

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018



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**HOLY REDEEMER HEALTH SYSTEM
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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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the 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.

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, 2019 and 2018, 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.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, Holy Redeemer Health System adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the consolidated financial statements. Our opinion is not modified with respect to that matter.

As discussed in Note 2 to the consolidated financial statements, Holy Redeemer Health System adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2014-09, *Revenue from Contracts with Customers*. The new accounting standard clarifies how revenue is to be recognized and requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Our opinion is not modified with respect to that matter.

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 49 through 56 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 15, 2019

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018
(In Thousands)**

	2019	As Restated 2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 19,195	\$ 16,879
Current Portion of Trustee-Held Funds	9,296	8,803
Statutory Liquid Reserve	775	763
Patient Accounts Receivable	46,715	43,221
Other Current Assets	10,794	10,034
Total Current Assets	86,775	79,700
 ASSETS LIMITED AS TO USE		
Trustee-Held Funds, Net of Current Portion	9,010	8,525
Construction Funds	19,187	30,392
Professional Liability Funds	65,216	58,919
Total Assets Limited as to Use	93,413	97,836
 PROPERTY AND EQUIPMENT, NET		
	181,747	175,625
 OTHER ASSETS		
Investments	160,632	168,669
Other	10,523	11,098
Total Other Assets	171,155	179,767
Total Assets	\$ 533,090	\$ 532,928

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2019 AND 2018
(In Thousands)

	2019	As Restated 2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of Credit	\$ 6,000	\$ 2,000
Current Portion of Capital Leases	1,807	1,519
Current Portion of Long-Term Debt	5,243	5,113
Accounts Payable	20,418	9,994
Accrued Expenses, Principally Salaries and Benefits	49,484	44,960
Current Portion of Self-Insurance and Other Liabilities	8,463	6,377
Total Current Liabilities	91,415	69,963
LONG-TERM LIABILITIES		
Long-Term Capital Leases, Net of Current Portion	3,752	4,657
Long-Term Debt, Net of Current Portion	133,262	139,384
Pension Liability	45,469	32,300
Self-Insurance Liabilities	16,774	22,431
Other Liabilities	4,483	4,515
Deferred and Refundable Entry Fees, Net	12,005	12,319
Total Long-Term Liabilities	215,745	215,606
Total Liabilities	307,160	285,569
NET ASSETS		
Without Donor Restrictions:		
Unrestricted	211,823	231,739
Noncontrolling Interest	(3,896)	(1,275)
Total Without Donor Restrictions	207,927	230,464
With Donor Restrictions	18,003	16,895
Total Net Assets	225,930	247,359
Total Liabilities and Net Assets	\$ 533,090	\$ 532,928

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	As Restated 2018
REVENUES		
Patient Service Revenues	\$ 387,342	\$ 373,440
Other Operating Revenues	33,484	28,620
Net Assets Released from Restrictions Used for Operations	953	795
Total Revenues	421,779	402,855
EXPENSES		
Salaries and Wages	219,002	210,494
Employee Benefits	38,865	40,523
Severance	186	455
Purchased Services	55,562	47,686
Cost of Goods Sold - Housing	-	289
General Expenses	40,330	39,226
Supplies	48,469	47,839
Insurance	5,456	5,356
Depreciation and Amortization	22,440	21,568
Interest Expense	5,020	4,870
Total Expenses	435,330	418,306
OPERATING LOSS	(13,551)	(15,451)
NONOPERATING GAINS (LOSSES)		
Investment Income	5,979	7,487
Net Change in Unrealized Gains and Losses on Trading Securities	(2,922)	(3,925)
Realized Gains on Sales of Securities	6,203	10,291
Contributions	1,565	1,449
Pension Curtailment	-	5,111
Loss on Abandonment of CIP	(4,993)	-
Other, Net	24	6,732
Total Nonoperating Gains (Losses)	5,856	27,145
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ (7,695)	\$ 11,694

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, 2019 AND 2018
(In Thousands)

	2019	As Restated 2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (Deficiency) of Revenues and Gains Over Expenses and Losses	\$ (7,695)	\$ 11,694
Other Changes in Net Assets Without Donor Restrictions:		
Change in Net Unrealized Gains and Losses on		
Other-than-Trading Securities	2,158	(226)
Net Assets Released from Restrictions Used for		
Purchase of Property and Equipment	-	94
Equity Transfers	1,521	-
Other Changes in Pension Liability	(16,436)	8,159
Other Changes in Net Assets	(265)	-
Distributions	(1,820)	(3,896)
Increase (Decrease) in Net Assets Without Donor Restrictions	(22,537)	15,825
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,808	1,416
Income on Long-Term Investments	253	490
Net Assets Released from Restrictions Used for Operations	(953)	(795)
Net Assets Released from Restrictions Used for		
Purchase of Property and Equipment	-	(94)
Increase in Net Assets With Donor Restrictions	1,108	1,017
INCREASE IN NET ASSETS	(21,429)	16,842
Net Assets - Beginning of Year, as Originally Report	247,359	232,469
Change in Accounting Principal	-	(1,952)
NET ASSETS - END OF YEAR	\$ 225,930	\$ 247,359

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018
(In Thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (21,429)	\$ 16,842
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	22,440	22,639
Amortization of Bond Premiums	(1,041)	(1,071)
Amortization of Debt Issuance Costs	157	165
Amortization of Deferred Entry Fees	-	208
Restricted Contributions and Investment Income Received	(1,958)	(1,906)
Loss on Abandonment of CIP	4,993	-
Other Changes in Pension Liability	16,436	(8,159)
Net Changes in Assets and Liabilities:		
Patient Accounts Receivable	(3,494)	(3,325)
Other Current Assets	(760)	714
Other Assets	575	(125)
Accounts Payable	10,424	247
Accrued Expenses, Principally Salaries and Benefits	4,524	6,063
Self-Insurance Liabilities	(3,571)	(6,550)
Other Liabilities	(32)	(710)
Pension Liability	(3,267)	(3,734)
Net Cash Provided by Operating Activities	23,997	21,298
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment, Net	(32,317)	(29,215)
Decrease in Assets Limited as to Use - Other-than-Trading	11,955	2,316
Net Cash Used by Investing Activities	(20,362)	(26,899)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Restricted Contributions and Restricted Investment Income	1,958	1,906
Proceeds from Long-Term Debt and Lines of Credit	6,000	2,000
Repayments of Long-Term Debt and Lines of Credit	(7,108)	(6,770)
Repayments on Capital Leases	(1,855)	(2,311)
Deferred Entry Fee Deposits Received	(314)	29
Net Cash Used by Financing Activities	(1,319)	(5,146)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,316	(10,747)
Cash and Cash Equivalents - Beginning of Year	16,879	27,626
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 19,195	\$ 16,879
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 6,098	\$ 5,806
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital Leases Incurred	\$ 1,238	\$ 1,847

See accompanying Notes to Consolidated Financial Statements.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(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 239-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, 2019 AND 2018
(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, which 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, 2019 AND 2018
(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, 2019 and 2018, 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.

Holy Redeemer – Dale Ziplez Homes for Independent Adults (HRDZ Homes),

Holy Redeemer - Dale Ziplez 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, 2019 AND 2018
(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, with annual auto renewals and the CCC entered into an Aetna Medicare Advantage contract with approximately 3,500 members effective January 1, 2018, which continues until terminated. HRHS and Doylestown Hospital are the current members of CCC, with each member holding a 50% interest. CCC is exploring value based, performance incentive contracts with other payors, preferred use arrangements with self funded employers, and the addition of other participants and/or minority owner(s). CMS introduced a new Pathways to Success five year Medicare Shared Savings Program option for CY 2020. The CCC has submitted its letter of intent to participate in the new Program. 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.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(In Thousands)

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).

New Accounting Standards

During the year ended June 30, 2019, HRHS adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions) and also changes various disclosures within the consolidated financial statements. The adoption of this accounting standard did not have an impact on HRHS's financial position or changes in its net assets (deficit). The adoption of the standard was retrospectively applied to the consolidated financial statements ended June 30, 2018 in order to provide a comparative presentation of HRHS's balance sheets, statements of operations and changes in net assets (deficit), and functional expenses in Note 11.

In May 2014, FASB and the International Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). ASU 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. HRHS adopted ASU 2014-09 effective July 1, 2018, with retrospective adjustments made to prior periods as described in Note 3 – Patient Service Revenue.

New Accounting Pronouncements

In February 2016, 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, 2019. Management is evaluating the impact of the amended lease guidance on HRHS's consolidated financial statements.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 2019 and 2018.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net assets without donor restrictions 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 FASB ASC 320, *Investments*. 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 \$157 and \$165 for the fiscal years ending June 30, 2019 and 2018, respectively, and is reported as a component of interest expense in the consolidated statement of operations.

