

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Holy Redeemer Health System
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Holy Redeemer Health System (Holy Redeemer), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Board of Trustees
Holy Redeemer Health System

Opinion

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

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and consolidating statements of operations and changes in net assets shown on pages 46 through 53 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating balance sheets and consolidating statements of operations and changes in net assets are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 16, 2018

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017
(In Thousands)**

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 16,879	\$ 27,626
Current Portion of Trustee-Held Funds	8,803	8,433
Statutory Liquid Reserve	763	737
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$8,423 and \$7,380 at June 30, 2018 and 2017, Respectively)	42,054	41,848
Other Current Assets	<u>10,034</u>	<u>10,748</u>
Total Current Assets	78,533	89,392
ASSETS LIMITED AS TO USE		
Trustee-Held Funds, Net of Current Portion	8,525	8,388
Construction Funds	30,392	42,049
Professional Liability Funds	<u>58,919</u>	<u>54,875</u>
Total Assets Limited as to Use	97,836	105,312
PROPERTY AND EQUIPMENT, NET	175,625	167,202
OTHER ASSETS		
Investments	168,669	163,905
Other	<u>11,098</u>	<u>10,973</u>
Total Other Assets	<u>179,767</u>	<u>174,878</u>
Total Assets	<u><u>\$ 531,761</u></u>	<u><u>\$ 536,784</u></u>

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of Credit	\$ 2,000	\$ -
Current Portion of Capital Leases	1,519	1,890
Current Portion of Long-Term Debt	5,113	6,421
Accounts Payable	9,994	9,748
Accrued Expenses, Principally Salaries and Benefits	44,960	38,897
Current Portion of Self-Insurance and Other Liabilities	6,377	6,795
Total Current Liabilities	69,963	63,751
LONG-TERM LIABILITIES		
Long-Term Capital Leases, Net of Current Portion	4,657	4,750
Long-Term Debt, Net of Current Portion	139,384	145,752
Pension Liability	32,300	44,193
Self-Insurance Liabilities	22,431	28,563
Other Liabilities	4,615	5,225
Deferred Entry Fees, Net	12,111	12,082
Total Long-Term Liabilities	215,498	240,565
Total Liabilities	285,461	304,316
NET ASSETS		
Unrestricted:		
Unrestricted	230,591	218,232
Noncontrolling Interest	(1,186)	(1,642)
Total Unrestricted	229,405	216,590
Temporarily Restricted	9,889	9,218
Permanently Restricted	7,006	6,660
Total Net Assets	246,300	232,468
Total Liabilities and Net Assets	\$ 531,761	\$ 536,784

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
REVENUES		
Net Patient Service Revenues	\$ 380,465	\$ 369,030
Provision for Bad Debts	(10,000)	(8,161)
Net Patient Service Revenue, Less Provision for Bad Debts	370,465	360,869
Housing Sales	-	982
Other Operating Revenues	28,553	27,898
Net Assets Released from Restrictions Used for Operations	795	3,067
Total Revenues	399,813	392,816
EXPENSES		
Salaries and Wages	210,494	202,294
Employee Benefits	40,523	43,429
Severance	455	36
Purchased Services	47,686	45,985
Cost of Goods Sold - Housing	289	1,013
General Expenses	39,229	34,450
Supplies	47,839	43,586
Insurance	5,356	804
Depreciation and Amortization	21,568	20,561
Interest Expense	4,870	4,689
Total Expenses	418,309	396,847
OPERATING INCOME (LOSS)	(18,496)	(4,031)
NONOPERATING GAINS (LOSSES)		
Investment Income	7,487	6,750
Net Change in Unrealized Gains and Losses on Trading Securities	(3,925)	10,061
Realized Gains on Sales of Securities	10,291	1,865
Contributions	1,449	1,960
Pension Curtailment	5,111	-
Loss on Debt Refinancing	-	(831)
Other, Net	6,732	34
Total Nonoperating Gains (Losses)	27,145	19,839
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ 8,649	\$ 15,808

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
UNRESTRICTED NET ASSETS		
Excess of Revenues and Gains Over Expenses and Losses	\$ 8,649	\$ 15,808
Other Changes in Unrestricted Net Assets:		
Change in Net Unrealized Gains and Losses on Other-than-Trading Securities	(226)	1,689
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	94	50
Other Changes in Pension Liability	8,159	4,151
Distributions	(3,861)	(870)
Increase in Unrestricted Net Assets	12,815	20,828
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,378	1,736
Income on Long-Term Investments	490	583
Income Transferred to Permanently Restricted Net Assets	(308)	(209)
Net Assets Released from Restrictions Used for Operations	(795)	(1,853)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	(94)	(50)
Increase in Temporarily Restricted Net Assets	671	207
PERMANENTLY RESTRICTED NET ASSETS		
Income Transferred from Permanently Restricted Net Assets	308	209
Contributions	38	307
Increase in Permanently Restricted Net Assets	346	516
INCREASE IN NET ASSETS	13,832	21,551
Net Assets - Beginning of Year	232,468	210,917
NET ASSETS - END OF YEAR	\$ 246,300	\$ 232,468

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 13,832	\$ 21,551
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	22,639	21,325
Amortization of Bond Premiums	(1,071)	(764)
Amortization of Debt Issuance Costs	165	148
Provision for Bad Debts	10,000	8,161
Restricted Contributions and Investment Income Received	(1,906)	(2,626)
Loss on Debt Refinancing	-	831
Other Changes in Pension Liability	(8,159)	(4,151)
Net Changes in Assets and Liabilities:		
Patient Accounts Receivable	(10,206)	(11,425)
Other Current Assets	714	2,440
Other Assets	(125)	1,731
Accounts Payable	246	(725)
Accrued Expenses, Principally Salaries and Benefits	6,063	(667)
Self-Insurance Liabilities	(6,550)	(9,344)
Other Liabilities	(610)	794
Pension Liability	(3,734)	1,263
Net Cash Provided by Operating Activities	21,298	28,542
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment, Net	(29,215)	(25,594)
Decrease (Increase) in Assets Limited as to Use - Other-than-Trading	2,316	(44,542)
Net Cash Used by Investing Activities	(26,899)	(70,136)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Restricted Contributions and Restricted Investment Income	1,906	2,626
Proceeds from Long-Term Debt and Lines of Credit	2,000	83,940
Repayments of Long-Term Debt and Lines of Credit	(6,770)	(37,909)
Deferred Financing Costs on Issuance	-	(1,209)
Repayments on Capital Leases	(2,311)	(2,762)
Deferred Entry Fee Deposits Received	29	23
Net Cash Provided (Used) by Financing Activities	(5,146)	44,709
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,747)	3,115
Cash and Cash Equivalents - Beginning of Year	27,626	24,511
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 16,879	\$ 27,626
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 5,806	\$ 5,461
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital Leases Incurred	\$ 1,847	\$ 2,620

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 1 ORGANIZATION

Holy Redeemer Health System (HRHS) is a Catholic, multi-institutional health system sponsored by the Sisters of the Redeemer (Sisters). The parent entity (Member) of HRHS is HR Ministries whose purpose is to oversee and promote the mission, ethical and religious standards, and expression of Catholic identity, of HRHS and all entities contained therein. HR Ministries is not consolidated in the consolidated financial statements presented here.

The consolidated financial statements include the accounts of, and are collectively referred to as HRHS:

Holy Redeemer Health System – which consists of:

Holy Redeemer Hospital (the Hospital), is a 242-bed short-term, acute care medical surgical community hospital with a 21-bed skilled nursing facility.

Holy Redeemer St. Joseph Manor (Manor), a personal care and nursing care facility with 296 nursing and 63 personal care beds.

Holy Redeemer Lafayette, an independent living, residential personal care and nursing facility with 296 residential units and 120 nursing care beds.

Holy Redeemer Home Care and Hospice, provides a full range of home health services, including a Medicare certified home health agency and hospice, along with a division which provides companion services and private duty nursing and aid services.

A development division that provides fundraising support to HRHS and its subsidiaries.

HR Physician Services (dba Holy Redeemer Physician and Ambulatory Services) (HRPS)

HR Physician Services employs and contracts with physicians and other health care providers who deliver health care services to Holy Redeemer affiliates, as well as HRPS owned physician practices. HRHS is the sole corporate member.

Holy Redeemer Visiting Nurse Agency, Inc. (HRVNA)

Holy Redeemer Visiting Nurse Agency, Inc. is a Medicare certified home health agency and hospice located in New Jersey, which provides a full range of home health care services. HRHS is the sole corporate member.

THR Insurance Company Ltd.

THR Insurance Company Ltd., formed May 6, 2005, is a freestanding corporation through which HRHS insures its professional liability and general liability risk through the single parent captive insurance company.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 1 ORGANIZATION (CONTINUED)

HRH Management Corporation (Management Corp.)

HRH Management Corporation owns and manages several medical office buildings within the primary service area of the Holy Redeemer Hospital. The properties are leased to physicians and other related HRHS activities. HRHS is the sole corporate member.

Drueding Center (Drueding)

Drueding Center provides housing, child daycare, and a comprehensive network of health, social, educational, and vocational services to homeless single women and their children. HRHS is the sole corporate member.

Redeemer Villages (the Villages)

Redeemer Village and Redeemer Village II are two separate corporations, which provide low-income independent housing to the elderly and disabled. HRHS is the sole corporate member. The Villages' fiscal year-end is September 30.

Visiting Nurse Service System (VNSS) – which consists of:

Visiting Nurse and Health Services (VNHS) doing business as Holy Redeemer Home Care - North (HRHC - North) which provides skilled nursing, therapy, nutrition, social work, and other health care services such as Medicare certified home health agencies. HRHS was the sole corporate member through April 5, 2016. Effective April 6, 2016, Saint Peter's University Hospital became a minority member of this entity with a 9.9% interest.

Holy Redeemer Home Care, Inc. (HRHC), which provides skilled nursing, therapy, nutrition, social work, and other health care services such as Medicare certified home health agencies. HRHS is the sole corporate member.

Holy Redeemer Hospice, Inc. (HR Hospice), which provides hospice services as a Medicare certified hospice agency, and also includes VNHS Foundation, formally Friends of VNA. VNHS Foundation is a development division that provides fundraising support for VNSS. HRHS is the sole corporate member.

VNA Home Care of Mercer County, Inc. (VNA Mercer)

On July 1, 2012, HRHS became the sole corporate member of VNA Home Care of Mercer County, Inc., a New Jersey nonprofit corporation, a Medicare certified and CHAP accredited agency, whose principal office is in Trenton (Mercer County) New Jersey - provides skilled nursing, specialty nursing, hospice services and a full range of rehabilitation and certified home health aide services in Mercer County, New Jersey.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 1 ORGANIZATION (CONTINUED)

Holy Redeemer Ambulatory Surgery Center, LLC (ASC)

Holy Redeemer Ambulatory Surgery Center, LLC operates a freestanding ambulatory surgery center near the campus of Holy Redeemer Hospital. At June 30, 2018 and 2017, the ASC was owned 59% by nonaffiliated physicians and the balance of 41% by other HRHS controlled entities. As the HRHS controlled entities still have the ability to exercise control over the ASC, the consolidated financial statements of HRHS include the accounts of ASC.

D'Youville Manor

On January 1, 2012 HRHS became the sole corporate member of D'Youville Manor, a 51-bed personal care facility located in Yardley, Bucks County, Pennsylvania. This facility was closed on August 1, 2016.

Holy Redeemer – Dale ZIPLEY Homes for Independent Adults (HRDZ Homes)

Holy Redeemer - Dale ZIPLEY Homes for Independent Adults, a Pennsylvania nonprofit corporation, operates a group home for developmentally disabled adults. HRDZ Homes became a part of the system on July 24, 2012. HRDZ Homes fiscal year-end is December 31.

Holy Redeemer Active and Retirement Living Community (HRARL)

Holy Redeemer Active and Retirement Living Community, is a nonprofit continuing care and retirement community. HRARL maintains a 50.5% ownership in The Views at Pine Valley I, L.P. and a 51% ownership in The Views at Pine Valley I, LLC (hereafter collectively referred to as The Views at Pine Valley). HRHS is the sole corporate member.

Holy Redeemer Active and Retirement Living Communities, Inc. (HRARL, Inc.)

Holy Redeemer Active and Retirement Communities, Inc. was formed on July 1, 2004, to construct and sell age-restricted housing. HRARL, Inc. maintains a 50.5% ownership in The Views at Pine Valley II, L.P. and a 51% ownership in The Views at Pine Valley II, LLC (hereafter collectively referred to as The Views at Pine Valley II). HRHS is the sole corporate member.

Innovative Wellness Alliance, LLC (IWA)

Innovative Wellness Alliance, LLC (IWA), a Pennsylvania Limited Liability Corporation, operates as a Clinically Integrated Network of Physicians. This entity was formed in November of 2013 and is currently owned by HRHS (86.96%) and 60 physician investors (13.04%). The physician investor's ownership percentage will likely be limited to a maximum of 20%.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 1 ORGANIZATION (CONTINUED)

Community Collaborative of Pennsylvania and New Jersey LLC

Community Collaborative of Pennsylvania and New Jersey LLC (CCC), a for-profit Pennsylvania limited liability company, has a three-year Medicare Shared Savings Program contract with CMS for approximately 30,000 Medicare beneficiaries that was effective January 1, 2017 to December 31, 2019. The CCC also signed a three-year Aetna Commercial contract with approximately 25,000 members effective January 1, 2017 to December 31, 2019. HRHS and Doylestown Hospital are the current members of CCC, with each member holding a 50% interest. CCC also intends to enter into additional private payer incentive plans in 2019. It is anticipated that CCC may add a minority member at approximately 33% with the current members being reduced to 33% each. CCC is not a part of HRHS's consolidated financial statements.

