 13,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,442</u>
<b>Liabilities disclosed at fair value,</b>					
Long-term debt, with a carrying value of \$260,177	<u>\$ -</u>	<u>\$ 269,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,008</u>

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

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, 2019 and 2018.

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.

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.

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.

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.

Marketable 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

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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.

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

Name of Fund	2019	2018	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Lighthouse Global Long/Short Fund Limited	\$ 36,217	\$ 76,644	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	13,692	13,308	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 **	1,074	7,282	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 **	1,906	7,278	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	7,958	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
DGV Enhanced U.S. Equity Fund LLC	34,518	-	Liquid put-write strategy that invests in exchange traded S&P 500 futures/options contracts that are 100% collateralized with cash; no leverage is employed	N/A	Monthly	5 Days
Golub Capital Investment Corporation *	12,225	8,925	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	\$ 2,775	N/A	N/A
	<u>\$ 107,590</u>	<u>\$ 121,173</u>				

\* Investment is recorded at cost

## The Guthrie Clinic and Affiliates

### Notes to Consolidated Financial Statements

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(In Thousands of Dollars)

\*\* During 2019, the Corporation provided notice of liquidation of this investment in accordance with the terms of the subscription agreement. Management expects to receive the remaining proceeds in the upcoming fiscal year.

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.

#### 14. Liquidity and Availability

As of June 30, 2019, the Corporation has working capital of \$9,500, and 290 days cash on hand. The Corporation has \$8,500 available under its revolving line of credit (Note 8).

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 21,689	\$ 23,449
Accounts receivable, net	84,084	82,676
Notes receivable	708	131
	<u>\$ 106,481</u>	<u>\$ 106,256</u>

A portion of the Corporation's assets limited as to use and investments include contributions and endowment funds that have donor-restricted purposes, and self-insured trust funds that are available for the professional and liability insurance program. The remaining amount of assets limited as to use and investments could be made available if necessary.

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

#### 15. 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 \$4,140 and \$5,747 in 2019 and 2018, respectively.

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

Years ending June 30:		
2020	\$	2,951
2021		2,461
2022		2,007
2023		1,533
2024		1,449
Thereafter		<u>8,204</u>
Total	\$	<u>18,605</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.

### 16. 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.

Approximately 10 percent 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.