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, 2019 and 2018, the portion of entry fees subject to refund provisions amount to \$12,005 and \$12,319, 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.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(In Thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without restrictions 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, 2019 and 2018 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 net assets without donor restrictions that are excluded from the excess of revenues and gains over expenses and losses include net 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.

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.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Liquidity and Availability

HRHS regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing financial resources to meet expenses over a 12-month period, HRHS considers all expenses related to its ongoing mission-related activities as well as the conduct of services undertaken to support these activities.

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following:

Financial Assets as of Year-End:

Cash and Cash Equivalents	\$ 19,195
Investments and Assets Limited as to Use	263,341
Patient Accounts Receivable, Net	46,715
Other Current Assets	<u>1,778</u>
Total Financial Assets	<u>331,029</u>

Financial Amounts not Available to be Used Within One Year:

Investments:	
Assets Limited as to Use	102,709
Donor Restricted	<u>18,003</u>
Total Financial Assets not Available to be Used Within One Year	<u>120,712</u>
Total Financial Assets Available within One Year	<u>\$ 210,317</u>

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

Liquidity and Availability (Continued)

HRHS has assets limited to use for donor-restricted purposes and debt service, as well as certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in Note 6, are not available for general expenditure within the next year and are not reflected in the amounts above.

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, 2019, that is equal to the greater of 10% of 2020 total projected operating expenses, exclusive of depreciation and amortization, or the 2020 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, 2019:

	<u>Holy Redeemer Lafayette</u>	<u>HRARL</u>
Total Principal and Interest Payments Due During the 12-Month Period July 1, 2019 Thru June 30, 2020	\$ 1,486	\$ 682
Approximate Percentage of CCRC Contracts	4.0%	100%
Debt Service Applicable to CCRC Contracts	<u>\$ 59</u>	<u>\$ 682</u>
10% of the Projected 2020 Operating Expenses Exclusive of Depreciation	\$ 2,336	\$ 143
Approximate Percentage of CCRC Contracts	4.0%	100%
Projected Operating Expenses of CCRC Contracts	<u>\$ 93</u>	<u>\$ 143</u>
Total Minimum Liquid Reserve Requirement	<u>\$ 93</u>	<u>\$ 682</u>

The Holy Redeemer Lafayette's statutory minimum reserve is \$93 based on the 2020 projected operating expenses. For HRARL, the statutory minimum liquid reserve is \$682 based on the 2020 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, 2019.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, HRHS has evaluated events and transactions for potential recognition or disclosure through October 15, 2019 the date the consolidated financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these consolidated financial statements.

NOTE 3 PATIENT SERVICE REVENUE

Revenue Recognition

HRHS adopted ASU 2014-09 using the full retrospective method for all contracts effective July 1, 2018 and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collections trends. Full retrospective adoption requires entities to apply the standard retrospectively to all periods presented in the consolidated financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of net assets without donor restrictions of the earliest year presented. The adoption of ASU 2014-09 resulted in the following changes to the June 30, 2018 issued consolidated financial statements:

	As Previously Reported	As Restated	Change
Accounts Receivable, Net	\$ 42,054	\$ 43,221	\$ 1,167
Patient Service Revenue	370,465	373,440	2,975
Net Assets, July 1, 2017	232,469	230,517	(1,952)
Net Assets, June 30, 2018	246,300	247,359	1,059

As a result of certain changes required by ASU 2014-09, the majority of HRHS's provision for doubtful accounts are recorded as a direct reduction to revenue instead of being presented as a separate line item on the statement of operations. The adoption of ASU 2014-09 had an impact on HRHS's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments, and HRHS has eliminated the presentation of allowance for doubtful accounts on the balance sheets. The impact of the adoption of ASU 2014-09 on the consolidated statement of operations is detailed in the table above.

Patient Care Service Revenue

Patient care service revenue is reported on an accrual basis at the amount that reflects the consideration to which HRHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, HRHS bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

Patient Care Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided by HRHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. HRHS believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital(s) receiving inpatient acute care services, patients receiving services in our outpatient centers, physician practice offices or in their homes (home care) as well as residents receiving resident care services within our skilled nursing and personal care communities. HRHS measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. A majority of HRHS's patient service revenue is considered to be transferred over time.

HRHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with HRHS's policy, and/or implicit price concessions provided to uninsured patients. HRHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy(ies), and historical experience. HRHS determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Services are paid at prospectively determined rates based on clinical, diagnostic, and other factors. Medicare represents 42% HRHS's patient service revenues for each of the years ended June 30, 2019 and 2018, respectively.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per occasion of service. Medicaid represents 12% and 11% of HRHS's patient service revenues for the years ended June 30, 2019 and 2018, respectively.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges. Blue Cross and Aetna represent 27% and 28% of HRHS's patient service revenues for the years ended June 30, 2019 and 2018, respectively

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

Patient Care Service Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge

HRHS's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon HRHS. In addition, the contracts HRHS has with commercial payors also provide for retroactive audit and review of claims. HRHS 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.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered constraint and are included in the determination of the transaction price for providing patient care when known. These settlements are recorded based on the terms of the payment agreement with the payor, correspondence from the payor and HRHS's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved.

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

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

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

Patient Care Service Revenue (Continued)

Patients who meet the HRHS's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

HRHS has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service/episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service (for example, hospital, surgical center, physician practice, skilled nursing, assisted living, independent living, home health, etc.).

Financing Component

HRHS has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to HRHS's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

Contract Costs

HRHS has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that HRHS otherwise would have recognized is one year or less in duration.

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. Patient service revenues recorded under the Medicare, Medical Assistance, Medical Assistance managed care, Medicare managed care, and Blue Cross reimbursement programs were approximately \$284.8 million and \$263.6 million for the fiscal years ended June 30, 2019 and 2018, respectively.

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.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 PATIENT SERVICE REVENUE (CONTINUED)

Third-Party Agreements (Continued)

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.

HRHS has established a reserve of approximately \$1.65 million as of June 30, 2019 and 2018 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, 2019 and 2018 is as follows:

	2019	2018
Patient Service Revenues:		
Third-Party Payers	\$ 347,501	\$ 332,806
Self-Pay	39,841	40,634
Total Patient Service Revenues:	\$ 387,342	\$ 373,440

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 PATIENT SERVICE REVENUE (CONTINUED)

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:

	2019	2018
Medicare and Medicaid	26 %	23 %
HMO	27	25
Self-Pay	15	20
Commercial Insurance	14	11
Blue Cross	18	21
Total	100 %	100 %

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.

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, 2019 and 2018. The amounts designated as "traditional charity care" are also determined in accordance with industry guidance.

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

Charity Care and Community Service (Continued)

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

	<u>2019</u>	<u>2018</u>
Cost of Services Provided to Patients that Qualify for Charity Care:		
Benefits for the Poor:		
Traditional Charity Care	\$ 1,691	\$ 1,627
Unpaid Costs of Public Programs:		
Medicaid	14,130	13,427
Other	<u>49</u>	<u>45</u>
Total Quantifiable Benefits for the Poor	<u>15,870</u>	<u>15,099</u>
Benefits for the Broader Community:		
Education and Research	338	289
Negative Margin Services	<u>2,799</u>	<u>2,920</u>
Total Quantifiable Benefits for the Broader Community	<u>3,137</u>	<u>3,209</u>
Total Quantifiable Community Benefits	<u>\$ 19,007</u>	<u>\$ 18,308</u>

In addition to the summary, a loss was incurred from treating traditional Medicare patients in the Hospital of \$13,951 and \$11,360 for the fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions that are temporary in nature are those whose use has been restricted by donors to a specific time period or purpose. Net assets with donor restrictions that are held in perpetuity 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 contributions without donor restrictions in the accompanying consolidated financial statements.

Net assets with donor restrictions (subject to donor or time restrictions that are temporary in nature) as of June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Patient Care, Religious, and Strategic Initiatives	\$ 9,695	\$ 9,129
Net Pledges Receivable, Primarily for Purchases of Capital	<u>945</u>	<u>760</u>
Total	<u>\$ 10,640</u>	<u>\$ 9,889</u>

HOLY REDEEMER HEALTH SYSTEM
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NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Pledges receivable as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Net Pledges Receivable Due in:		
Less Than One Year	\$ 713	\$ 544
One to Five Years	232	216
Total	\$ 945	\$ 760

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

Net assets with donor restrictions held in perpetuity as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Healthcare Services	\$ 5,351	\$ 5,081
Education	1,294	1,228
Religious Initiatives	718	697
Total	\$ 7,363	\$ 7,006

Only the investment income derived from these net assets with donor restrictions held in perpetuity is expendable for the above purposes designated by the donor, as the original corpus has been restricted in perpetuity.