PGC Acquisition LLC (PGC, LLC)

On December 22, 2016, PGC Acquisition, LLC, a Pennsylvania Limited Liability Company, was formed known as PGC Acquisition, LLC. The owners of PGC, LLC are HRPS which owns 51%, and the remaining 49% is owned by Philmont Guidance Center, P.C.

Acquisition and Member Substitution

On December 15, 2017, Holy Redeemer Health System (HRHS) completed a transaction to transfer the sole corporate membership of Little Flower Manor (LFM) Nursing Home from the Sisters of the Divine Redeemer to HRHS. LFM was founded in 1977 and is a 127-bed facility that provides skilled nursing and rehabilitation service. LFM is located in Darby, PA, Delaware County. It is approximately 30 miles south of the main HRHS campus. LFM has a five-star rating from the Medicare program. LFM has no long-term debt.

On November 1, 2017, a Pennsylvania Limited Liability Company was formed, known as Orthopedic Surgery & Rehabilitation Associates, LLC. (OSRA). The owners of OSRA are HRPS which owns 70%, and two physicians who owned a combined 30% of OSRA. This LLC purchased the assets of an existing orthopedic surgery practice and now conducts business under the name of OSRA, LLC. In addition to two physician owners who were partners in the existing practice, whose assets were purchased, there are five additional employed physicians in OSRA, LLC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

With the exception of the development division, revenues and expenses are generated by providing and/or financing the services described above. Unrestricted contributions generated by the development division are classified as nonoperating gains (losses).

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In May 2014, the FASB issued amended guidance to clarify the principles of recognizing revenue from contracts with customers as discussed within ASU No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an account that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of the amended revenue recognition guidance on HRHS's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU 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 entity's leasing activities. HRHS will be required to retrospectively adopt the guidance in ASU 2016-02 for years beginning after December 15, 2018. Management is evaluating the impact of the amended lease guidance on HRHS's consolidated financial statements.

Use of Estimates

The preparation of these consolidated financial statements has required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts with original maturities of three months or less, excluding investments and assets limited as to use.

Patient Accounts Receivable

HRHS provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and HRHS ceases collection efforts. Losses have been consistent with management's expectations.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Accounts Receivable (Continued)

In evaluating the collectability of accounts receivable, HRHS analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source are regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. Specifically, for receivables relating to services provided to patients having third-party coverage, an allowance for doubtful accounts and a corresponding provision for bad debts are established for amounts outstanding longer than 120 days and for third-party payors experiencing financial difficulties; for receivables relating to self-pay patients, a provision for bad debts is made in the period services are rendered based on experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs are charged against the allowance for doubtful accounts, and the provision for bad debts is reflected as a reduction of net patient service revenue in the consolidated statement of operations and changes in net assets.

HRHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HRHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

On the basis of historical experience, a significant portion of HRHS's uninsured patients will be unable or unwilling to pay for the services provided. Thus, HRHS records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under indenture agreements as well as self-insurance programs.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Land is stated at cost, except for land transferred to the Manor by Sisters, which was recorded at the nominal value of \$1. Costs of major additions and improvements of \$2,500 or greater with an estimated useful life of at least three years are capitalized; maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations as incurred.

When an asset is sold, retired, or otherwise disposed of, the cost of the property and related accumulated depreciation are removed from the respective accounts, and any resulting gains or losses are reflected in other operating revenue.

Depreciation is provided over the estimated useful lives of the fixed assets on the straight-line method.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

HRHS reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss was recognized in 2018 and 2017.

Investments and Investment Income

Investments in debt and equity securities, mutual funds, managed funds, and money market funds, with readily determinable fair values, are recorded at fair value. Investments in private equity limited partnerships, for which the ownership percentage is less than 3%, are recorded at the lower of cost or fair value. Managed funds represent subscriptions in hedge funds and fund-of-funds utilized to diversify the portfolio of HRHS. Annual audited financial statements for these funds are submitted to HRHS and reviewed by management. The funds' financial statements are presented at fair value as estimated in an unquoted market. The related investment balance is equal to HRHS's proportionate interest in the fund's net equity. Individual investment holdings within the investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment.

Investment income from unrestricted net assets is reported as nonoperating gains in the consolidated statements of operations and changes in net assets.

HRHS's investment portfolio, with the exception of private equity limited partnerships and Trustee-Held Funds, are designed as a "trading" portfolio in accordance with the FASB ASC 320 Investments. The FASB ASC 954-320 *Investments – Debt and Equity Securities* requires that changes in unrealized gains and losses on marketable securities designated as trading be reported within excess of revenues and gains over expenses and losses. The private equity limited partnerships and Trustee-Held Funds are classified as "other-than-trading" investments.

Deferred Financing Costs

Deferred financing costs represent debt issuance costs which are amortized over the period the obligations are outstanding using the effective interest method. Amortization expense, including amortization of the bond discount (see Note 8), was \$165 and \$148 for the fiscal years ending June 30, 2018 and 2017, respectively, and is reported as Interest Expense in the consolidated statement of operations.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entry Fees

Deferred entry fees represents amounts received from residents and prospective residents upon signing a residency agreement and payment of the initial 10% deposit. Generally upon move-in, the deferred entry fee on the contract is initially refundable for 90 days, but becomes 10% nonrefundable after the initial 90-day period has passed. The 90% refundable portion of the deferred entry fee is refundable upon contract termination and re-occupancy of the unit or five years from the date the unit becomes vacant. At June 30, 2018 and 2017, the portion of entry fees subject to refund provisions amount to \$12,111 and \$12,082, respectively. The nonrefundable portion of the deferred entry fee is being amortized into other operating revenue over the actuarially determined life expectancy of each resident or resident couple, adjusted annually. Upon death of a sole surviving resident, any remaining unamortized portion of the deferred revenue from advance fees is recognized as revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets, as net assets released from restrictions.

Noncontrolling Interest

HRHS has several consolidated investments with the corresponding third-party investor's ownership share presented as noncontrolling interests. The third-party investor's interest in the excess of revenues and gains over expenses and losses for the fiscal years ended June 30, 2018 and 2017 is reflected in the consolidated statements of operations and changes in net assets.

Excess of Revenues and Gains over Expenses and Losses

The consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses which represents all unrestricted revenues and expenses for the reporting period. Other changes in unrestricted net assets that are excluded from the excess of revenues and gains over expenses and losses include assets released from restrictions for purchase of property and equipment, changes in unrealized gains and losses on other-than-trading securities, other changes in pension liability, and other changes related to equity transfers from unconsolidated affiliates.

Housing Sales

The Views at Pine Valley II generated revenues through the sale of individual housing units that were constructed on a tract of land adjacent to Holy Redeemer Lafayette. The related construction costs make up the cost of goods sold – housing in the consolidated statements of operations and changes in net assets.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Operating Revenue

The Villages derive rental income under one-year tenant leases, which are renewed annually upon recertification of tenants' qualifications. The Villages have Housing Assistance Payments (HAP) contracts with the United States Department of Housing and Urban Development (HUD) pursuant to Section 8 of the United States Housing Act of 1973. The agreements are automatically renewed each year subject to the availability of funding. Rental income is included in other operating revenue on the consolidated statements of operations and changes in net assets.

The Management Corp. derives leasing income primarily from physicians associated with HRHS. Leasing income is included in other operating revenue in the consolidated statements of operations and changes in net assets.

Income Taxes

With the exception of ASC, HRARL, Inc., PGC, LLC and OSRA, all entities are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code. In conformity with the Internal Revenue Code and applicable state and local tax statutes, taxable income or loss is required to be reported in the tax returns of the owners and, accordingly, no provision has been made in the accompanying consolidated financial statements for any federal, state, or local income taxes.

HRHS follows the guidance in the accounting standards regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized.

The application of this standard has no impact on HRHS's consolidated financial statements.

New Accounting Standard

During the year June 30, 2018, HRHS adopted a provision of Financial Accounting Standards Board (FASB) Account Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy and make certain disclosure for all investments for which fair value is measured using the NAV per share practical expedient. This standard has been applied retrospectively to all periods presented.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Calculation of Statutory Liquid Reserves

Under the provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act (the Act), the continuing care retirement communities owned by HRHS must maintain a statutory minimum liquid reserve as of June 30, 2018, that is equal to the greater of 10% of 2019 total projected operating expenses, exclusive of depreciation and amortization, or the 2019 debt service requirements. In facilities where some residents are not under the continuing-care agreements, the reserve shall be computed only on the proportional share of financing or operating expense that is applicable to residents under continuing-care agreements at the end of the provider's most recent fiscal year. HRHS has two entities that are required to comply with the Act. The following is a calculation of the provisions under the Act for the Holy Redeemer Lafayette and HRARL as of June 30, 2018:

	<u>Holy Redeemer Lafayette</u>	<u>HRARL</u>
Total Principal and Interest Payments Due During the 12-Month Period July 1, 2018 Thru June 30, 2019	\$ 1,169	\$ 682
Approximate Percentage of CCRC Contracts Debt Service Applicable to CCRC Contracts	<u>3.4%</u> <u>\$ 40</u>	<u>100%</u> <u>\$ 682</u>
10% of the Projected 2019 Operating Expenses Exclusive of Depreciation	\$ 2,375	\$ 129
Approximate Percentage of CCRC Contracts Projected Operating Expenses of CCRC Contracts	<u>3.4%</u> <u>\$ 81</u>	<u>100%</u> <u>\$ 129</u>
Total Minimum Liquid Reserve Requirement	<u>\$ 81</u>	<u>\$ 682</u>

The Holy Redeemer Lafayette's statutory minimum reserve is \$81 based on the 2019 projected operating expenses. For HRARL, the statutory minimum liquid reserve is \$682 based on the 2019 debt service requirements. Under the provisions and related amendments of the Act, the total unrestricted funds of the respective entities satisfy this requirement. Management believes that the continuing care retirement communities of HRHS are compliant with all other requirements of the Act at June 30, 2018.

Subsequent Events

In preparing these consolidated financial statements, HRHS has evaluated events and transactions for potential recognition or disclosure through October 16, 2018, the date the consolidated financial statements were issued. The results of this evaluation indicated that there are subsequent events or transactions that are required to be disclosed in these consolidated financial statements as summarized in Note 16.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 3 NET PATIENT SERVICE REVENUE

Third-Party Agreements

Certain controlled affiliates of HRHS have agreements with third-party payors that provide for payments to the various affiliates at amounts different than their established rates. Net patient service revenues recorded under the Medicare, Medical Assistance, Medical Assistance managed care, Medicare managed care, and Blue Cross reimbursement programs were approximately \$263.6 million and \$287.4 million for the fiscal years ended June 30, 2018 and 2017, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegation of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and potential exclusion from the Medicare and Medicaid programs.

The Medical Assistance and Medicare programs reimburse the various affiliates of HRHS at predetermined per-case rates for inpatient services. Outpatient and physician services are reimbursed at prospective rates.

The Medicare program's administrative procedures preclude final determination of certain amounts due to HRHS until after the various cost reports are audited or otherwise reviewed and settled upon by the respective administrative agencies. The cost reports have been finalized by Medicare through the June 30, 2016 filed report.

Section 306 of the Medicare Prescription Drug Improvement and Modernization Act of 2003 directed the Secretary of Health and Human Services to demonstrate the use of Recovery Audit Contractor (RAC) under CMS' Medicare Integrity Program in identifying underpayments and overpayments under the Medicare program, and recouping those overpayments. RACs are third-party organizations under contract with CMS, and the law provides that compensation paid to each RAC be based on a percentage of overpayment recoveries identified by the RAC.

The TRHCA also included several provisions that give Medicare providers certain protections and rights. For example, overpayments identified by the RACs are subject to reconsideration and appeal through several forums.

HRHS intends to pursue the reversal of adverse determinations where appropriate; however, HRHS cannot predict the outcome of any such appeals. In addition to any overpayments identified by the RACs that are not reversed, HRHS will incur additional costs to respond to requests for records and pursue the reversal of payment denials. HRHS has established protocols to respond to RAC requests and payment denials, if any. HRHS recently received RAC requests and is in the process of responding to those requests. HRHS cannot predict the impact of the RAC reviews on its results of operations or cash flows.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Third-Party Agreements (Continued)

HRHS has established a reserve of approximately \$1.65 million as of June 30, 2018 and 2017 for adjustments which may result from final settlement of these reports and RAC requests.

Certain controlled affiliates of HRHS also have reimbursement agreements with certain commercial insurance carriers, health maintenance organizations (HMOs), and preferred provider organizations principally in the Mid-Atlantic region. The basis for reimbursement under these agreements includes prospectively determined rates per inpatient discharge, discounts from established charges, and other prospectively determined rates. These programs reimburse HRHS primarily at established per-case or per diem rates based on the terms of the contracts.