Endowments

HRHS's net assets with donor restrictions held in perpetuity 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 net assets with donor restrictions held in perpetuity (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 net assets with donor restrictions held in perpetuity and is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by HRHS in a manner consistent with HRHS's spending policy.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Endowments (Continued)

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 2019, the target distribution was 4% of the June 30, 2018 market value. The percentage expended for each of the fiscal years ended June 30, 2019 and 2018 was 1%. HRHS also reinvests a percentage of the market value of the fund into the principal held in perpetuity, 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, 2019 and 2018 was 1%. In addition, the Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of investment net gains held in perpetuity 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 2019 and 2018. To the extent that actual income from these investments held in perpetuity is less than the predetermined amount, accumulated gains are made available for operations to fund the difference.

For consolidated financial statement purposes, any excess of accumulated gains or accumulated losses is recorded as net assets with donor restrictions that are temporary in nature. Investment return in excess of or less than the spending distribution is reported as a component of investment income that is temporary in nature. The board expects a 4% draw for the upcoming June 30, 2020 fiscal year.

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 net assets with donor restrictions held in perpetuity. The endowment funds had no deficiencies as of June 30, 2019 and 2018. Any deficiencies would be recorded in net assets with donor restrictions that are temporary in nature. Deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new contributions with donor restrictions that are held in perpetuity.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Endowment Fund Activity

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 consisted of the following:

	Temporary in Nature	Held in Perpetuity	Total
Endowment Net Assets - July 1, 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	2,865	7,006	9,871
Investment Return	397	201	598
Contributions	-	36	36
Re-Investment in Principal	(120)	120	-
Appropriation of Endowment Assets for Expenditure	<u>(205)</u>	<u>-</u>	<u>(205)</u>
Endowment Net Assets - June 30, 2019	<u>\$ 2,937</u>	<u>\$ 7,363</u>	<u>\$ 10,300</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2019 and 2018 consisted of the following:

	Estimated Useful Lives	2019	2018
Land and Improvements	(5-25 Years)	\$ 21,878	\$ 23,220
Buildings and Improvements	(5-40 Years)	331,425	318,980
Equipment and Furnishings	(5-25 Years)	155,063	154,974
Total		508,366	497,174
Less: Accumulated Depreciation and Amortization		345,278	332,984
Total		163,088	164,190
Construction in Progress		18,659	11,435
Total Property and Equipment		<u>\$ 181,747</u>	<u>\$ 175,625</u>

Depreciation and amortization expense was \$22,440 and \$21,568 for the fiscal years ended June 30, 2019 and 2018, respectively.

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

Trustee Held Funds and Professional Liability Funds as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash and Cash Equivalents	\$ 32,734	\$ 43,214
Equity Securities	19,313	18,068
Fixed Income Securities	48,213	42,609
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds	1,280	1,775
Total	<u>101,540</u>	<u>105,666</u>
Private Equity Investments, at Cost	1,169	973
Total	<u>102,709</u>	<u>106,639</u>
Less: Current Portion of Trustee Held Funds	9,296	8,803
Total	<u>\$ 93,413</u>	<u>\$ 97,836</u>

	2019	2018
Trustee Held Funds, Net of Current Portion	\$ 9,010	\$ 8,525
Construction Funds	19,187	30,392
Professional Liability Funds	65,216	58,919
Total	<u>\$ 93,413</u>	<u>\$ 97,836</u>

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

	2019	2018
Debt Service Fund	\$ 3,437	\$ 3,099
Debt Service Reserve Fund	7,045	6,918
Construction Fund	19,187	30,392
Self-Insured Workers' Compensation Fund	7,824	7,311
Professional Liability Funds	65,216	58,919
Total	<u>\$ 102,709</u>	<u>\$ 106,639</u>

Investments as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash and Cash Equivalents	\$ 5,321	\$ 5,879
Equity Securities	27,558	20,135
Fixed Income Securities	33,111	23,548
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds	48,316	75,930
Other	2,183	1,559
Total	<u>116,489</u>	<u>127,051</u>
Private Equity Investments, at Cost	44,143	41,618
Total	<u>\$ 160,632</u>	<u>\$ 168,669</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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**NOTE 6 ASSETS LIMITED AS TO USE, INVESTMENTS, AND INVESTMENT INCOME
(CONTINUED)**

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

	<u>2019</u>	<u>2018</u>
Nonoperating Gains (Losses):		
Investment Income	\$ 5,979	\$ 7,487
Net Unrealized Gains (Losses) on Trading Securities	(2,922)	(3,925)
Realized Gains on Sales of Investments, Net	<u>6,203</u>	<u>10,291</u>
Total	<u>\$ 9,260</u>	<u>\$ 13,853</u>
Other Changes in Net Assets Without Donor Restrictions:		
Net Unrealized Gains (Losses) on Investments	<u>\$ 2,158</u>	<u>\$ (226)</u>

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.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2019			Total
	Level 1	Level 2	Level 3	
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 58,237
Equity Securities	28,591	18,067	-	46,658
Fixed Income Securities	38,203	43,122	-	81,325
Equity Managed Funds				
Measured at Net Asset Value	-	-	-	49,596 *
Other Investments	-	2,183	-	2,183
Total	<u>\$ 66,794</u>	<u>\$ 63,372</u>	<u>\$ -</u>	<u>\$ 237,999</u>

	2018			Total
	Level 1	Level 2	Level 3	
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 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>\$ 55,141</u>	<u>\$ 50,779</u>	<u>\$ -</u>	<u>\$ 250,359</u>

Cash and cash equivalents are measured at cost, which approximates fair value.

*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, 2019 and 2018, a total of \$45,312 and \$42,591 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, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	\$ 19,195	\$ 16,879
Statutory Liquid Reserve	775	763
Trustee-Held Funds	18,306	17,328
Construction Funds	19,187	30,392
Professional Liability Funds	65,216	58,919
Investments	160,632	168,669
Total	<u>283,311</u>	<u>292,950</u>
Less: Private Equity Investments, at Cost	45,312	42,591
Total	<u>\$ 237,999</u>	<u>\$ 250,359</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Fair values of the following investments have been estimated using the net asset value per share of the investments as of June 30, 2019:

	<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Spruce Grove	(a) \$ 8,971	\$ -	Monthly	10 Days
Adage Capital	(b) 18,936	-	Quarterly	60 Days
City of London	(c) 9,251	-	Monthly	30 Days
Forester Opportunities	(d) 8,120	-	Quarterly	95 Days
LL Mortgage	(e) 2,294	-	Monthly	60 Days
Parametric	(f) <u>2,024</u>	<u>-</u>	Monthly	5 Days
Total Equity Managed Funds	<u>\$ 49,596</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 primarily in closed-end country funds whose assets are invested principally in emerging markets.
- (d) 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.
- (e) This is a long-only, nonagency, mortgage-backed securities fund.
- (f) 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
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NOTE 8 LONG-TERM DEBT

Long-term debt as of June 30, 2019 and 2018 consisted of the following:

<u>Description</u>	<u>2019</u>	<u>2018</u>
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 bond issue premium of \$2,610 and \$3,177 at June 30, 2019 and 2018, respectively.	\$ 45,230	\$ 49,497
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 \$7,533 and \$8,007 at June 30, 2019 and 2018, respectively.	78,448	78,922
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 (4.05% at June 30, 2019) through January 2020.	1,638	1,890
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 (4.05% at June 30, 2019) through January 2020.	680	784
Mortgage note on 1844 Street Road building dated December 7, 2016 with monthly payments of \$8 including interest at 4.25% through December, 2036.	<u>1,126</u>	<u>1,168</u>
Subtotal Forward	127,122	132,261

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

<u>Description (Continued)</u>	<u>2019</u>	<u>2018</u>
Subtotal Forward	\$ 127,122	\$ 132,261
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.	822	910
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
HUD Mortgage Payable dated August 1981, with monthly installments of \$43, including interest at 7.63% through August 2021.	1,029	1,450
HUD Mortgage Payable dated June 1983, with monthly installments of \$17, including interest at 9.25% through June 2023.	694	831
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.	<u>10,286</u>	<u>10,571</u>
Subtotal	139,953	146,102
Less: Unamortized Debt Issuance Costs	<u>1,448</u>	<u>1,605</u>
Total Long-Term Debt	138,505	144,497
Less: Current Portion of Long-Term Debt	<u>5,243</u>	<u>5,113</u>
Total Long-Term Debt, less Current Portion	<u>\$ 133,262</u>	<u>\$ 139,384</u>

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

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, 2019.

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.