A summary of patient and resident service revenue and contractual adjustments for the fiscal years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Net Patient Service Revenues:		
Third-Party Payers	\$ 334,500	\$ 327,059
Self-Pay	35,965	33,810
Total Net Patient Service Revenues:	<u>\$ 370,465</u>	<u>\$ 360,869</u>

Concentrations of Credit Risk

HRHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of accounts receivable from third-party payors and individuals is as follows:

	<u>2018</u>	<u>2017</u>
Medicare and Medicaid	23 %	24 %
HMO	25	26
Self-Pay	20	19
Commercial Insurance	11	15
Blue Cross	21	16
Total	<u>100 %</u>	<u>100 %</u>

Charity Care and Community Service

HRHS provides services to patients who meet the criteria of the charity service policy without charge or at amounts less than established rates and provides programs for the community. Criteria for charity care conform to the provisions of the Catholic Health Association of the United States, *Social Accountability Budget, a Process for Planning and Reporting Community Service in a Time of Fiscal Constraint*.

HRHS maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges forgone, based on established rates, for services and supplies furnished under charity care and community services policies, the estimated cost of those services and supplies, and statistics quantifying the level of charity care and community service.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Charity Care and Community Service (Continued)

HRHS estimates its direct and indirect costs of providing charity care for each entity by either calculating a cost per chargeable unit and applying to charges forgone, a cost-to-charge ratio by comparing the per diem rate from the most recently filed cost report to the gross bill rate, or direct expenses recorded under specific cost centers.

Benefits for the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

Benefits for the broader community include services provided to other needy populations that may not qualify as poor but that need special services and support. Examples include maternity assistance programs, health evaluations, and social services.

The following is a summary of the HRHS estimated charity care and community services expense for the fiscal years ended June 30, 2018 and 2017. The amounts designated as “traditional charity care” are also determined in accordance with industry guidance.

The level of charity care and uncompensated care provided is set forth below:

	<u>2018</u>	<u>2017</u>
Cost of Services Provided to Patients that Qualify for Charity Care:		
Benefits for the Poor:		
Traditional Charity Care	\$ 1,627	\$ 1,612
Unpaid Costs of Public Programs:		
Medicaid	13,427	15,807
Other	<u>45</u>	<u>5</u>
Total Quantifiable Benefits for the Poor	<u>15,099</u>	<u>17,424</u>
Benefits for the Broader Community:		
Education and Research	289	337
Negative Margin Services	<u>2,920</u>	<u>1,937</u>
Total Quantifiable Benefits for the Broader Community	<u>3,209</u>	<u>2,274</u>
Total Quantifiable Community Benefits	<u>\$ 18,308</u>	<u>\$ 19,698</u>

In addition to the summary, a loss was incurred from treating traditional Medicare patients in the Hospital of \$11,360 and \$11,033 for the fiscal years ended June 30, 2018 and 2017, respectively.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 4 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity with investment income available for specified operating and capital purposes. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Temporarily restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Patient Care, Religious, and Strategic Initiatives	\$ 9,129	\$ 8,358
Net Pledges Receivable, Primarily for Purchases of Capital	760	860
Total	<u>\$ 9,889</u>	<u>\$ 9,218</u>

Pledges receivable as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Net Pledges Receivable Due in:		
Less Than One Year	\$ 544	\$ 739
One to Five Years	216	121
Total	<u>\$ 760</u>	<u>\$ 860</u>

The pledges committed during the current fiscal year have been discounted at approximately 6%.

Permanently restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Healthcare Services	\$ 5,081	\$ 4,826
Education	1,228	1,157
Religious Initiatives	697	677
Total	<u>\$ 7,006</u>	<u>\$ 6,660</u>

Only the investment income derived from these permanently restricted assets is expendable for the above purposes designated by the donor, as the original corpus has been permanently restricted.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 4 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Endowments

HRHS's permanently restricted net assets consist of multiple individual funds established by donors for a variety of purposes, including healthcare services, education, and religious initiatives. HRHS follows the FASB issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. HRHS operates in the Commonwealth of Pennsylvania, and is not required to adopt the provisions related to UPMIFA; however, is subject to the enhanced disclosure requirements.

HRHS's Board of Trustees follow the interpretation of Commonwealth of Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HRHS classifies as permanently restricted net assets (a) the value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. Any remaining unspent earnings or net appreciation of the donor-restricted endowment funds is not classified in permanently restricted net assets and is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HRHS in a manner consistent with HRHS's spending policy.

The endowment portfolio is invested in a mutual fund that seeks to maximize long-term total return by investing in a balanced allocation of stocks, bonds, and short-term investments.

HRHS's target annual distribution from the endowment is determined during the annual budget process. For fiscal year 2018, the target distribution was 4% of the June 30, 2017 market value. The percentage expended for each of the fiscal years ended June 30, 2018 and 2017 was 1%. HRHS also reinvests a percentage of the market value of the fund into the permanently restricted principal, providing the investment return is greater than the reinvestment amount. This percentage is also determined during the annual budget process. The percentage reinvested in principal for each of the fiscal years ended June 30, 2018 and 2017 was 1%. In addition, the Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of permanently restricted investment net gains under a total return spending rate policy, not to exceed 7% of the average market value of the assets for the preceding three years. HRHS has not authorized a principal drawdown in both fiscal years 2018 and 2017. To the extent that actual income from these permanently restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference.

For financial statement purposes, any excess of accumulated gains or accumulated losses is recorded as temporarily restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of temporarily restricted investment income. The Board expects a 4% draw for the upcoming June 30, 2019 fiscal year.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 4 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Endowments (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. The endowment funds had no deficiencies as of June 30, 2018 and 2017. Any deficiencies would be recorded in temporarily restricted net assets. Deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions.

Endowment Fund Activity

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - July 1, 2016	\$ 1,994	\$ 6,144	\$ 8,138
Investment Return	680	209	889
Contributions	-	209	209
Re-Investment in Principal	(98)	98	-
Appropriation of Endowment Assets for Expenditure	<u>(49)</u>	<u>-</u>	<u>(49)</u>
Endowment Net Assets - June 30, 2017	2,527	6,660	9,187
Investment Return	499	196	695
Contributions	-	38	38
Re-Investment in Principal	(112)	112	-
Appropriation of Endowment Assets for Expenditure	<u>(49)</u>	<u>-</u>	<u>(49)</u>
Endowment Net Assets - June 30, 2018	<u>\$ 2,865</u>	<u>\$ 7,006</u>	<u>\$ 9,871</u>

HOLY REDEEMER HEALTH SYSTEM
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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017 consisted of the following:

	Estimated Useful Lives	2018	2017
Land and Improvements	(5-25 Years)	\$ 23,220	\$ 22,656
Buildings and Improvements	(5-40 Years)	318,980	301,523
Equipment and Furnishings	(5-25 Years)	154,974	147,277
Total		<u>497,174</u>	<u>471,456</u>
Less: Accumulated Depreciation and Amortization		332,984	317,553
Total		<u>164,190</u>	<u>153,903</u>
Construction in Progress		11,435	13,299
Total Property and Equipment		<u>\$ 175,625</u>	<u>\$ 167,202</u>

Depreciation and amortization expense was \$21,568 and \$20,561 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE 6 ASSETS LIMITED AS TO USE, INVESTMENTS, AND INVESTMENT INCOME

Trustee Held Funds and Professional Liability Funds as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Cash and Cash Equivalents	\$ 43,214	\$ 55,162
Equity Securities	18,068	17,585
Fixed Income Securities	42,609	38,666
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds	1,775	1,538
Total	<u>105,666</u>	<u>112,951</u>
Private Equity Investments, at Cost	973	794
Total	<u>106,639</u>	<u>113,745</u>
Less: Current Portion of Trustee Held Funds	8,803	8,433
Total	<u>\$ 97,836</u>	<u>\$ 105,312</u>
	2018	2017
Trustee Held Funds, Net of Current Portion	\$ 8,525	\$ 8,388
Construction Funds	30,392	42,049
Professional Liability Funds	58,919	54,875
Total	<u>\$ 97,836</u>	<u>\$ 105,312</u>

HOLY REDEEMER HEALTH SYSTEM
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NOTE 6 ASSETS LIMITED AS TO USE, INVESTMENTS, AND INVESTMENT INCOME
(CONTINUED)

Trustee Held Funds and Professional Liability Funds are maintained for the following purposes:

	2018	2017
Debt Service Fund	\$ 6,030	\$ 3,928
Debt Service Reserve Fund	3,987	5,962
Construction Fund	30,392	42,049
Self-Insured Workers' Compensation Fund	7,311	6,931
Professional Liability Funds	58,919	54,875
Total	<u>\$ 106,639</u>	<u>\$ 113,745</u>

Investments as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Cash and Cash Equivalents	\$ 5,879	\$ 2,790
Equity Securities	20,135	30,885
Fixed Income Securities	23,548	21,343
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds	75,930	70,893
Other	1,559	1,415
Total	<u>127,051</u>	<u>127,326</u>
Private Equity Investments, at Cost	41,618	36,579
Total	<u>\$ 168,669</u>	<u>\$ 163,905</u>

Investment income and gains (losses) on cash and cash equivalents, assets limited as to use, and other investments are comprised of the following:

	2018	2017
Nonoperating Gains (Losses):		
Investment Income	\$ 7,487	\$ 6,750
Net Unrealized Gains (Losses) on Trading Securities	(3,925)	10,061
Realized Gains on Sales of Investments, Net	10,291	1,865
Total	<u>\$ 13,853</u>	<u>\$ 18,676</u>
Other Changes in Unrestricted Net Assets:		
Net Unrealized Gains (Losses) on Investments	<u>\$ (226)</u>	<u>\$ 1,689</u>

HOLY REDEEMER HEALTH SYSTEM
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NOTE 7 FAIR VALUE MEASUREMENTS

HRHS utilizes various methods of calculating the fair value of its financial assets and liabilities, when applicable. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from HRHS's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). The fair value hierarchy is comprised of three levels based on the source of inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, HRHS uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

The following tables present the fair value hierarchy for HRHS's financial assets measured at fair value on a recurring basis:

	2018			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 66,734	\$ -	\$ -	\$ 66,734
Equity Securities	28,412	9,791	-	38,203
Fixed Income Securities	26,729	39,429	-	66,158
Equity Managed Funds				
Measured at Net Asset Value	-	-	-	77,705 *
Other Investments	-	1,559	-	1,559
Total	<u>\$ 121,875</u>	<u>\$ 50,779</u>	<u>\$ -</u>	<u>\$ 250,359</u>
	2017			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 85,756	\$ -	\$ -	\$ 85,756
Equity Securities	29,325	14,102	-	43,427
Fixed Income Securities	23,410	42,201	-	65,611
Equity Managed Funds				
Measured at Net Asset Value	-	-	-	72,431 *
Other Investments	-	1,415	-	1,415
Total	<u>\$ 138,491</u>	<u>\$ 57,718</u>	<u>\$ -</u>	<u>\$ 268,640</u>

HOLY REDEEMER HEALTH SYSTEM
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

*As described in Note 2, the adoption of ASU 2015-07 states that certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient should not be classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets. Additionally, as of June 30, 2018 and 2017, a total of \$42,591 and \$37,373 were excluded from the provisions of the FASB fair value measurement guidance because those investments are valued based on cost.

The following table presents the financial assets included in the consolidated balance sheet as of June 30, 2018 and 2017:

	2018	2017
Cash and Cash Equivalents	\$ 16,879	\$ 27,626
Statutory Liquid Reserve	763	737
Trustee-Held Funds	17,328	16,821
Construction Funds	30,392	42,049
Professional Liability Funds	58,919	54,875
Investments	168,669	163,905
Total	<u>292,950</u>	<u>306,013</u>
Less: Private Equity Investments, at Cost	42,591	37,373
Total	<u>\$ 250,359</u>	<u>\$ 268,640</u>

HRHS's Level 1 securities primarily consist of U.S. Treasury securities, cash, money market funds, and marketable equity mutual funds. HRHS determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

HRHS's Level 2 securities primarily consist of marketable managed equity accounts holding individual, publicly held securities. HRHS determines the estimated fair value for its Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in nonactive markets, inputs other than quoted prices that are observable for asset/liability, and inputs that are derived principally from or corroborated by other observable market data.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of the following investments have been estimated using the net asset value per share of the investments as of June 30, 2018:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Spruce Grove	(a) \$ 8,859	\$ -	Monthly	10 Days
Adage Capital	(b) 20,687	-	Quarterly	60 Days
Titan Partners	(c) 2,086	-	Annually	30 Days
City of London	(d) 12,162	-	Monthly	30 Days
TIFF	(e) 12,513	-	Annually	100 Days
Forester Opportunities	(f) 13,955	-	Quarterly	95 Days
Obsidian	(g) 2,727	-	Quarterly	60 Days
LL Mortgage	(h) 2,294	-	Monthly	60 Days
Parametric	(i) 2,422	-	Monthly	5 Days
Total Equity				
Managed Funds	<u>\$ 77,705</u>	<u>\$ -</u>		

This fund utilizes a value approach to the management of non-U.S., developed market equities. It emphasizes long-term investment and it focuses on the selection of individual securities using a bottom-up, research driven approach.

- (a) This utilizes a value approach to the management of non-U.S., developed market equities. It emphasizes long-term investment and it focuses on the selection of individual securities using a bottom-up, research driven approach.
- (b) This is a fund that seeks to outperform the S&P 500 index by investing primarily in U.S. equity securities. The fund will go long and short on securities to capture industry security mispricing, but will keep in close alignment with the S&P 500 sector weightings.
- (c) This fund invests in growth securities that are primarily in U.S. markets.
- (d) This fund invests primarily in closed-end country funds whose assets are invested principally in emerging markets.
- (e) This is a hedge fund of funds whose strategy is to invest in underlying funds that primarily pursue arbitrage, event driven, fixed income, and long/short equity strategies.
- (f) This is a hedge fund of funds whose strategy is to invest in underlying funds that primarily pursue arbitrage, event driven, fixed income, and long/short equity strategies.
- (g) This is a long/short fixed income hedge fund that invests across fixed income sectors utilizing a variety of strategies including arbitrage, relative value, and opportunistic credit.
- (h) This is a long-only, nonagency, mortgage-backed securities fund.
- (i) This fund seeks to provide favorable risk-adjusted performance relative to the MSCI ACWI Index over the long term by investing in equities and Treasury Bills.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 8 LONG-TERM DEBT

Long-term debt as of June 30, 2018 and 2017 consisted of the following:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Term loan dated October 3, 2011, stated rate fixed at 3.11% with annual variable principal payments through October 2017.	\$ -	\$ 4,210
Montgomery County Higher Education and Health Authority Health Care Revenue Bonds Series A of 2014 (2014 Bonds), stated rates fixed at 4.0% through 2021 and then at 5.0% through 2028, mature in various years from 2019 through 2028. Includes original issue premium of \$3,177 and \$3,744 at June 30, 2018 and 2017, respectively.	49,497	50,094
Montgomery County Higher Education Bond Issue of 2016 (2016 Bonds) with stated rates varying from 2.0% - 3.0% through October 1, 2017, then fixed at 5.0% through October 1, 2040. Matures in various years from 2022 through 2041 and includes the original bond issue premium \$8,007 and \$8,481 at June 30, 2018 and 2017, respectively.	78,922	79,396
Mortgage note on 821 Building dated January 29, 2010 with monthly payments of \$27, including interest at LIBOR Market Index-based rate plus 165 basis points (3.74% at June 30, 2018) through January 2020.	1,890	2,149
Mortgage note on 667 Building dated January 29, 2010 with monthly payments of \$11, including interest at LIBOR Market Index-based rate plus 165 basis points (3.74% at June 30, 2018) through January 2020.	784	891
Mortgage note on 1844 Street Road building dated December 7, 2016 with monthly payments of \$8 including interest at 4.25% through December, 2036.	1,168	1,209
Subtotal Forward	132,261	137,949

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 8 LONG-TERM DEBT (CONTINUED)

<u>Description (Continued)</u>	<u>2018</u>	<u>2017</u>
Subtotal Forward	\$ 132,261	\$ 137,949
Mortgage note on Egg Harbor Township building dated September 26, 2006 with monthly payments of \$10 including interest at a fixed rate of 4.26%. The note matures March 2027.	910	994
Promissory Note to The Grey Nuns of the Sacred Heart, Inc. dated January 2012, interest rate fixed at 5.0% with variable quarterly installments through December 2018.	79	662
HUD Mortgage Payable dated August 1981, with monthly installments of \$43, including interest at 7.63% through August 2021.	1,450	1,840
HUD Mortgage Payable dated June 1983, with monthly installments of \$17, including interest at 9.25% through June 2023.	831	956
Construction loan, secured by The Views I at Pine Valley property and refinanced in 2017 - interest rate is fixed at 3.75% with monthly payments through November 2023.	10,571	10,852
Construction loan, secured by The Views II at Pine property with monthly installments of \$18, including interest at LIBOR Market Index-base rate plus 185 basis points (3.94% at June 30, 2018), through June 2018.	-	690
Subtotal	146,102	153,943
Less: Unamortized Debt Issuance Costs	1,605	1,770
Total Long-Term Debt	144,497	152,173
Less: Current Portion of Long-Term Debt	5,113	6,421
Total Long-Term Debt, less Current Portion	<u>\$ 139,384</u>	<u>\$ 145,752</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 LONG-TERM DEBT (CONTINUED)

In 2012 HRHS refinanced bonds maturing October 1, 2012 through October 1, 2017 of the Montgomery County Higher Education and Health Authority Health Care Revenue Bonds, Series A of 1997. The outstanding principal amount of the bonds selected for optional redemption was \$21,895 with variable interest rates of 5.20% to 5.25%. The optional redemption occurred at par without premium or penalty. The refinancing of the identified bonds was funded with the proceeds of a taxable term loan, with a fixed interest rate of 3.11% and interest and principal payment dates identical to the bonds refinanced. As a result of the refinancing, HRHS realized a net present value savings of \$1,388, net of transaction expenses.

In 2014 HRHS issued \$46,320 of new Montgomery County Higher Education and Health Authority Health Care Revenue Bonds, Series A of 2014 and used the proceeds to extinguish the remaining 1997 bonds maturing October 1, 2018 through October 1, 2027 of the Montgomery County Higher Education and Health Authority Health Care Revenue Bonds, Series A of 1997. As a result of these transactions, HRHS realized a net present value savings of \$5,943, net of transaction expenses.

The 2014 Bonds were issued to fund certain capital improvements at the facilities of HRHS, HRPS, and HRVNA (collectively, the Obligated Group). Annual mandatory sinking fund payments on the 2014 Bonds range from \$3,700 in fiscal year 2019 to \$5,780 in fiscal year 2028. The bond indenture agreement associated with the 2014 Bonds contain customary financial covenants which include maintaining or exceeding certain financial ratios, limitations on sales of assets, and limitations on additional debt. Management believes the Obligated Group is in compliance with such covenants at June 30, 2018.

In 2016 HRHS issued \$70,915 of new Montgomery County Higher Education and Health Authority Health Care Revenue Bonds, Series A of 2016 and used the proceeds to extinguish the remaining 2006 bonds maturing October 1, 2029 through October 1, 2036 of the Montgomery County Higher Education and Health Authority Health Care Revenue Bonds, Series A of 2006. As a result of these transactions, HRHS realized a net present value savings of \$5,470, net of transaction expenses.

The Villages maintain mortgage notes payable to HUD in accordance with the provisions of Section 202 of the National Housing Act. The notes are collateralized by the rental property. The liability of the Villages under the mortgage notes is limited to the underlying value of the real estate and is classified as long-term debt on the consolidated balance sheets.

In consideration of receiving the mortgage from HUD, the Villages executed Regulatory Agreements, "Housing for the Elderly," which grants HUD the right to regulate and restrict the Villages as to rents, charges, and methods of operations, and in the event of default, to protect HUD's liability as holder of the mortgage note. Also, the Villages are required to make monthly deposits into a reserve for replacement fund. Additionally, the Villages are required to deposit any residual receipts from operations into a residual fund within 60 days of year-end. At June 30, 2018, management's calculations indicate no such amounts need to be deposited into the residual fund.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 LONG-TERM DEBT (CONTINUED)

The Views at Pine Valley I, L.P. had a construction loan agreement (the Loan Agreement) with a bank for the purpose of financing the cost of developing a portion of The Villages at Pine Valley. In fiscal year 2017, The Views at Pine Valley I, L.P. refinanced the outstanding amount due under the construction loan, increasing the maximum amount to \$11,000 at a fixed rate of 3.75%. As of June 30, 2018 and 2017, there was \$10,571 and \$10,852, respectively, outstanding under the Loan Agreement. The Loan Agreement is secured by the related real estate, and as the bank may require, additional security agreements creating valid first liens upon the fixtures, machinery, equipment, and other property located upon the real estate. The Loan Agreement is also secured by the collateral assignment of leases, agreements, licenses, and permits affecting the real estate. HRHS has no liability for the loans or the repayment of the loans, and such liability is limited solely to The Views at Pine Valley I, L.P. and the minority shareholder.

The Views at Pine Valley II, L.P. has a construction loan agreement with a bank for the purpose of financing the cost of developing a portion of The Villages at Pine Valley.

Pursuant to the loan agreement as of June 30, 2017, the bank may advance to The Views at Pine Valley II, L.P. up to \$5,000, at a variable rate of London Interbank Offered Rate (LIBOR) plus 1.85% per annum. LIBOR as of June 30, 2018 was 2.09%. The loan agreement is secured by the related real estate. HRHS has no liability for the loan or the repayment of the loan, and such liability is limited solely to The Views at Pine Valley II, L.P. As of June 30, 2018 and 2017, there was \$0 and \$690, respectively, outstanding under the loan agreement.

Future maturities of all long-term debt for the next five years and thereafter are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 5,113
2020	5,255
2021	5,493
2022	5,443
2023	5,630
Thereafter	107,984
Total	<u>\$ 134,918</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 9 LINES OF CREDIT

In March 2017, HRHS renewed a line of credit agreement with a lender that permits borrowings of up to \$25,000 through March 2019. Borrowings are payable on demand and bear interest at a rate of the one-month LIBOR rate plus 150 basis points (3.59% at June 30, 2018). The line of credit agreement also stipulates that during each one-year period, the principal balance must be reduced to and remain at \$-0- for a consecutive 30-day period. There was no amount outstanding under this line of credit as of June 30, 2018 and 2017.

In March 2018, HRHS renewed a line of credit with a lender that permits borrowings of up to \$10,000 through March 2019. Borrowings are payable on demand and bear interest at a rate of the one-month LIBOR rate plus 150 basis points (3.59% at June 30, 2018). There was \$2,000 outstanding under this line of credit as of June 30, 2018.

Holy Redeemer Ambulatory Surgery Center, LLC has a line of credit agreement with a lender that permits borrowings of up to \$1,000. Borrowings are payable on demand and bear interest at a rate of the one-month LIBOR rate plus 200 basis points (4.09% at June 30, 2018). There was no amount outstanding under this line of credit as of June 30, 2018 and 2017.

In June 2012, The Views at Pine Valley II, L.P. secured a line of credit agreement with a lender that permits borrowings of up to \$200. Borrowings are payable on demand and bear interest at a rate of one-month LIBOR rate plus 165 basis points (3.74% at June 30, 2018) with a floor of 3.5%. There was no amount outstanding under this line of credit as of June 30, 2018 and 2017.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 10 CAPITAL AND OPERATING LEASES

HRHS leases certain equipment, office space, and furnishings under operating leases. Total rental expense for operating leases was \$3,147 and \$2,929 for the fiscal years ended June 30, 2018 and 2017, respectively. Minimum future rental payments on noncancelable operating leases with terms in excess of one year as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 2,879
2020	2,669
2021	2,394
2022	2,110
2023	1,815
Thereafter	8,470
Total	<u>\$ 20,337</u>

HRHS leases certain equipment under capital leases. As of June 30, 2018, \$6,176 remains outstanding under such capital leases, with \$1,519 scheduled to be paid in fiscal year 2019. Total principal payments on capital leases were \$2,311 and \$2,762 for the fiscal years ended June 30, 2018 and 2017, respectively. Total interest expense for capital leases was \$210 and \$200 for the fiscal years ended June 30, 2018 and 2017, respectively.

Future maturities of all capital leases for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease Payments</u>	<u>Amounts Representing Interest</u>	<u>Present Value of Minimum Lease Payments</u>
2019	\$ 1,712	\$ 193	\$ 1,519
2020	1,712	149	1,563
2021	1,686	96	1,590
2022	898	52	846
2023	445	21	424
Thereafter	241	7	234
Total	<u>\$ 6,694</u>	<u>\$ 518</u>	<u>\$ 6,176</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 11 FUNCTIONAL EXPENSES

HRHS provides general health care services to residents within its geographic region. Expenses related to providing these services are as follows:

	2018	2017
Patient and Resident Care	\$ 359,441	\$ 345,610
General and Administrative	57,907	50,280
Fundraising	961	957
Total	<u>\$ 418,309</u>	<u>\$ 396,847</u>

NOTE 12 PENSION PLANS

Certain of the subsidiaries of HRHS participate in the Retirement Plan for Employees of HRHS, (the Pension Plan), a noncontributory, defined benefit pension plan, which covers substantially all employees within these entities. Effective January 1, 1999, the Plan was converted to an account balance plan. Accrued benefits as of December 31, 1998 were converted to an account balance for all Pension Plan participants. Future additions to the account balances will be made based on age and compensation. This component of the Pension Plan change was approved by the Internal Revenue Service in July 2007.

The Pension Plan has received favorable determination for church plan status and, as such, is not subject to certain reporting requirements under the Employee Retirement Income Security Act of 1974 (ERISA).

The Pension Plan was amended effective January 1, 2009 to comply with regulations of Section 403(b) of the Internal Revenue Code effective January 1, 2009. The plan amendments include increases in plan credits, elimination of interest credits for terminated employees, elimination of 403(b) match, and freeze of accruals under the pre-1999 benefit formula.