HRHS has granted to the Master Trustee a mortgage on and security interest in HRHS's right, title and interest in the Hospital condominium unit. In addition under the Master Indenture, the current members of the Obligated Group have granted to the Mater Trustee a lien on and security in the gross receipts of such entities, as security for repayment of the Montgomery County Higher Education and Health Authority Health Care Revenue Bonds Series A of 2016 and Series A of 2014, respectively.

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, 2019, management's calculations indicate no such amounts need to be deposited into the residual fund.

HOLY REDEEMER HEALTH SYSTEM
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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, 2019 and 2018, there was \$10,286 and \$10,571, 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.

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>
2020	\$ 5,243
2021	5,483
2022	5,435
2023	5,623
2024	14,373
Thereafter	<u>93,653</u>
Total	<u>\$ 129,810</u>

NOTE 9 LINES OF CREDIT

In March 2019, HRHS renewed a line of credit agreement with a lender that permits borrowings of up to \$25,000 through March 2021. Borrowings are payable on demand and bear interest at a rate of the one-month LIBOR rate plus 150 basis points (3.90% at June 30, 2019). 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 \$6,000 and \$-0- outstanding under this line of credit as of June 30, 2019 and 2018.

In March 2018, HRHS renewed a line of credit with a lender that permits borrowings of up to \$10,000 through March 2019. HRHS decided not to renew this line of credit in March, 2019. Borrowings were payable on demand and bore interest at a rate of the one-month LIBOR rate plus 150 basis points. 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 (4.40% at June 30, 2019). There was no amount outstanding under this line of credit as of June 30, 2019 and 2018.

HOLY REDEEMER HEALTH SYSTEM
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NOTE 10 CAPITAL AND OPERATING LEASES

HRHS leases certain equipment, office space, and furnishings under operating leases. Total rental expense for operating leases was \$2,944 and \$3,147 for the fiscal years ended June 30, 2019 and 2018, respectively. Minimum future rental payments on noncancelable operating leases with terms in excess of one year as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 3,276
2021	2,336
2022	2,110
2023	1,815
2024	1,815
Thereafter	6,655
Total	<u>\$ 18,007</u>

HRHS leases certain equipment under capital leases. As of June 30, 2019, \$5,559 remains outstanding under such capital leases, with \$1,807 scheduled to be paid in fiscal year 2020. Total principal payments on capital leases were \$1,855 and \$2,311 for the fiscal years ended June 30, 2019 and 2018, respectively. Total interest expense for capital leases was \$217 and \$210 for the fiscal years ended June 30, 2019 and 2018, 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>
2020	\$ 1,992	\$ 185	\$ 1,807
2021	1,967	121	1,846
2022	1,179	64	1,115
2023	674	21	653
2024	140	2	138
Total	<u>\$ 5,952</u>	<u>\$ 393</u>	<u>\$ 5,559</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 FUNCTIONAL EXPENSES

HRHS provides general patient and resident care to its patients and residents within its geographic region. HRHS considers all patient and resident care services as there major programs. All categories of expenses that are not directly related to HRHS's program are allocated to one or more general and administrative or fundraising and development functions based on estimates of time and effort involved. Expenses related to providing these services are as follows:

	2019			Total
	Patient and Resident Care	General and Administrative	Fundraising and Development	
Salaries and Wages	\$ 186,235	\$ 31,865	\$ 902	\$ 219,002
Employee Benefits	33,261	5,393	211	38,865
Severance	-	186	-	186
Purchased Services	42,149	13,114	299	55,562
General Expense	26,198	13,361	771	40,330
Supplies	46,893	1,391	185	48,469
Insurance	5,106	330	20	5,456
Depreciation and Amortization	17,919	4,493	28	22,440
Interest Expense	3,826	1,194	-	5,020
Total Functional Expenses	<u>\$ 361,587</u>	<u>\$ 71,327</u>	<u>\$ 2,416</u>	<u>\$ 435,330</u>

	2018			Total
	Patient and Resident Care	General and Administrative	Fundraising and Development	
Salaries and Wages	\$ 175,370	\$ 34,251	\$ 873	\$ 210,494
Employee Benefits	35,943	4,369	211	40,523
Severance	419	36	-	455
Purchased Services	36,193	11,123	370	47,686
Cost of Goods Sold - Housing	289	-	-	289
General Expense	24,248	14,216	762	39,226
Supplies	46,029	1,647	163	47,839
Insurance	4,877	459	20	5,356
Depreciation and Amortization	17,111	4,438	19	21,568
Interest Expense	3,314	1,556	-	4,870
Total Functional Expenses	<u>\$ 343,793</u>	<u>\$ 72,095</u>	<u>\$ 2,418</u>	<u>\$ 418,306</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 \$3,189 and \$1,811 in 2019 and 2018, respectively.

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

The following tables summarize information about the Pension Plan as of June 30, 2019 and 2018:

	2019	2018
Change in Benefit Obligation:		
Projected Benefit Obligation - Beginning of Year	\$ 157,784	\$ 171,911
Service Cost	-	3,320
Interest Cost	5,882	5,340
Actuarial (Gain) Loss	14,537	(10,939)
Benefits and Administrative Expenses Paid	(11,068)	(8,624)
Curtailments	-	(3,224)
Projected Benefit Obligation - End of Year	\$ 167,135	\$ 157,784
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning of Year	\$ 125,484	\$ 127,718
Actual Return on Plan Assets	5,650	6,390
Contributions by the Plan's Sponsor	1,600	-
Benefits and Administrative Expenses Paid	(11,068)	(8,624)
Fair Value of Plan Assets - End of Year	\$ 121,666	\$ 125,484
Accrued Benefit Cost	\$ (45,469)	\$ (32,300)
Accumulated Benefit Obligation - End of Year	\$ 167,135	\$ 157,784
Amounts Recognized in Consolidated Balance Sheet consists of:		
Pension Liability	\$ (45,469)	\$ (32,300)
Amounts Recognized in Accumulated Net Assets Without Donor Restrictions Consist of:		
Net Actuarial Loss	\$ 62,769	\$ 45,140
Prior Service Cost	-	-
Total	\$ 62,769	\$ 45,140
Components of Net Periodic Pension Cost:		
Service Cost	\$ -	\$ 3,320
Interest Cost	5,882	5,340
Expected Return on Plan Assets	(8,494)	(9,429)
Prior Service Cost Recognized	-	(480)
Recognized Net Actuarial Loss	945	2,236
Net Periodic Pension Cost	\$ (1,667)	\$ 987

HOLY REDEEMER HEALTH SYSTEM
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NOTE 12 PENSION PLANS (CONTINUED)

	2019	2018
Other Changes in Pension Liability Recognized in Net Assets Without Donor Restrictions:		
Current-Year Actuarial (Gain) Loss	\$ 17,381	\$ (7,900)
Amortization of Loss	(945)	(2,236)
Amortization of Prior Service (Cost)	-	480
Effect of Curtailment on prior service cost	-	5,111
Effect of Curtailment on gain / (loss)	-	(3,224)
Total	16,436	(7,769)
Total Recognized in Net Benefit Cost and Net Assets Without Donor Restrictions	\$ 14,769	\$ (6,782)

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 45, 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 net assets without donor restrictions into net periodic pension cost over the next fiscal year are \$1,485 and \$-0-, respectively.

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

	2019	2018
Assumptions:		
Weighted-Average Assumptions Used to Determine Pension Obligation at June 30:		
Discount Rate	3.62%	4.41%
Rate of Compensation Increase	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Pension Cost for the Year Ended June 30:		
Discount Rate	4.41%	3.98 / 3.87%
Rate of Compensation Increase	N/A	3.00%
Expected Return on the Plan Assets	7.00%	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, 2019 and 2018 consisted of the following:

Asset Category	Target Asset Allocation	2019	2018
Cash	-	2 %	2 %
Fixed Income	20	20	14
Equity Securities	23	6	7
Equity Managed Funds	45	60	66
Private Equity	12	12	11
Total	100 %	100 %	100 %

HOLY REDEEMER HEALTH SYSTEM
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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 tables present the fair value hierarchy for the Pension Plan assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	2019			Total
	Level 1	Level 2	Level 3	
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 2,466
Equity Securities	6,681	185	-	6,866
Fixed Income Securities	24,407	-	-	24,407
Equity Managed Funds, Comprised of Hedge Funds and Funds of Funds Measured at Net Asset Value	-	-	-	87,927 *
Total	<u>\$ 31,088</u>	<u>\$ 185</u>	<u>\$ -</u>	<u>\$ 121,666</u>
	2018			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 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>\$ 25,766</u>	<u>\$ 481</u>	<u>\$ -</u>	<u>\$ 125,484</u>

Cash and cash equivalents are measured at cost, which approximates fair value.