In September, 2017, an amendment to the noncontributory defined benefit plan was approved. That amendment served to freeze balance credits in the plan as of December 31, 2017 and no pay credits will be earned into the respective employee's cash balance accounts after that date. No new members will be added to this plan after December 31, 2017. Employees that remain employed with the system will continue to get an annual interest credit that is based on the one-year Treasury bill rate plus 50 basis points. The curtailment of the defined benefit pension plan is reflected as a gain in nonoperating revenues of \$5,111 for the year ended June 30, 2018. HRHS sponsors a tax deferred savings plan which operates under the provisions of Internal Revenue Code 403(b) (403(b) Plan). Beginning January 1, 2018, employees will earn a match based on their contributions and their years of service. Employees that do not participate in the 403(b) Plan will not receive any employer paid retirement benefits. Match expenses included in the accompanying consolidated statement of operations was \$1,810,589 in 2018.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 12 PENSION PLANS (CONTINUED)

The following table summarizes information about the Pension Plan as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in Benefit Obligation:		
Projected Benefit Obligation - Beginning of Year	\$ 171,911	\$ 170,186
Service Cost	3,320	7,133
Interest Cost	5,340	4,863
Actuarial (Gain) Loss	(10,939)	(3,152)
Benefits and Administrative Expenses Paid	(8,624)	(7,119)
Curtailments	(3,224)	-
Projected Benefit Obligation - End of Year	<u>\$ 157,784</u>	<u>\$ 171,911</u>
	<u>2018</u>	<u>2017</u>
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning of Year	\$ 127,718	\$ 123,105
Actual Return on Plan Assets	6,390	6,732
Contributions by the Plan's Sponsor	-	5,000
Benefits and Administrative Expenses Paid	(8,624)	(7,119)
Fair Value of Plan Assets - End of Year	<u>\$ 125,484</u>	<u>\$ 127,718</u>
Accrued Benefit Cost	<u>\$ (32,300)</u>	<u>\$ (44,193)</u>
Accumulated Benefit Obligation - End of Year	<u>\$ 157,784</u>	<u>\$ 168,937</u>
	<u>2018</u>	<u>2017</u>
Amounts Recognized in Consolidated Balance Sheet consists of:		
Pension Liability	<u>\$ (32,300)</u>	<u>\$ (44,193)</u>
Amounts Recognized in Accumulated Unrestricted Net Assets Consist of:		
Net Actuarial Loss	\$ 45,140	\$ 58,500
Prior Service Cost	-	(5,590)
Total	<u>\$ 45,140</u>	<u>\$ 52,910</u>
	<u>2018</u>	<u>2017</u>
Components of Net Periodic Pension Cost:		
Service Cost	\$ 3,320	\$ 7,133
Interest Cost	5,340	4,863
Expected Return on Plan Assets	(9,429)	(8,990)
Prior Service Cost Recognized	(480)	(1,441)
Recognized Net Actuarial Loss	2,236	4,698
Net Periodic Pension Cost	<u>\$ 987</u>	<u>\$ 6,263</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In Thousands)

NOTE 12 PENSION PLANS (CONTINUED)

	<u>2018</u>	<u>2017</u>
Other Changes in Pension Liability Recognized in Unrestricted Net Assets:		
Current-Year Actuarial (Gain) Loss	\$ (7,900)	\$ (894)
Amortization of Loss	(2,236)	(4,698)
Amortization of Prior Service (Cost)	480	1,441
Effect of Curtailment on prior service cost	5,111	-
Effect of Curtailment on gain / (loss)	<u>(3,224)</u>	<u>-</u>
Total	<u>(7,769)</u>	<u>(4,151)</u>
Total Recognized in Net Benefit Cost and Unrestricted Net Assets	<u>\$ (6,782)</u>	<u>\$ 2,112</u>

The table above does not include the \$390k liability that was written off related to the termination of the defined contribution plan for the physicians in 2018, described on page 42, that is included in other changes in pension liability on the consolidated statements of operations and changes in net assets.

The estimated net actuarial loss and the prior service cost that will be amortized from other changes in unrestricted net assets into net periodic pension cost over the next fiscal year are \$945 and \$0, respectively.

The actuarial present value of benefits was determined using the following assumptions:

	<u>2018</u>	<u>2017</u>
Assumptions:		
Weighted-Average Assumptions Used to Determine Pension Obligation at June 30:		
Discount Rate	4.41%	3.98%
Rate of Compensation Increase	N/A	3.00%
Weighted-Average Assumptions Used to Determine Net Periodic Pension Cost for the Year Ended June 30:		
Discount Rate	3.98 / 3.87%	3.78%
Rate of Compensation Increase	3.00%	3.00%
Expected Return on the Plan Assets	7.50%	7.50%

The expected rate of return is based on historical performance of the investment portfolio.

The weighted-average plan asset allocations by asset category as of June 30, 2018 and 2017 consisted of the following:

<u>Asset Category</u>	<u>Target Asset Allocation</u>	<u>2018</u>	<u>2017</u>
Cash	-	2 %	3 %
Fixed Income	20	14	18
Equity Securities	23	7	11
Equity Managed Funds	45	66	57
Private Equity	12	11	11
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 PENSION PLANS (CONTINUED)

The portfolio is widely diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, alternative investments, and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that was determined by examining expected return, standard deviation, and correlations of various assets against the Pension Plan's long-term objectives. Performance is monitored quarterly and rebalanced back to target if asset classes exceed explicit ranges. The investment policy describes which securities are allowed in the portfolios, and outlines specific benchmarks and performance percentiles with which the Stewardship and Partnership Workgroup of the Board of Trustees, which oversees the pension investment program, will monitor investment performance. Risk is closely monitored through examination of portfolio holdings and tracking portfolio beta and standard deviation.

The following table presents the fair value hierarchy for the Pension Plan assets measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 2,335	\$ -	\$ -	\$ 2,335
Equity Securities	8,449	228	-	8,677
Fixed Income Securities	17,317	253	-	17,570
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds Measured at Net Asset Value	-	-	-	96,902 *
Total	<u>\$ 28,101</u>	<u>\$ 481</u>	<u>\$ -</u>	<u>\$ 125,484</u>
	2017			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 3,671	\$ -	\$ -	\$ 3,671
Equity Securities	13,385	439	-	13,824
Fixed Income Securities	22,369	251	-	22,620
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds Measured at Net Asset Value	-	-	-	87,603 *
Total	<u>\$ 39,425</u>	<u>\$ 690</u>	<u>\$ -</u>	<u>\$ 127,718</u>

*As described in Note 2, the adoption of ASU 2015-07 states that certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient should not be classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 PENSION PLANS (CONTINUED)

The Pension Plan's Level 1 securities primarily consist of U.S. Treasury securities, cash, money market funds, and marketable equity mutual funds. HRHS determines the estimated fair value for the Pension Plan's Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

The Pension Plan's Level 2 securities primarily consist of marketable managed equity accounts holding individual, publicly held securities. HRHS determines the estimated fair value for the Pension Plan's Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in nonactive markets, inputs other than quoted prices that are observable for asset/liability, and inputs that are derived principally from or corroborated by other observable market data.

The fair values of the following investments have been estimated using the net asset value per share of the investments as of June 30, 2018:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Spruce Grove	(a) \$ 5,133	\$ -	Monthly	10 Days
City of London	(b) 3,214	-	Monthly	30 Days
Adage Capital	(c) 12,159	-	Quarterly	60 Days
Parametric	(d) 14,730	-	Monthly	5 Days
Permit Cap	(e) 2	-	Not Applicable	Not Applicable
FLAG	(f) 2,144	77	Not Applicable	Not Applicable
Siguler Guff	(g) 212	34	Not Applicable	Not Applicable
Park Street Funds	(h) 3,635	103	Not Applicable	Not Applicable
Commonfund Investments	(i) 2,055	349	Not Applicable	Not Applicable
SVB Strategic	(j) 1,095	175	Not Applicable	Not Applicable
1607 Capital	(k) 5,315	-	Monthly	10 Days
TIFF	(l) 17,505	-	Annually	100 Days
Forester Opportunities	(m) 16,682	-	Quarterly	95 Days
Obsidian	(n) 2,214	-	Monthly	60 Days
LL Opportunistic	(o) 4	-	Not Applicable	Not Applicable
LL Mortgage	(p) 4,772	-	Quarterly	60 Days
LL Capital Partners	(q) 914	100	Not Applicable	Not Applicable
Field Street	(r) 5,117	-	Monthly	60 Days
Total Pension Investments Valued at NAV	<u>\$ 96,902</u>	<u>\$ 838</u>		

- (a) This fund utilizes a value approach to the management of non-U.S., developed market equities. It emphasizes long-term investment and it focuses on the selection of individual securities using a bottom-up, research driven approach.
- (b) This fund invests primarily in closed-end country funds whose assets are invested principally in emerging markets.
- (c) This is a fund that seeks to outperform the S&P 500 index by investing primarily in U.S. equity securities. The fund will go long and short on securities to capture industry and security mispricing, but will keep in close alignment with the S&P 500 sector weightings.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In Thousands)

NOTE 12 PENSION PLANS (CONTINUED)

- (d) This fund seeks to provide favorable risk-adjusted performance relative to the S&P 500 Index over the long term by investing in equities and short-term treasuries.
- (e) This fund is a private equity fund that invests in nonagency, mortgage-backed securities.
- (f) This is a series of private equity fund of funds that invest in a diversified group of select, U.S. private equity and venture capital limited partnership investments.
- (g) This is a private equity fund of funds with a strategy to invest in underlying funds that invest primarily in companies undergoing financial distress, operating difficulties, and/or significant restructuring.
- (h) This a series of private equity fund of funds with a strategy to invest in underlying funds that invest in oil and gas exploration and production, mining, rural land, and timberland.
- (i) This is a series of private equity fund of funds that invest in a diversified group of select, U.S. and non-U.S. private equity venture capital limited partnership investments.
- (j) This is a private equity fund of funds that invests in a diversified group of select U.S. venture capital limited partnership investments.
- (k) This fund invests in closed-end country funds whose assets are invested in non-U.S. developed markets.
- (l) This is a hedge fund of funds whose strategy is to invest in underlying funds that primarily pursue arbitrage, event driven, fixed income, and long/short equity strategies.
- (m) This is a hedge fund of funds whose strategy is to invest in underlying funds that primarily pursue arbitrage, event driven, fixed income, and long/short equity strategies.
- (n) This is a long/short fixed income hedge fund that invests across fixed income sectors utilizing a variety of strategies including arbitrage, relative value, and opportunistic credit.
- (o) This is a long-only, subprime nonagency mortgage-backed securities fund.
- (p) This is a long-only, nonagency mortgage-backed securities fund.
- (q) This fund is an opportunistic, unlevered structured credit fund which seeks to identify investments with asymmetric return profiles such as residential mortgage-backed securities (RMBS), investments in loan originators, mortgage servicers, PACE (property assessed clean energy) bonds, nonperforming loans (NPLs), and reperforming loans (RPLs).
- (r) This is a hedge fund that invests primarily in a broad range of securities and derivatives including binds, swaps, futures, options, currencies, and other products.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 PENSION PLANS (CONTINUED)

Expected contributions to the Pension Plan in the fiscal year beginning July 1, 2018 are expected to be \$1,600.

A summary of benefit payments, which reflect expected future services that are expected to be paid to participants in the Pension Plan during the next five fiscal years and the five fiscal years thereafter, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 12,653
2020	9,473
2021	9,506
2022	9,609
2023	10,218
Five Fiscal Years Thereafter	49,183
Total	<u>\$ 100,642</u>

Effective in 2000, the VNSS organizations instituted a discretionary contribution 401(k) plan, covering all full-time employees of VNSS and its affiliates, that complies with ERISA. The plan was frozen on October 10, 2005. No pension expense was recognized related to the plan for the fiscal years ended June 30, 2018 and 2017.

VNA Home Care of Mercer County contributes to a pension plan covering substantially all of the full-time union employees. This plan is maintained by the union. Contributions and costs are determined in accordance with the union contract and are equal to a fixed amount per employee per year, regardless of salary, and totaled \$90 and \$116 for the years ended June 30, 2018 and 2017, respectively.

An amendment was made to the Retirement Plan for Employees of HRHS (the Plan) to include in the Plan nonunion employees of VNA Home Care of Mercer County, Inc. The Plan is the noncontributory, defined benefit pension plan offered to other Health System employees. The inclusion of the VNA Home Care of Mercer County, Inc. employees was made retroactive to July 1, 2012.

Effective January 2013, HRHS offers a defined contribution plan to eligible physicians. All eligible physicians were given a one-time option of moving to the defined contribution plan or remaining in the HRHS defined benefit plan. All physicians hired January 1, 2013 and later are automatically placed in the defined contribution plan.

At the end of each year that the physician works at least 1,000 hours, HRHS credits to the Plan account an amount equal to a percentage of annual pay, subject to IRS limitations. The size of the credit depends on the physician's years of service as of January 1 of the year the credit is made. Physicians with fewer than five years of service receive a 4.5% credit while physicians with five years or more of service receive 5.5%.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 12 PENSION PLANS (CONTINUED)

Physicians vest or earn a right to the benefit accrued in his or her defined contribution account when he or she has completed five or more calendar years of vesting service while working for HRHS. Employees complete a year of vesting service for each year in which they have worked at least 1,000 hours during that plan year.