*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
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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, 2019:

		<u>Fair Value</u>	<u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Spruce Grove	(a)	\$ 4,903	\$ -	Monthly	10 Days
City of London	(b)	3,159	-	Monthly	30 Days
Adage Capital	(c)	13,638	-	Quarterly	60 Days
Parametric	(d)	18,885	-	Monthly	5 Days
FLAG	(e)	2,189	43	Not Applicable	Not Applicable
Siguler Guff	(f)	212	34	Not Applicable	Not Applicable
Park Street Funds	(g)	3,635	103	Not Applicable	Not Applicable
Commonfund Investments	(h)	2,098	269	Not Applicable	Not Applicable
SVB Strategic	(i)	1,143	175	Not Applicable	Not Applicable
1607 Capital	(j)	5,271	-	Monthly	10 Days
Forester Opportunities	(k)	18,470	-	Quarterly	95 Days
Obsidian	(l)	2,214	-	Monthly	60 Days
LL Mortgage	(m)	4,772	-	Quarterly	60 Days
LL Capital Partners	(n)	1,019	-	Not Applicable	Not Applicable
Field Street	(o)	5,117	-	Monthly	60 Days
Emerald	(p)	1,050	2,450	N/A	N/A
Moonrise	(q)	152	1,348	N/A	N/A
Total Pension Investments Valued at NAV		<u>\$ 87,927</u>	<u>\$ 4,422</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 close alignment with the S&P 500 sector weightings.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(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 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.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) This is a private equity fund of funds that invests in a diversified group of select U.S. venture capital limited partnership investments.
- (j) This fund invests in closed-end country funds whose assets are invested in non-U.S. developed markets.
- (k) 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.
- (l) 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.
- (m) This is a long-only, nonagency mortgage-backed securities fund.
- (n) 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).
- (o) This is a hedge fund that invests primarily in a broad range of securities and derivatives including bonds, swaps, futures, options, currencies, and other products.
- (p) This is a private equity fund that makes growth investments in a small / mid-cap regional financial institutions.
- (q) This is a venture capital fund of funds that makes primary commitments to global venture capital managers.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(In Thousands)

NOTE 12 PENSION PLANS (CONTINUED)

Expected contributions to the Pension Plan in the fiscal year beginning July 1, 2019 are expected to be \$-0-.

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>
2020	\$ 14,712
2021	9,087
2022	6,248
2023	10,052
2024	10,260
Five Fiscal Years Thereafter	47,702
Total	<u>\$ 98,061</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, 2019 and 2018.

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 \$79 and \$90 for the years ended June 30, 2019 and 2018, 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, 2019 AND 2018
(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 \$212 and \$608 for the fiscal years ended June 30, 2019 and 2018, respectively. Pension cost charged to HRPS and included in the accompanying consolidated statements of operations was \$-0- and \$414 in fiscal years 2019 and 2018, 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, 2019 AND 2018
(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, 2018 (the latest date for which such information is available), was \$971,364 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 \$1,009 and \$1,004 for the fiscal years ended June 30, 2019 and 2018, 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, 2019 and 2018.

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(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 net assets without donor restrictions for the fiscal years ended June 30, 2019 and 2018:

	<u>Consolidated</u>	<u>Parent Interests</u>	<u>Noncontrolling Interests</u>
Net Assets Without Donor Restrictions As Restated - July 1, 2017	\$ 214,639	\$ 216,261	\$ (1,622)
Excess of Revenues and Gains Over Expenses and Losses	11,694	10,859	835
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>(3,896)</u>	8,159 <u>(3,408)</u>	- <u>(488)</u>
Change in Net Assets Without Donor Restrictions	<u>15,825</u>	<u>15,478</u>	<u>347</u>
Net Assets Without Donor Restrictions - June 30, 2018	230,464	231,739	(1,275)
Excess of Revenues and Gains Over Expenses and Losses	(7,695)	(5,962)	(1,733)
Changes in Net Unrealized Loss on Other-than-Trading Securities	2,158	2,158	-
Equity Transfers	1,521	1,521	-
Other Changes in Net Assets	(265)	(265)	-
Other Changes in Pension Liability Distributions	(16,436) <u>(1,820)</u>	(16,436) <u>(932)</u>	- <u>(888)</u>
Change in Net Assets Without Donor Restrictions	<u>(22,537)</u>	<u>(19,916)</u>	<u>(2,621)</u>
Net Assets Without Donor Restrictions - June 30, 2019	<u>\$ 207,927</u>	<u>\$ 211,823</u>	<u>\$ (3,896)</u>

HOLY REDEEMER HEALTH SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(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.

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET
JUNE 30, 2019
(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.	Drueding	Redeemer Village	Redeemer Village II	VNHIS	HRHC	HR			Hospice	VNA Mercer	ASC	OSRA	PCC-LLC	Little Flower	HRDZ Homes	HRRL	HRRL Inc.	IWA
CURRENT ASSETS																									
Cash and Cash Equivalents	\$ 4,664	\$ 1,035	\$ -	\$ 5,699	\$ 370	\$ 151	\$ 1,843	\$ 36	\$ 2	\$ 66	\$ 41	\$ -	\$ 603	\$ 419	\$ 1,144	\$ 102	\$ -	\$ 1,688	\$ 515	\$ 3,293	\$ 9	\$ 3,734	\$ -	\$ 19,195	
Current Portion of Trustee-Held Funds	6,833	-	-	6,833	2,483	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,296	
Statutory Liquid Reserve	93	-	-	93	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	682	-	-	775	
Patient Accounts Receivable, Net	30,959	5,352	-	36,311	2,895	-	-	-	-	1,346	2,069	424	908	736	1,140	-	-	877	-	-	9	-	-	46,715	
Other Current Assets	7,339	448	-	7,787	20	382	306	371	119	37	28	2	62	416	160	479	132	272	272	124	-	-	98	10,794	
Due from Affiliates	202,767	23,117	(96,077)	129,807	56,817	-	990	3,814	-	-	3,512	4,967	5,170	4,641	424	-	-	-	-	25	-	-	106	(210,273)	
Total Current Assets	252,655	29,852	(96,077)	186,530	62,895	353	3,139	4,221	121	103	4,927	7,036	6,189	6,030	27,200	1,402	479	2,717	812	4,108	9	3,938	86,775		
ASSETS LIMITED AS TO USE																									
Trustee-Held Funds, Net of Current Portion	7,905	-	-	7,905	1,105	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,010	
Construction Funds	19,187	-	-	19,187	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,187	
Professional Liability Funds	-	-	-	-	65,216	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,216	
Total Assets Limited as to Use	27,092	-	-	27,092	1,105	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93,413	
PROPERTY AND EQUIPMENT, NET	132,185	15,184	-	147,369	1,821	-	14,595	1,195	656	128	1,723	400	27	316	1,088	512	10	2,488	22	8,935	750	2	-	181,747	
OTHER ASSETS	132,775	691	-	133,466	11,700	691	6,350	3,332	580	299	620	-	3,545	36	-	-	-	1,590	664	-	-	-	-	160,632	
Investments	7,273	599	-	7,872	548	951	80	14	-	-	-	-	-	-	-	-	-	66	9	-	-	-	-	10,253	
Due from Affiliates	140,046	3,272	-	143,318	12,278	893	6,470	3,348	580	289	620	-	3,545	36	-	-	-	1,565	675	-	-	-	-	171,155	
Total Other Assets	\$ 551,981	\$ 48,608	\$ (16,077)	\$ 584,512	\$ 37,689	\$ 68,700	\$ 24,164	\$ 8,792	\$ 1,357	\$ 530	\$ 7,270	\$ 7,436	\$ 9,771	\$ 6,392	\$ 3,808	\$ 2,607	\$ 770	\$ 6,331	\$ 1,607	\$ 53,043	\$ 750	\$ 3,940	\$ (213,831)	\$ 533,000	

**HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2019
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)**

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HR/WVA	THR Insurance Company Inc.	Management Corp.	Dineding Village	Retierner Village	Retierner Village II	VNHS	HRIC	HR Hospice	VNA Mercer	ASC	OSRA	FCC, LLC	Lite Flower	HRDZ Homes	HRARL	HRARL, Inc.	WVA	Eliminations and Adjustments	Total
CURRENT LIABILITIES																								
Lines of Credit	\$ 6,000	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,000
Current Portion of Capital Leases	1,807	-	-	1,807	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	
Long-Term Debt	3,780	65	-	3,845	92	-	407	-	454	150	-	-	-	-	-	-	-	-	-	295	-	-	5,243	
Accounts Payable	18,146	483	-	18,629	215	-	83	47	19	1	8	24	48	165	212	784	-	170	6	21	-	6	20,418	
Accrued Expenses, Principally Salaries and Benefits	32,410	4,383	-	36,793	2,817	99	561	243	302	163	1,183	623	314	378	156	255	197	522	106	241	-	4,331	49,454	
Current Portion of Self-Insurance and Other Liabilities	5,249	1,285	-	6,534	1,592	-	3,420	-	147	87	23	23	270	14	3	-	-	-	-	4	-	-	8,463	
Due to Affiliates	70,046	96,106	(86,077)	70,075	31,851	52,693	3,420	1,776	147	87	12,599	9,978	6,454	16,075	412	392	359	30	596	66	1,008	2,598	(2,102)	
Total Current Liabilities	137,438	(102,302)	(86,077)	143,863	36,217	52,792	4,471	2,056	922	401	13,813	10,848	7,086	16,632	783	3,400	556	722	698	627	1,008	6,835	(21,225)	91,415
LONG-TERM LIABILITIES																								
Long-Term Capital Leases, Net of Current Portion	3,752	-	-	3,752	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,752	
Long-Term Debt, Net of Current Portion	117,788	666	-	118,444	730	-	3,024	-	575	544	-	-	-	-	-	-	-	-	-	9,845	-	-	133,262	
Pension Liability	45,469	-	-	45,469	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,469	
Self-Insurance Liabilities	3,622	958	-	4,580	70	10,204	-	83	15	5	308	940	177	230	2	-	-	-	-	-	-	(40)	16,774	
Other Liabilities	4,361	-	-	4,361	-	-	-	13	74	19	-	-	-	-	-	-	-	11	-	-	-	5	4,483	
Deferred and Refundable Entry Fees, Net	633	-	-	633	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,372	-	-	12,005	
Total Long-Term Liabilities	176,825	1,614	-	177,439	800	10,204	3,024	96	664	588	308	940	177	230	2	-	-	-	-	21,372	-	(40)	215,745	
Total Liabilities	313,263	(102,302)	(86,077)	321,102	37,017	62,996	7,495	2,162	1,586	969	14,121	11,788	7,263	16,862	785	3,400	556	733	698	21,944	1,008	6,940	(21,285)	307,160
NET ASSETS (DEFICIT)																								
Without Donor Restrictions:																								
Unrestricted	227,114	(55,508)	-	171,606	39,327	3,704	16,689	5,396	(229)	(439)	(7,488)	(4,354)	(626)	(10,567)	3,023	(793)	223	5,698	809	(8,901)	(249)	(3,000)	2,324	211,823
Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,886)
Total Without Donor Restrictions	227,114	(55,508)	-	171,606	39,327	3,704	16,689	5,396	(229)	(439)	(7,488)	(4,354)	(626)	(10,567)	3,023	(793)	223	5,698	809	(8,901)	(249)	(3,000)	(1,572)	207,937
With Donor Restrictions	11,604	-	-	11,604	1,125	-	-	1,204	-	647	-	2	3,334	87	-	-	-	-	-	-	-	-	-	18,003
Total Net Assets (Deficit)	238,718	(55,508)	-	183,210	40,452	3,704	16,689	6,600	(229)	(439)	(6,851)	(4,352)	2,268	(10,480)	3,023	(793)	223	5,698	809	(8,901)	(249)	(3,000)	(1,572)	225,940
Total Liabilities and Net Assets (Deficit)	\$ 551,881	\$ -	\$ -	\$ 504,312	\$ 77,469	\$ 66,700	\$ 24,164	\$ 8,762	\$ 1,357	\$ 530	\$ 7,270	\$ 7,436	\$ 9,771	\$ 6,382	\$ 3,808	\$ 2,607	\$ 779	\$ 6,331	\$ 1,507	\$ 13,043	\$ 759	\$ 3,940	\$ (21,937)	\$ 530,090

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Total Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Druiding	Redeemer Village	Redeemer Village II	VNHS	HRHC	HR Hospice	VNA Mercer	ASC	OSRA	PSC, LLC	Ltife Flower	HRDZ Homes	HRAR	HRARL, Inc.	NVA	Eliminations and Adjustments	Total	
REVENUES																								
Patient Service Revenue	\$ 259,794	\$ 38,389	\$ 296,183	\$ 28,368	\$ 991	\$ -	\$ -	\$ -	\$ -	\$ 12,897	\$ 16,020	\$ 3,578	\$ 6,087	\$ 7,632	\$ 5,934	\$ -	\$ 11,900	\$ (4)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387,342
Other Operating Revenue	38,300	6,404	35,781	90	-	3,652	2,206	1,008	579	983	30	-	-	16	119	3,794	32	462	2,095	-	-	8,146	39,484	
Net Assets Released from Restrictions Used for Operations	621	-	621	25	-	-	304	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	953	
Total Revenues	298,715	41,793	331,553	28,483	991	3,652	2,510	1,008	579	13,683	16,050	3,578	6,087	7,648	6,053	3,794	11,932	458	2,095	-	8,146	(27,100)	421,779	
EXPENSES																								
Salaries and Wages	136,446	33,013	169,459	13,752	-	-	1,716	304	107	7,413	8,659	1,680	3,805	1,881	4,325	-	6,662	429	155	2	534	(1,981)	219,002	
Employee Benefits	25,368	3,978	29,346	2,286	-	-	678	138	46	1,544	1,366	260	736	477	728	-	1,424	120	73	-	120	(477)	38,865	
Severance	186	-	186	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186	
Purchased Services	41,386	9,943	51,329	7,846	175	547	369	121	48	4,694	4,593	10,330	2,397	858	835	3,505	1,401	81	161	62	7,593	(22,440)	55,562	
Cost of Goods Sold - Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
General Expense	26,873	5,441	32,314	1,034	-	1,407	642	403	137	457	534	125	630	688	757	440	745	90	567	1	38	(1,387)	40,330	
Supplies	39,894	2,360	42,254	1,342	-	-	96	15	2	270	314	452	286	1,815	523	64	958	16	52	10	10	-	48,469	
Insurance	3,626	18	3,644	313	816	53	113	24	9	190	177	15	93	12	365	42	210	5	17	-	174	(816)	5,456	
Depreciation and Amortization	17,756	1,621	19,377	247	-	910	156	118	34	208	143	-	17	200	55	-	279	27	574	-	5	-	22,440	
Interest Expense	4,096	70	4,166	37	-	-	150	94	69	-	-	-	-	6	102	-	-	-	395	102	-	-	5,020	
Total Expenses	265,631	56,444	343,120	26,857	991	3,657	3,770	1,217	452	14,776	15,786	3,562	7,564	6,127	7,690	4,051	11,579	765	2,015	85	8,474	(27,101)	435,330	
Other, Net	3,064	(14,651)	(11,587)	1,626	-	585	(1,260)	391	127	(1,093)	264	16	(1,897)	1,521	(1,637)	(257)	253	(310)	80	(85)	(328)	1	(15,551)	
NONOPERATING																								
Investment Income (Loss)	5,124	62	5,186	471	-	75	128	-	-	8	1	-	1	-	-	-	53	-	50	6	-	-	5,979	
Net Change in Unrealized Gains (Losses) on Trading Securities	(2,769)	6	(2,763)	(241)	-	118	(69)	-	-	-	-	4	-	-	-	-	(2)	42	-	-	-	-	(9,922)	
Realized Gain on Sale of Securities	5,473	(54)	5,419	530	-	104	150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,203	
Contributions	601	-	601	115	-	-	821	-	-	2	5	14	7	-	-	-	-	-	-	-	-	-	1,565	
Pension Curtailment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loss on Abandonment of CP	(1,035)	-	(1,035)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,993)	
Other, Net	1	-	1	3	-	6	-	-	-	2	4	-	1	4	-	-	9	-	-	-	-	(6)	24	
Total Nonoperating Gains (Losses)	7,364	14	7,388	878	-	303	1,030	-	-	12	10	18	9	4	-	-	60	42	50	(3,582)	-	(6)	5,856	
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ 10,468	\$ (14,637)	\$ 2,504	\$ 2,504	\$ -	\$ 888	\$ (230)	\$ 391	\$ 127	\$ (1,081)	\$ 274	\$ 34	\$ (1,888)	\$ 1,525	\$ (1,637)	\$ (257)	\$ 313	\$ (268)	\$ 130	\$ (4,017)	\$ (328)	\$ (6)	\$ (7,695)	

HOLY REDEEMER HEALTH SYSTEM
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED JUNE 30, 2019
(In Thousands)
(SEE INDEPENDENT AUDITORS' REPORT)