The defined contribution plan also includes a profit sharing component for certain eligible physicians. The profit sharing is based partially on financial measures in the physician's individual practice or business unit and partially on goals applicable to HRHS. Profit sharing contributions are not guaranteed and are subject to the achievement of the goals outlined. Contributions to this Plan were \$608 and \$552 for the fiscal years ended June 30, 2018 and 2017, respectively. Pension cost charged to HRPS and included in the accompanying consolidated statements of operations was \$414 and \$1,065 in fiscal years 2018 and 2017, respectively. Physicians' pension expense and funding are not included in the Pension Plan table presented above.

Effective December 31, 2017, the physician defined contribution Pension Plan was terminated. Physicians in that plan will be eligible to earn a match based on their contributions and years of service in the 403 (b) Plan.

NOTE 13 INSURANCE

In the ordinary course of business, various claimants have asserted professional and general liability claims against HRHS. These claims are in various stages of processing or, in certain instances, are in litigation. In addition, there are known incidents, and there also may be unknown incidents, that may result in the assertion of additional claims. HRHS has accrued an estimate of both asserted and unasserted claims based on actuarially determined amounts.

HRHS retains risk for \$500 thousand per claim with a maximum annual aggregate limit of \$2.5 million with the exception of a \$1.5 million maximum annual aggregate for each physician for medical malpractice liability claims coverage. The program is operated through THR Insurance Company, Ltd. (THR), a wholly owned consolidated subsidiary. The loss accruals for the retained risk were discounted at a rate of 3.0%; include estimates of known and potentially known losses based on annual actuarial studies. HRHS obtains excess coverage from the Medical Care Availability and Reduction of Error Fund (MCARE Fund) and other commercial carriers.

Prior to July 1, 2005, HRHS was insured for medical malpractice liability under a combination of primary and excess insurance policies on a claims-made basis and the MCARE Fund of the Commonwealth of Pennsylvania.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 13 INSURANCE (CONTINUED)

The MCARE Act was enacted by the Pennsylvania legislature in 2002. The Act created the MCARE Fund, which replaced the Pennsylvania Medical Professional Liability Catastrophe Loss Fund (CAT Fund) as the state-mandated funding mechanism for the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by the Hospital and other health care providers practicing in the state. The MCARE Fund is funded on a “pay as you go basis.” The MCARE Fund levies health care provider (surcharges) assessments, calculated as a percentage of the premiums established by the Joint Underwriting Association (also a Commonwealth of Pennsylvania agency) for basic coverage, to pay claims and administrative expenses on behalf of MCARE Fund participants. The MCARE Act legislation provides for the gradual phase-out of MCARE Fund coverage; however, this has been recently deferred by the Pennsylvania legislation and will be considered in the future.

The actuarially computed liability for all health care providers (hospital, physicians, and others) participating in the MCARE Fund at June 30, 2017 (the latest date for which such information is available), was \$973,612 million. Current law provides that the unfunded liability will likely be funded through assessments in future years as MCARE Fund-covered claims are eventually settled and paid.

HRHS’s annual premiums for participation in the MCARE Fund were \$1,004 and \$914 for the fiscal years ended June 30, 2018 and 2017, respectively. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as HRHS’s portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

Premiums are based primarily on actuarial reports, claims experience, and insurance risk factors. The consolidated financial statements include a provision for unasserted medical malpractice claims, which have been estimated, based on HRHS’s past experience.

HRHS is insured for workers’ compensation through the combination of commercial and self-insurance programs. HRHS records actuarially determined estimated losses arising from both asserted and unasserted claims. HRHS has established trust funds for the payment of claims under its self-insurance program. The assets of the trust funds are included in the accompanying consolidated balance sheets as assets limited as to use. Additionally, HRHS had letters of credit securing workers’ compensation obligations as required by state laws totaling \$10,400 as of June 30, 2018 and 2017.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 14 NONCONTROLLING INTERESTS

The following table presents HRHS's changes in net assets attributed to the noncontrolling interests of HRHS and HRPS, related to the entities of ASC, HRARL, HRARL, Inc., HRHC – North, IWA, and PGC, LLC, within unrestricted net assets for the fiscal years ended June 30, 2018 and 2017:

	<u>Consolidated</u>	<u>Parent Interests</u>	<u>Noncontrolling Interests</u>
Unrestricted Net Assets - July 1, 2016	\$ 195,762	\$ 197,146	\$ (1,384)
Excess of Revenues and Gains Over Expenses and Losses	15,808	14,937	871
Changes in Net Unrealized Loss on Other-than-Trading Securities	1,689	1,689	-
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	50	50	-
Other Changes in Pension Liability Distributions	4,151 <u>(870)</u>	4,151 <u>259</u>	- <u>(1,129)</u>
Change in Unrestricted Net Assets	<u>20,828</u>	<u>21,086</u>	<u>(258)</u>
Unrestricted Net Assets - June 30, 2017	216,590	218,232	(1,642)
Excess of Revenues and Gains Over Expenses and Losses	8,649	7,705	944
Changes in Net Unrealized Loss on Other-than-Trading Securities	(226)	(226)	-
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	94	94	-
Other Changes in Pension Liability Distributions	8,159 <u>(3,861)</u>	8,159 <u>(3,373)</u>	- <u>(488)</u>
Change in Unrestricted Net Assets	<u>12,815</u>	<u>12,359</u>	<u>456</u>
Unrestricted Net Assets - June 30, 2018	<u>\$ 229,405</u>	<u>\$ 230,591</u>	<u>\$ (1,186)</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(In Thousands)

NOTE 15 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying consolidated financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

NOTE 16 SUBSEQUENT EVENTS

On September 30, 2018, The Views at Pine Valley II, L.P. has decided that the development of the third condominium building within the Pine View community will not move forward. The future development of this building was determined to be not feasible at this time.

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET
JUNE 30, 2018
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)**

	ASSETS														Eliminations and Adjustments	Total								
	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Ducting	Redeemer Village	Redeemer Village II	VMHS	HRHC	HR Hospice	VNA Mercer	ASC			OSRA	FGC-LLC	Little Flower	HRDZ Homes	HRARE	HRARL Inc.	IWA	
CURRENT ASSETS																								
Cash and Cash Equivalents	\$ 5,161	\$ 761	\$ -	\$ 5,622	\$ 1,342	\$ 75	\$ 1,030	\$ 10	\$ 7	\$ 15	\$ 59	\$ -	\$ 684	\$ 341	\$ 797	\$ 176	\$ -	\$ 420	\$ 202	\$ 3,283	\$ 823	\$ 1,633	\$ -	\$ 16,879
Current Portion of Trustee-Held Funds	6,622	-	-	6,622	2,261	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,622
Short-Term Liquid Reserve	60	-	-	60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60
Prepaid Expenses	29,350	4,249	-	33,599	2,074	-	-	-	-	-	851	1,035	572	725	704	1,220	-	1,110	-	683	-	-	-	763
Patient Accounts Receivable, Net	4,417	-	-	4,417	342	-	286	277	144	48	85	-	5	401	401	182	117	207	207	123	25	70	-	42,094
Due from Affiliates	162,636	30,138	(62,627)	130,147	30,881	-	619	3,323	144	48	1,984	2,615	5,272	2,246	3,111	182	117	207	207	123	25	70	-	10,034
Total Current Assets	216,555	35,585	(62,627)	153,513	45,978	417	1,955	3,556	151	63	2,340	3,630	6,151	3,912	2,333	1,587	656	1,656	427	9,022	846	1,914	(162,662)	79,533
ASSETS LIMITED AS TO USE																								
Trustee-Held Funds, Net of Current Portion	7,439	-	-	7,439	1,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,925
Construction Funds	30,392	-	-	30,392	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,392
Professional Liability Funds	-	-	-	-	58,919	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	58,919
Total Assets Limited as to Use	37,831	-	-	37,831	1,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,836
PROPERTY AND EQUIPMENT, NET	124,084	10,020	-	135,004	1,703	-	15,477	13,466	721	104	1,931	513	27	8	1,102	476	38	2,688	27	10,695	3,933	7	(375)	175,625
OTHER ASSETS	141,813	1,770	-	143,583	10,894	-	6,044	3,124	565	336	618	-	3,326	60	-	-	-	1,401	1,278	-	-	-	(2,600)	188,669
Investments	7,117	573	-	7,690	468	1,287	87	13	-	-	-	369	-	-	-	813	290	83	-	-	-	-	-	11,098
Due from Affiliates	148,931	3,653	-	152,584	11,460	1,287	6,131	3,137	565	336	618	369	3,326	60	-	813	290	1,484	1,278	-	-	-	(1,321)	179,767
Total Other Assets	148,931	3,653	-	152,584	11,460	1,287	6,131	3,137	565	336	618	369	3,326	60	-	813	290	1,484	1,278	-	-	-	(1,321)	179,767
Total Assets	\$ 521,401	\$ 50,188	\$ (62,627)	\$ 478,962	\$ 59,927	\$ 60,623	\$ 23,603	\$ 8,043	\$ 1,437	\$ 593	\$ 5,489	\$ 4,532	\$ 9,884	\$ 3,950	\$ 3,405	\$ 2,876	\$ 856	\$ 5,626	\$ 1,732	\$ 19,917	\$ 4,751	\$ 1,921	\$ (166,418)	\$ 531,761

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2018
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)**

	PHRS	Physician Services	Eliminations and Adjustments Group	Total Obligated Group	HR/MA	THR Insurance Company Inc.	Management Corp.	Druiding	Redeemer Village	Redeemer Village II	VNS	HRHC	HR	VNA Merice	ASC	OSBA	PCC LLC	Life Power	HRDZ Home	HRARL	HRARL, Inc.	IWA	Eliminations and Adjustments	Total
CURRENT LIABILITIES																								
Net of Current Portion	\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Current Portion of Capital Leases	1,519	-	-	1,519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,519
Current Portion of Long-Term Debt	3,637	63	-	3,700	88	-	482	-	421	137	-	-	-	-	-	1,321	-	-	285	-	-	-	(1,321)	5,113
Accounts Payable	8,854	259	-	9,113	208	-	20	25	15	5	12	21	14	17	83	208	-	145	10	86	-	4	-	9,994
Accrued Expenses, Principally Salaries and Benefits	29,901	3,958	-	33,859	2,712	76	568	243	117	88	1,245	788	803	445	113	175	93	307	34	220	357	2,707	-	44,890
Current Portion of Self-Insurance and Other Liabilities	3,461	1,555	-	5,016	504	-	-	11	16	5	90	400	9	301	3	-	-	-	-	4	-	18	-	6,377
Due to Affiliates	57,473	82,688	(92,627)	47,534	16,528	46,890	3,327	1,206	386	111	46,890	7,444	6,610	11,653	583	328	283	-	611	779	5,987	1,864	(16,889)	89,893
Total Current Liabilities	106,845	88,833	(92,627)	102,951	20,038	46,936	4,397	1,485	855	356	11,142	8,853	7,439	12,426	782	2,032	376	452	655	1,394	6,324	4,593	(163,210)	89,893
LONG-TERM LIABILITIES																								
Long-Term Capital Leases, Net of Current Portion	4,657	-	-	4,657	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,657
Long-Term Debt, Net of Current Portion	122,483	721	-	123,184	822	-	3,425	-	1,029	694	-	-	-	-	-	-	-	-	-	10,220	-	-	-	139,384
Pension Liability	32,300	-	-	32,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,300
Self-Insurance Liabilities	6,483	1,050	-	7,543	1,525	12,141	-	21	-	-	173	897	189	(60)	2	-	-	-	-	-	-	-	-	22,431
Other Liabilities	4,419	-	-	4,419	-	-	-	13	73	19	-	-	-	-	-	-	-	91	-	-	-	-	-	4,615
Deferred Entry Fees, Net	714	-	-	714	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	714
Total Long-Term Liabilities	171,086	1,771	-	172,857	2,347	12,181	3,425	34	1,102	713	173	897	189	(60)	2	-	-	91	-	-	-	-	-	215,888
Total Liabilities	277,891	90,304	(92,627)	275,568	22,385	59,077	7,822	1,519	2,057	1,089	11,315	9,550	7,625	12,386	784	2,032	376	543	655	23,011	6,324	4,593	(163,210)	285,461
NET ASSETS (DEFICIT)																								
Unrestricted	232,430	(40,130)	-	192,294	36,489	1,546	15,781	5,626	(620)	(596)	(6,461)	(5,019)	(659)	(6,599)	2,821	844	480	5,265	1,077	(3,101)	(1,543)	(2,672)	(2,015)	230,691
Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-	-	-	(1,188)
Total Unrestricted	232,430	(40,130)	-	192,294	36,489	1,546	15,781	5,626	(620)	(596)	(6,461)	(5,019)	(659)	(6,599)	2,821	844	480	5,265	1,077	(3,094)	(1,543)	(2,672)	(3,203)	229,005
Temporarily Restricted	7,537	-	-	7,537	1,053	-	-	609	-	-	17	1	805	47	-	-	-	-	-	-	-	-	-	9,889
Permanently Restricted	3,743	-	-	3,743	-	-	-	269	-	-	618	-	2,313	63	-	-	-	-	-	-	-	-	-	7,008
Total Net Assets (Deficit)	243,710	(40,130)	-	203,574	37,542	1,546	15,781	6,524	(620)	(596)	(5,820)	(5,018)	2,259	(6,499)	2,821	844	480	5,265	1,077	(3,094)	(1,543)	(2,672)	(3,203)	246,300
Total Liabilities and Net Assets	\$ 521,401	\$ 50,168	\$ (92,627)	\$ 478,942	\$ 59,927	\$ 60,623	\$ 23,603	\$ 8,043	\$ 1,437	\$ 503	\$ 5,489	\$ 4,532	\$ 9,884	\$ 3,880	\$ 3,405	\$ 2,876	\$ 856	\$ 5,828	\$ 1,732	\$ 19,917	\$ 4,781	\$ 1,921	\$ (168,418)	\$ 531,761