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	HR/VA	THR Insurance Company Inc.	Management Corp.	Dwelling	Relemer Village	Relemer Village II	VNIS	HRHC	HR Hospice	VNA Mercer	ASC	OSRA	PGC, LLC	Life Flower	HRDZ Homes	HRARL Inc.	IWA	Eliminations and Adjustments	Total	
\$ 10,488	\$ (14,837)	\$ -	\$ (4,189)	\$ 2,504	\$ -	\$ 888	\$ (230)	\$ 391	\$ 127	\$ (1,081)	\$ 274	\$ 34	\$ (1,888)	\$ 1,525	\$ (1,837)	\$ (257)	\$ 313	\$ (288)	\$ 130	\$ (4,017)	\$ (328)	\$ (5)	\$ (7,695)
-	-	-	-	-	2,158	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,158	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,521	
(16,436)	-	-	(16,436)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,729)	5,311	-	1,939	(16,436)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(265)	(265)
-	(616)	-	(616)	-	-	-	-	-	-	-	2	-	-	(1,262)	-	-	-	-	-	-	-	(265)	(1,820)
(5,966)	(15,256)	-	(21,224)	2,504	2,158	888	(230)	391	127	(1,081)	276	34	(1,888)	322	(1,837)	(257)	313	(288)	(5,599)	1,294	(328)	1,669	(22,537)
890	-	-	890	97	-	-	590	-	-	15	-	215	1	-	-	-	-	-	-	-	-	-	1,908
256	-	-	256	-	-	-	21	-	-	(24)	-	-	(24)	-	-	-	-	-	-	-	-	-	253
(621)	-	-	(621)	(25)	-	-	(3,041)	-	-	(3)	-	-	-	-	-	-	-	-	-	-	-	-	(653)
525	-	-	525	72	-	-	307	-	-	12	-	215	(23)	-	-	-	-	-	-	-	-	-	1,108
(5,443)	(15,256)	-	(20,699)	2,576	2,158	888	77	391	127	(1,069)	276	249	(1,911)	322	(1,837)	(257)	313	(288)	(5,599)	1,294	(328)	1,669	(21,429)
244,162	(40,252)	-	203,910	37,878	1,546	15,781	6,524	(620)	(566)	(5,782)	(4,629)	2,259	(8,569)	2,701	844	460	5,285	1,077	(3,302)	(1,543)	(2,672)	(3,241)	247,359
\$ 238,719	\$ (55,500)	\$ -	\$ 183,219	\$ 40,452	\$ 3,704	\$ 16,669	\$ 6,601	\$ (220)	\$ (430)	\$ (6,851)	\$ (4,353)	\$ 2,508	\$ (10,480)	\$ 3,023	\$ (733)	\$ 223	\$ 5,598	\$ 809	\$ (8,901)	\$ (240)	\$ (3,000)	\$ (1,572)	\$ 225,930

NET ASSETS WITHOUT DONOR RESTRICTIONS

Excess (Deficiency) of Revenues and Gains
Over Expenses and Losses
Other Changes in Net Assets Without Donor Restrictions:
Changes in Net Unrealized Gains
on Other-than-Trading Securities
Equity Transfers
Other Changes in Pension Liability
Other Changes in Net Assets
Distributions

NET ASSETS WITH DONOR RESTRICTIONS

Contributions
Income (Loss) on Long-Term Investments
Net Assets Released from Restrictions Used
for Operations
Increase (Decrease) in Net Assets
With Donor Restrictions

INCREASE (DECREASE) IN NET ASSETS

Net Assets - Beginning of Year
NET ASSETS - END OF YEAR

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

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Divesting	Redeemer Village	Redeemer Village I	VNHS	HRHC	HR Hospice	VNA Mercer	ASC	OSRA	PGC LLC	Life Flower	HRDZ Homes	HRARL	HRARL Inc	IWA	Eliminations and Adjustments	Total
CURRENT ASSETS																								
Cash and Cash Equivalents	\$ 5,161	\$ 781	\$ -	\$ 5,922	\$ 1,342	\$ 75	\$ 1,090	\$ 10	\$ 7	\$ 15	\$ 59	\$ -	\$ 684	\$ 341	\$ 797	\$ 176	\$ -	\$ 420	\$ 202	\$ 3,283	\$ 823	\$ 1,633	\$ -	\$ 16,879
Current Portion of Trustee-Held Funds	6,522	-	-	6,522	2,281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,803	
Statutory Liquid Reserve	80	-	-	80	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	683	-	-	-	763
Patient/Accounts Receivable, Net	29,939	4,100	-	34,039	24,008	-	-	-	-	-	895	1,424	972	642	874	1,229	-	1,119	-	19	-	-	-	43,221
Other Current Assets	6,799	447	-	7,246	286	342	227	144	48	48	86	-	3	-	401	182	528	117	207	122	25	70	-	10,034
Due from Affiliates	162,606	30,128	(92,627)	100,107	39,881	619	3,323	-	-	-	1,944	2,615	5,272	2,746	311	-	-	18	-	4,915	-	211	(162,682)	-
Total Current Assets	211,107	35,436	(92,627)	153,916	46,612	417	1,995	3,950	151	63	2,984	4,039	6,831	3,729	2,383	1,587	528	1,656	427	9,022	848	1,914	(162,682)	797,000
ASSETS LIMITED AS TO USE																								
Trustee-Held Funds, Net of Current Portion	7,439	-	-	7,439	1,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,525
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	1,086	58,919	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,836
PROPERTY AND EQUIPMENT, NET																								
Trustee-Held Funds, Net of Current Portion	124,084	10,920	-	135,004	1,703	-	15,477	1,346	721	104	1,931	513	27	8	1,102	476	38	2,688	27	10,895	3,833	7	(375)	175,625
Investments	141,813	1,803	-	143,616	10,894	-	6,044	3,124	565	336	618	-	3,326	60	-	-	-	1,401	1,278	-	-	-	(2,693)	188,669
Other	7,117	573	-	7,690	466	1,287	87	13	-	-	-	369	-	-	-	813	290	83	-	-	-	-	-	11,098
Due from Affiliates	1	1,320	-	1,321	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,321)	-
Total Other Assets	149,931	3,696	-	152,627	11,490	1,287	6,131	3,137	565	336	618	369	3,326	60	-	813	290	1,484	1,278	-	-	-	(4,014)	179,767
Total Assets	\$ 521,953	\$ 50,052	\$ (92,627)	\$ 479,378	\$ 60,281	\$ 60,623	\$ 23,603	\$ 8,045	\$ 1,437	\$ 503	\$ 5,533	\$ 4,921	\$ 9,884	\$ 3,797	\$ 3,485	\$ 2,876	\$ 856	\$ 5,628	\$ 1,732	\$ 19,817	\$ 4,781	\$ 1,921	\$ (166,451)	\$ 539,028