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRVIA	THR Insurance Company Inc.	Management Corp.	Druiding	Redeemer Village	Redeemer Village II	VNIS	HRHC	HR Hospice	VNA Member	ASC	OSPA	PCC LLC	Life Tower	HRIZ Homes	HRARL	HRARL Inc.	IWA	Eliminations and Adjustments	Total
REVENUES																								
Net Patient Services Revenues	\$ 257,379	\$ 36,885	\$ (113)	\$ 292,751	\$ 29,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,807	\$ 16,519	\$ 4,583	\$ 5,956	\$ 7,932	\$ 4,623	\$ -	\$ 6,413	\$ (21)	\$ -	\$ -	\$ -	\$ -	\$ 300,465
Provision for Bad Debts Revenue	(6,341)	(1,622)	-	(7,963)	-	-	-	-	-	-	-	-	-	-	(23)	-	-	(6)	-	-	-	-	-	(10,000)
Less Provision for Bad Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Holding Sales	249,038	33,853	(113)	282,778	29,900	-	-	-	-	-	12,807	16,519	4,583	5,956	7,909	4,623	-	6,409	(21)	-	-	-	-	370,465
Other Operating Revenue	34,708	6,571	(8,914)	32,465	-	(1,686)	3,601	2,097	1,550	567	1,013	40	-	-	3	36	483	11	382	2,011	204	6,872	(21,076)	26,553
Net Assets Released from	480	-	-	480	-	-	-	283	1,550	567	30	-	-	-	-	-	-	-	-	-	-	-	-	795
Restrictions Used for Operations	284,226	40,424	(8,927)	315,723	29,900	(1,686)	3,601	2,380	1,550	567	13,850	16,559	4,583	5,956	7,912	4,659	483	6,420	381	2,011	204	6,874	(21,076)	369,813
EXPENSES																								
Selling and Administrative	134,904	26,864	-	161,768	14,025	-	-	1,848	303	110	7,893	8,675	1,857	4,310	1,913	2,613	246	3,637	381	156	43	549	(1,913)	210,494
Employee Benefits	26,648	4,340	-	30,988	2,823	-	-	680	129	41	1,615	1,238	816	844	458	508	13	656	49	46	-	77	(458)	40,523
Depreciation	148	-	-	148	138	-	-	-	-	-	16	60	75	18	-	-	-	-	-	-	-	-	-	455
Purchased Services	38,433	7,967	(10,169)	36,241	8,271	181	530	323	124	45	4,291	4,630	1,578	2,236	827	408	10	556	40	132	36	6,370	(19,143)	47,686
Cost of Goods Sold - Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	289
General Expense	27,698	3,746	1,232	32,676	1,139	-	1,496	601	442	148	471	566	131	510	737	542	-	525	64	596	-	16	(1,431)	39,229
Supplies	39,135	2,372	-	41,507	1,612	-	-	89	11	2	258	416	565	313	1,898	409	-	734	21	4	-	10	-	47,839
Insurance	4,927	(1,436)	-	3,491	666	(1,687)	47	55	9	5	66	89	52	128	8	176	14	248	11	176	4	291	1,867	5,366
Depreciation and Amortization	17,600	1,103	-	18,703	242	-	825	168	108	50	213	141	-	7	303	31	-	182	23	567	-	5	-	21,568
Interest Expense	3,508	72	-	3,580	41	-	158	4	125	83	-	-	-	-	4	53	-	-	-	407	19	-	-	4,870
Total Expenses	254,401	47,828	(8,527)	331,502	29,957	(1,686)	3,056	3,764	1,231	484	14,225	15,815	5,174	8,366	5,188	4,740	225	6,226	358	1,915	397	7,318	(21,076)	418,309
OPERATING INCOME (LOSS)	(9,175)	(6,943)	-	(15,779)	(57)	-	545	(1,384)	299	83	(673)	744	(591)	(2,409)	1,704	(61)	160	(108)	(197)	92	(183)	(444)	2	(16,496)
NONOPERATING GAINS (LOSSES)																								
Investment Income (Loss)	6,182	(592)	-	5,590	1,235	-	242	346	-	-	1	1	-	-	-	-	-	17	14	36	5	-	-	7,487
Net Change in Unrealized Gains (Losses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realized Gain on Sale of Securities	(3,776)	29	-	(3,747)	(298)	-	149	(84)	-	-	-	-	6	-	-	-	-	(39)	88	-	-	-	-	(3,925)
Contributions	10,291	-	-	10,291	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,291
Pension Contribution	622	-	-	622	108	-	-	688	-	-	3	8	15	7	-	-	-	-	-	-	-	-	-	1,449
Other Net	5,111	-	-	5,111	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,111
Total Nonoperating Gains (Losses)	19,430	(563)	-	17,867	1,047	-	397	1,011	-	-	6	13	21	9	-	925	300	5,415	-	13	-	-	-	6,732
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ 9,255	\$ (7,537)	\$ -	\$ 2,088	\$ 990	\$ -	\$ 942	\$ (373)	\$ 299	\$ 83	\$ (957)	\$ 757	\$ (670)	\$ (2,399)	\$ 1,764	\$ 844	\$ 450	\$ 5,285	\$ (95)	\$ 141	\$ (173)	\$ (444)	\$ 2	\$ 8,649

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED JUNE 30, 2018
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRWA	THR Insurance Company Inc.	Management Corp.	Dueling	Redeemer Village	Redeemer Village II	VNIS	HRIC	HR Hospice	VNA Mercer	ASC	OSRA	PGC, LLC	Life Tower	HRDZ Homes	HRARL	HRARL, Inc.	IWA	Eliminations and Adjustments	Total
Excess (Deficiency) of Revenues and Gains Over Expenses and Losses	\$ 9,255	\$ (7,167)	\$ -	\$ 2,088	\$ 990	\$ -	\$ 942	\$ (373)	\$ 299	\$ 83	\$ (867)	\$ 757	\$ (570)	\$ (23,891)	\$ 1,704	\$ 844	\$ 480	\$ 5,285	\$ (85)	\$ 141	\$ (178)	\$ (444)	\$ 2	\$ 6,640
Other Changes in Unrestricted Net Assets:																								
Charge in Net Unrestricted Gains on Other-than-Trading Securities	-	-	-	-	-	(226)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(226)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	94	-	-	94	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	94
Other Changes in Personal Liability Distributions	7,759	400	-	8,159	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,159
Increase (Decrease) in Unrestricted Net Assets	12	722	-	734	-	-	-	-	-	(1)	-	-	-	-	(1,857)	-	-	-	-	-	-	-	(2,723)	(3,861)
TEMPORARILY RESTRICTED NET ASSETS	17,406	(6,045)	-	11,061	990	(226)	942	(373)	299	83	(868)	757	(570)	(23,891)	(83)	844	480	5,285	(85)	141	(178)	(444)	(2,721)	12,815
NET ASSETS	618	-	-	618	142	-	-	403	-	-	24	-	191	-	-	-	-	-	-	-	-	-	-	1,378
Income (Loss) on Long-Term Investments	475	-	-	475	-	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	(7)	-	-	490
Income on Long-term Investments Transferred from Permanently Restricted Net Assets	(117)	-	-	(117)	-	-	-	-	-	-	-	-	(191)	-	-	-	-	-	-	-	-	-	-	(308)
Net Assets Released from Restrictions Used for Purchase of Operations	(482)	-	-	(482)	-	-	-	(283)	-	-	(39)	-	-	-	-	-	-	-	-	-	-	-	-	(795)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	(84)	-	-	(84)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(84)
Increase (Decrease) in Temporarily Restricted Net Assets	400	-	-	400	142	-	142	-	-	-	(6)	-	-	-	-	-	-	-	-	(7)	-	-	-	671
PERMANENTLY RESTRICTED NET ASSETS	102	-	-	102	-	-	-	10	-	21	-	-	191	(16)	-	-	-	-	-	-	-	-	-	308
Income on Long-term Investments Transferred to Temporarily Restricted Net Assets	37	-	-	37	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	38
Increase (Decrease) in Permanently Restricted Net Assets	139	-	-	139	-	-	-	10	-	22	-	-	191	(16)	-	-	-	-	-	-	-	-	-	346
INCREASE (DECREASE) IN NET ASSETS	17,645	(6,045)	-	11,000	1,132	(226)	942	(221)	299	83	(852)	757	(379)	(24,115)	(83)	844	480	5,285	(85)	134	(178)	(444)	(2,721)	13,832
Net Assets - Beginning of Year	225,865	(84,061)	-	191,774	38,140	1,772	14,839	6,745	(916)	(456)	(4,874)	(5,775)	2,638	(6,871)	2,744	-	-	-	1,172	(3,228)	(1,365)	(2,228)	(487)	232,466
NET ASSETS - END OF YEAR	\$ 243,510	\$ (40,106)	\$ -	\$ 203,374	\$ 37,008	\$ 1,546	\$ 15,781	\$ 6,524	\$ (620)	\$ (568)	\$ (6,328)	\$ (5,018)	\$ 2,269	\$ (8,488)	\$ 2,631	\$ 844	\$ 480	\$ 5,285	\$ 1,077	\$ (3,094)	\$ (1,543)	\$ (2,672)	\$ (3,208)	\$ 246,300

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET
JUNE 30, 2017
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)**

	ASSETS													Eliminations and Adjustments	Total							
	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Druiding	Redeemer Village	Redeemer Village II	WNHS	HRHC	HR Hospice			VNA Mercer	ASC	D'Youville Manor	HRDZ Homes	HRARL	HRARL, Inc	IWA
CURRENT ASSETS																						
Cash and Cash Equivalents	\$ 12,658	\$ 777	\$ -	\$ 13,435	\$ 1,868	\$ 857	\$ 3,229	\$ 241	\$ 4	\$ 49	\$ 43	\$ -	\$ 1,164	\$ 536	\$ 1,103	\$ -	\$ 121	\$ 3,779	\$ 661	\$ 596	\$ -	\$ 27,626
Current Portion of Trustee-Held Funds	6,327	-	-	6,327	2,106	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,433
Statutory Liquid Reserve	55	-	-	55	-	-	-	-	-	-	-	-	-	-	-	-	-	682	-	-	-	737
Patient Accounts Receivable, Net	30,157	4,303	-	34,460	2,325	-	-	-	-	-	1,256	1,407	570	993	837	-	-	-	-	-	-	41,848
Other Current Assets	8,228	915	-	9,143	174	296	174	405	133	38	58	-	3	-	305	-	-	128	25	40	-	10,748
Due from Affiliates	108,637	14,537	(57,100)	66,074	23,408	-	593	3,302	-	1,147	1,147	800	7,809	651	127	-	4	4,016	-	95	(108,022)	-
Total Current Assets	189,062	20,632	(57,100)	129,494	29,707	1,153	3,892	3,948	137	87	2,504	2,207	9,546	2,180	2,372	-	125	8,605	686	671	(108,022)	86,392
ASSETS LIMITED AS TO USE																						
Trustee-Held Funds, Net of Current Portion	7,313	-	-	7,313	1,075	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,388
Construction Funds	42,049	-	-	42,049	-	54,875	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,049
Professional Liability Funds	-	-	-	-	-	54,875	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54,875
Total Assets Limited as to Use	49,362	-	-	49,362	1,075	54,875	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	106,312
PROPERTY AND EQUIPMENT, NET																						
Trustee-Held Funds, Net of Current Portion	121,598	7,848	-	129,446	1,836	-	14,899	1,208	788	142	2,145	663	27	15	1,157	-	13	11,398	3,783	12	-	167,202
OTHER ASSETS																						
Investments	149,659	1,816	-	142,275	10,072	-	5,659	2,884	510	353	595	-	2,925	-	-	-	1,173	-	-	-	(2,521)	163,905
Other	7,549	349	-	7,898	508	2,177	-	21	-	-	-	369	-	-	-	-	-	-	-	-	-	10,973
Due from Affiliates	1	1,578	(1,578)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)
Total Other Assets	149,209	3,543	(1,578)	150,174	10,580	2,177	5,659	2,885	510	353	595	369	2,925	-	-	-	1,172	-	-	-	(2,522)	174,878
Total Assets	\$ 482,231	\$ 31,023	\$ (58,678)	\$ 454,576	\$ 43,108	\$ 58,205	\$ 24,510	\$ 8,041	\$ 1,435	\$ 582	\$ 5,244	\$ 3,239	\$ 12,498	\$ 2,195	\$ 3,529	\$ -	\$ 1,314	\$ 20,003	\$ 4,449	\$ 683	\$ (110,544)	\$ 536,704

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET (CONTINUED)
YEAR ENDED JUNE 30, 2017
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)**

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRNA	THR Insurance Company Inc.	Management Corp.	Drueding	Redeemer Village	Redeemer Village II	VNHS	HRHC	HR Hospice	VNA Mercer	ASC	D'Youville Manor	HRDZ Homes	HRARL Inc.	IWA	Eliminations and Adjustments	Total	
LIABILITIES AND NET ASSETS																						
CURRENT LIABILITIES																						
Current Portion of Capital Leases	\$ 1,890	\$ -	\$ -	\$ 1,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,890	
Long-Term Debt	4,210	116	(116)	4,210	84	-	1,078	-	390	125	-	-	-	-	-	-	-	259	-	-	6,421	
Accounts Payable	6,751	382	-	9,133	211	-	2	35	51	18	18	34	4	14	187	-	3	32	-	6	-	9,748
Accrued Expenses, Principally Salaries and Benefits	26,433	3,335	-	29,768	2,894	55	559	314	211	132	1,231	840	311	472	198	-	13	217	144	1,438	-	38,897
Current Portion of Self-Insurance and Other Liabilities	3,295	1,857	-	5,152	609	-	-	11	16	5	100	409	268	209	3	-	-	6	-	9	-	6,795
Due to Affiliates	26,169	57,204	(57,100)	26,273	733	38,313	3,939	895	151	96	8,472	6,615	9,126	7,635	424	-	123	834	4,980	1,458	(110,057)	6,795
Total Current Liabilities	70,748	62,884	(57,216)	76,426	4,831	39,398	5,578	1,245	819	376	9,821	7,898	9,107	8,330	812	-	139	1,964	5,383	2,911	(110,057)	63,751
LONG-TERM LIABILITIES																						
Long-Term Capital Leases, Net of Current Portion	4,750	-	-	4,750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,750
Long-Term Debt, Net of Current Portion	127,802	1,462	(1,462)	127,802	910	-	3,823	-	1,450	631	-	-	-	-	-	-	-	10,505	431	-	-	145,792
Pension Liability	44,193	-	-	44,193	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44,193
Self-Insurance Liabilities	6,441	1,256	-	7,699	1,247	16,065	-	31	16	5	297	1,116	153	(64)	-	-	-	(2)	-	-	-	28,963
Other Liabilities	4,714	400	-	5,114	-	-	-	20	69	19	-	-	-	-	3	-	-	-	-	-	-	5,225
Deferred Entry Fees, Net	718	-	-	718	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	718
Total Long-Term Liabilities	185,518	3,128	(1,462)	187,184	2,157	16,065	3,823	51	1,535	695	297	1,116	153	(64)	3	-	-	11,364	431	-	-	203,985
Total Liabilities	259,366	66,014	(58,678)	266,702	6,788	56,433	9,401	1,296	2,354	1,231	10,118	9,014	9,860	8,266	815	-	139	23,231	5,814	2,911	(110,057)	304,316
NET ASSETS (DEFICIT)																						
Unrestricted:																						
Noncontrolling Interests	215,324	(34,091)	-	181,233	35,499	1,772	14,839	5,999	(919)	(649)	(5,493)	(5,776)	(289)	(6,197)	2,714	-	1,172	(3,235)	(1,365)	(2,228)	1,155	218,232
Total Unrestricted	215,324	(34,091)	-	181,233	35,499	1,772	14,839	5,999	(919)	(649)	(5,493)	(5,776)	(289)	(6,197)	2,714	-	1,172	(3,235)	(1,365)	(2,228)	1,155	(1,642)
Temporarily Restricted	6,937	-	-	6,937	911	-	-	487	-	23	1	805	47	-	7	-	-	-	-	-	-	9,218
Permanently Restricted	3,604	-	-	3,604	-	-	-	259	-	-	596	2,122	79	-	-	-	-	-	-	-	-	6,690
Total Net Assets (Deficit)	225,865	(34,091)	-	191,774	36,410	1,772	14,839	6,745	(919)	(649)	(4,874)	(5,775)	2,638	(6,071)	2,714	-	1,172	(3,229)	(1,365)	(2,228)	(487)	232,488
Total Liabilities and Net Assets	\$ 485,231	\$ 31,923	\$ (58,678)	\$ 458,476	\$ 43,198	\$ 98,205	\$ 24,240	\$ 8,041	\$ 1,435	\$ 556	\$ 5,244	\$ 3,239	\$ 12,498	\$ 2,195	\$ 3,529	\$ -	\$ 1,311	\$ 20,002	\$ 4,449	\$ 683	\$ (110,544)	\$ 538,794

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRWNA	THR Insurance Company Inc.	Management Corp.	Drueling	Redeemer Village	Redeemer Village II	WNHS	HRHC	HR Hospice	VNA Mercer	ASC	D'Youville Manor	HRDZ Homes	HRARL	HRARL Inc.	IWA	Eliminations and Adjustments	Total
REVENUES																						
Net Patient Service Revenues	\$ 254,698	\$ 33,588	\$ (1,850)	\$ 286,436	\$ 32,810	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,101	\$ 17,617	\$ 4,630	\$ 6,402	\$ 8,016	\$ 18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 386,030
Provision for Bad Debts	(6,006)	-	-	(8,095)	-	-	-	-	-	-	-	-	-	-	(86)	-	-	-	-	-	-	(8,181)
Net Patient Service Revenue, Less Provision for Bad Debts	247,792	32,389	(1,850)	278,341	32,810	-	-	-	-	-	13,101	17,617	4,630	6,402	7,950	18	-	-	-	-	-	390,869
Housing Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	982	-	-	982
Other Operating Revenue	35,482	6,513	(8,479)	33,496	-	(2,815)	3,595	2,250	1,559	560	1,024	59	-	-	1	2	60	2,022	-	7,076	(20,991)	27,898
Net Assets Released from Restrictions Used for Operations	1,287	1,467	-	2,754	-	-	-	312	-	-	-	-	-	-	-	-	-	-	-	-	1	3,067
Total Revenues	284,444	40,379	(10,328)	314,495	32,810	(2,815)	3,595	2,562	1,559	560	14,125	17,676	4,630	6,402	7,951	20	60	2,022	982	7,077	(20,991)	382,816
EXPENSES																						
Salaries and Wages	133,124	27,767	-	160,891	14,447	-	-	1,668	318	111	8,196	9,232	2,174	4,485	1,853	(3)	126	169	41	489	(1,853)	202,294
Employee Benefits	29,881	4,402	-	33,283	4,173	-	-	635	146	49	1,463	2,042	526	999	436	33	11	52	-	56	(436)	43,420
Supplies	17	16	-	33	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	36
Purchased Services	36,294	7,779	(10,114)	33,959	9,550	183	450	449	119	48	4,804	4,889	1,415	2,567	748	49	3	157	38	6,810	(30,227)	45,985
Cost of Goods Sold - Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,013	-	-	1,013
General Expense	25,723	3,547	(215)	29,055	1,194	-	1,415	622	435	140	515	607	155	555	667	26	33	420	68	23	(1,478)	34,480
Supplies	35,725	2,125	-	37,850	1,944	-	-	75	27	7	241	461	610	321	2,013	12	16	3	-	6	-	43,586
Insurance	1,485	(17,941)	-	(16,456)	86	(2,958)	42	77	19	8	71	235	75	69	8	(9)	-	12	-	430	2,398	804
Depreciation and Amortization	16,990	927	-	17,917	257	-	743	190	117	85	239	142	-	8	358	1	-	601	-	3	-	20,560
Interest Expense	3,680	80	-	3,760	35	-	152	-	153	59	-	-	-	-	6	-	-	444	-	-	-	4,689
Total Expenses	281,628	44,853	(10,328)	316,153	37,686	(2,815)	2,805	3,716	1,334	541	15,527	17,681	4,955	8,944	6,089	109	168	1,848	1,286	7,797	(20,991)	396,847
OPERATING INCOME (LOSS)	2,712	(4,474)	-	(1,762)	1,124	-	792	(1,154)	225	19	(1,402)	115	(325)	(2,542)	1,862	(89)	(125)	174	(224)	(720)	5	(4,031)
NONOPERATING GAINS (LOSSES)																						
Investment Income	6,019	-	-	6,019	437	-	94	117	1	-	-	1	-	2	-	-	79	-	-	-	-	6,790
Net Change in Unrealized Gains on Trading Securities	8,698	-	-	8,698	557	-	391	197	-	-	-	-	23	-	-	-	75	-	-	-	-	10,061
Realized Gain on Sale of Securities	1,694	-	-	1,694	116	-	22	33	-	-	-	-	-	-	-	-	-	-	-	-	-	1,865
Contributions	845	-	-	845	108	-	-	872	-	-	2	11	117	5	-	-	-	-	-	-	-	1,960
Loss on Debt Refinancing	(831)	-	-	(831)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(831)
Other Net	11	757	-	768	4	-	5	-	-	-	3	7	-	2	-	-	-	11	3	-	(769)	34
Total Nonoperating Gains (Losses)	16,596	757	-	17,353	1,222	-	512	1,179	1	-	5	19	140	9	-	-	154	11	3	-	(769)	19,839
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ 19,008	\$ (3,717)	\$ -	\$ 15,291	\$ 2,346	\$ -	\$ 1,304	\$ 25	\$ 226	\$ 19	\$ (1,397)	\$ 134	\$ (185)	\$ (2,533)	\$ 1,862	\$ (89)	\$ 25	\$ 185	\$ (221)	\$ (720)	\$ (764)	\$ 15,808

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED JUNE 30, 2017
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Dructing	Redeemer Village	Redeemer Village II	VNHS	HRHC	HR Hospice	VNA Mercer	ASC	D'Youville Manor	HRBDZ Homes	HRARL	HRARL Inc.	NVA	Eliminations and Adjustments	Total	
UNRESTRICTED NET ASSETS																							
Excess (Deficiency) of Revenues and Gains	\$ 19,208	\$ (3,717)	\$ -	\$ 15,491	\$ 2,346	\$ -	\$ 1,304	\$ 25	\$ 226	\$ 19	\$ (1,397)	\$ 134	\$ (185)	\$ (2,533)	\$ 1,862	\$ (88)	\$ 25	\$ 185	\$ (221)	\$ (720)	\$ (764)	\$ 15,808	
Other Expenses and Losses	-	-	-	-	-	1,689	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,689	
Other Changes in Unrestricted Net Assets:																							
Changes in Net Unrealized Gains (Losses) on Other-than-Trading Securities	50	-	-	50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50	
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	4,151	-	-	4,151	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,151	
Other Changes in Pension Liability	175	-	-	175	-	-	18	17	-	-	-	-	-	-	-	(210)	-	-	-	-	-	-	
Other Changes in Net Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,913)	-	-	-	-	-	-	-	
Distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(870)	
Increase (Decrease) in Unrestricted Net Assets	23,684	(3,717)	-	19,967	2,346	1,689	1,322	42	226	19	(1,397)	134	(185)	(2,533)	(51)	(289)	25	185	(221)	(720)	279	20,828	
TEMPORARILY RESTRICTED NET ASSETS																							
Contributions	978	-	-	978	115	-	-	438	-	-	-	-	209	1	-	(1)	-	-	-	-	-	1,786	
Income (Loss) on Long-Term Investments	538	-	-	538	-	-	-	45	-	-	-	-	-	-	-	-	-	-	-	-	-	583	
Income on Long-Term Investments Transferred from Permanently Restricted Net Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Assets Released from Restrictions Used for Purchase of Operations	(1,516)	-	-	(1,516)	(25)	-	-	(312)	-	-	-	-	(209)	-	-	-	-	-	-	-	-	(209)	
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	(50)	-	-	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,853)	
Increase (Decrease) in Temporarily Restricted Net Assets	(92)	-	-	(92)	90	-	-	169	-	-	-	-	-	1	-	(1)	-	-	-	-	-	207	
PERMANENTLY RESTRICTED NET ASSETS																							
Income on Long-Term Investments Transferred to Temporarily Restricted Net Assets	-	-	-	-	-	-	-	-	-	-	-	-	209	-	-	-	-	-	-	-	-	209	
Contributions	160	-	-	160	-	-	-	9	-	-	61	-	-	77	-	-	-	-	-	-	-	307	
Increase (Decrease) in Permanently Restricted Net Assets	160	-	-	160	-	-	-	9	-	-	61	-	209	77	-	-	-	-	-	-	-	516	
INCREASE (DECREASE) IN NET ASSETS																							
Net Assets - Beginning of Year	23,762	(3,717)	-	20,075	2,436	1,689	1,322	220	226	19	(1,397)	134	24	(2,455)	(51)	(300)	25	185	(221)	(720)	279	21,951	
Net Assets - End of Year	202,073	(30,374)	-	171,699	33,974	83	13,517	6,525	(1,145)	(688)	(3,538)	(5,909)	2,614	(3,616)	2,765	300	1,147	(3,413)	(1,144)	(1,908)	(766)	210,917	
NET ASSETS - END OF YEAR	\$ 225,895	\$ (34,091)	\$ -	\$ 191,774	\$ 36,410	\$ 1,772	\$ 14,839	\$ 6,745	\$ (919)	\$ (649)	\$ (4,874)	\$ (5,775)	\$ 2,638	\$ (6,071)	\$ 2,714	\$ -	\$ 1,172	\$ (3,228)	\$ (1,365)	\$ (2,228)	\$ (487)	\$ 232,468	



Investment advisory services are offered through CliftonLarsonAllen
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