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

	HRHS	Physician Services	Eliminations and Adjustments Obligated Group	Total Obligated Group	HRVMA	THR Insurance Company Inc.	Management Corp.	Drueding	Redeemer Village	Redeemer Village II	VHNS	HRHC	HR Hospice	VNA Mercer	ASC	OSRA	PCC LLC	Life Flower	HRDZ Homes	HRARL	HRARL Inc.	IWA	Eliminations and Adjustments	Total
CURRENT LIABILITIES																								
Lines of Credit	2,000	-	-	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	
Current Portion of Capital Leases	1,519	-	-	1,519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,519	
Long-Term Debt	3,637	63	-	3,700	88	-	482	-	421	137	-	-	-	-	1,321	-	-	-	-	285	-	-	5,113	
Accounts Payable	8,854	259	-	9,113	208	-	20	25	15	5	12	21	14	17	83	208	-	145	10	96	-	4	9,894	
Accrued Expenses, Principally Salaries and Benefits	29,301	3,958	-	33,859	2,712	76	588	243	117	88	1,245	788	803	445	113	175	93	307	34	220	357	2,707	44,960	
Current Portion of Self Insurance and Other Liabilities	3,461	1,555	-	5,016	504	-	-	11	18	5	90	400	9	301	3	-	-	-	-	4	-	18	6,377	
Due to Affiliates	57,473	82,098	(92,627)	47,544	18,529	46,860	3,327	1,206	398	111	9,795	7,444	6,610	11,653	583	328	283	-	611	779	5,987	1,864	(61,889)	
Total Current Liabilities	108,845	88,535	(82,627)	102,751	20,038	48,936	4,397	1,485	855	358	11,142	8,653	7,438	12,436	782	2,032	376	452	655	1,384	6,324	4,593	(163,210)	69,893
LONG-TERM LIABILITIES																								
Long-Term Capital Leases, Net of Current Portion	4,657	-	-	4,657	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,657	
Long-Term Debt	122,463	721	-	123,184	822	-	3,425	-	1,029	684	-	-	-	-	-	-	-	-	-	10,230	-	-	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	4,319	-	-	4,319	-	-	-	13	73	19	-	-	-	-	-	-	-	91	-	-	-	-	4,519	
Deferred and Refundable Entry Fees, Net	714	-	-	714	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	714	
Total Long-Term Liabilities	170,848	1,771	-	172,717	2,347	12,141	3,425	34	1,102	713	173	897	188	(60)	2	-	-	91	-	11,605	-	-	12,519	
Total Liabilities	277,791	90,304	(82,627)	275,468	22,385	59,077	7,822	1,519	2,057	1,099	11,315	9,550	7,625	12,366	784	2,032	376	543	655	23,219	6,324	4,593	(163,210)	285,699
NET ASSETS (DEFICIT)																								
Without Donor Restrictions:																								
Unrestricted	233,082	(40,252)	-	192,830	36,823	1,546	15,781	5,626	(820)	(996)	(6,417)	(4,630)	(859)	(8,679)	2,701	844	480	5,285	1,077	(3,309)	(1,543)	(2,672)	(1,959)	231,739
Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,279)
Total Without Donor Restrictions	233,082	(40,252)	-	192,830	36,823	1,546	15,781	5,626	(820)	(996)	(6,417)	(4,630)	(859)	(8,679)	2,701	844	480	5,285	1,077	(3,309)	(1,543)	(2,672)	(3,241)	230,464
With Donor Restrictions	11,080	-	-	11,080	1,053	-	-	888	-	-	835	1	3,118	110	-	-	-	-	-	-	-	-	-	16,895
Total Net Assets (Deficit)	244,162	(40,252)	-	203,910	37,876	1,546	15,781	6,514	(820)	(996)	(5,582)	(4,629)	2,255	(8,569)	2,701	844	480	5,285	1,077	(3,309)	(1,543)	(2,672)	(3,241)	247,359
Total Liabilities and Net Assets (Deficit)	\$ 521,953	\$ 50,052	\$ (82,627)	\$ 479,378	\$ 60,261	\$ 60,523	\$ 23,603	\$ 8,043	\$ 1,437	\$ 503	\$ 5,533	\$ 4,921	\$ 9,884	\$ 3,797	\$ 3,485	\$ 2,876	\$ 856	\$ 5,828	\$ 1,732	\$ 19,917	\$ 4,781	\$ 1,921	\$ (166,451)	\$ 532,028

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

	HRIS	Physician Services	Elmisions and Adjustments Obligated Group	Total Obligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Dwelling	Reclaim Village	Reclaim Village II	WNHS	HRIC	HR Hispace	VNA Mercor	ASC	OSBA	PCC LLC	Little Flower	HRDZ Homes	HRARL	HRARL Inc.	IWA	Eliminations and Adjustments	Total
REVENUES																								
Patent Service Revenues	\$ 252,011	\$ 34,302	\$ (113)	\$ 286,200	\$ 28,656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,797	\$ 16,469	\$ 4,583	\$ 5,913	\$ 7,781	\$ 4,623	\$ -	\$ 6,409	\$ (21)	\$ -	\$ -	\$ -	\$ -	\$ 373,440
Other Operating Revenue	34,775	6,571	(8,114)	32,532	(1,686)	3,601	2,087	1,550	597	1,013	40	-	-	-	3	36	463	11	382	2,011	204	6,872	(21,076)	28,620
Net Assets Released from Restrictions Used for Operations	480	-	-	480	-	-	283	-	-	30	-	-	-	-	-	-	-	-	-	-	204	2	-	785
Total Revenues	287,266	40,872	(8,927)	319,212	28,656	(1,686)	3,601	2,380	1,550	597	13,840	16,538	4,583	5,913	7,784	4,659	463	6,420	361	2,011	204	6,874	(21,076)	402,855
EXPENSES																								
Sales and Wages	134,904	28,864	-	163,768	14,025	-	-	1,848	303	110	7,893	8,675	1,957	4,310	1,913	2,613	246	3,637	361	156	43	549	(1,913)	210,494
Employee Benefits	26,646	4,340	-	30,986	2,823	-	-	680	129	41	1,615	1,238	816	844	458	508	13	656	49	46	-	77	(458)	40,223
Supervisors	148	-	-	148	138	-	-	-	-	-	16	60	75	18	-	-	-	-	-	-	-	-	-	455
Purchased Services	38,433	7,967	(10,159)	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	27,669	3,746	-	31,415	1,139	-	1,496	601	442	148	471	565	131	510	736	542	-	525	64	596	289	16	(1,433)	39,226
General Expense	39,135	2,372	-	41,507	1,612	-	-	99	11	2	293	416	565	313	1,998	409	-	724	21	4	-	50	(1,433)	42,939
Supplies	1,607	(1,456)	-	151	666	(1,897)	47	55	9	5	68	89	52	126	8	176	14	248	11	11	-	291	1,897	5,356
Insurance	17,600	1,103	-	18,703	242	-	825	66	108	50	213	141	-	7	303	31	-	182	23	67	5	-	-	21,986
Depreciation and Amortization	3,396	72	-	3,468	41	-	158	125	125	83	14,223	15,814	5,174	3,386	5,147	4,740	283	6,528	556	1,969	387	7,336	(21,060)	4,670
Interest Expense	28,242	47,026	(8,927)	66,341	29,897	(1,686)	3,026	3,704	1,251	464	14,223	15,814	5,174	3,386	5,147	4,740	283	6,528	556	1,969	387	7,336	(21,060)	4,670
Total Expenses	(6,135)	(6,155)	-	(12,291)	(301)	-	545	(1,364)	299	83	(963)	725	(591)	(2,453)	1,637	(81)	180	(108)	(197)	92	(183)	(444)	4	(15,451)
NONOPERATING																								
Investment Income (Loss)	6,182	(952)	-	5,990	1,235	-	242	346	-	-	1	1	-	-	-	-	-	17	14	36	5	-	-	7,487
Net Change in Unrealized Gains (Losses) on Trading Securities	(3,776)	29	-	(3,747)	(288)	-	149	(94)	-	-	-	-	6	-	-	-	-	(39)	88	-	-	-	-	(3,929)
Realized Gain on Sale of Securities	10,291	-	-	10,291	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,291
Contributions	622	-	-	622	106	-	-	688	-	-	3	8	15	7	-	-	-	-	-	-	-	-	-	1,449
Pension Curtailment	5,111	-	-	5,111	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,111
Other, Net	-	-	-	-	4	-	6	61	-	-	2	4	-	2	-	925	300	5,415	-	13	-	-	-	6,732
Total Nonoperating Gains (Losses)	18,430	(953)	-	17,867	1,047	-	397	1,011	-	-	6	13	21	9	-	925	300	5,393	102	49	5	-	-	27,445
EXCESS (DEFICIENCY) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	\$ 12,294	\$ (6,718)	\$ -	\$ 5,576	\$ 746	\$ -	\$ 942	\$ (373)	\$ 299	\$ 83	\$ (977)	\$ 738	\$ (570)	\$ (2,444)	\$ 1,637	\$ 844	\$ 480	\$ 5,285	\$ (95)	\$ 141	\$ (178)	\$ (444)	\$ -	\$ 11,694

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 Oligated Group	Total Oligated Group	HRVNA	THR Insurance Company Inc.	Management Corp.	Dwelling	Rebemer Village	Rebemer Village II	VHNS	HRIC	HR Hospice	VNA Mercer	ASC	OSRA	PGC, LLC	Little Power	HRDZ Homes	HRARL	HRARL, Inc.	IWA	Eliminations and Adjustments	Total
\$ 12,294	\$ (6,718)	\$ -	\$ 5,676	\$ 746	\$ -	\$ 942	\$ (373)	\$ 299	\$ 83	\$ (877)	\$ 738	\$ (670)	\$ (2,444)	\$ 1,637	\$ 844	\$ 480	\$ 5,285	\$ (95)	\$ 141	\$ (178)	\$ (444)	\$ 4	\$ 1,694	
-	-	-	-	(226)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(226)	
94	400	-	8,159	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	94	
(2)	722	-	720	-	-	-	-	-	-	-	(1)	-	-	(1,857)	-	-	-	-	-	-	-	-	(8,159)	
20,145	(6,598)	-	14,549	746	(226)	942	(373)	299	83	(978)	738	(670)	(2,444)	(220)	844	480	5,285	(95)	141	(178)	(444)	(2,754)	15,825	
655	-	-	655	142	-	-	403	-	-	25	-	191	-	-	-	-	-	-	-	-	-	-	1,416	
475	-	-	475	-	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	(7)	-	-	490	
(15)	-	-	(15)	-	-	-	10	-	-	21	-	-	(16)	-	-	-	-	-	-	-	-	-	-	
(482)	-	-	(482)	-	-	-	(283)	-	-	(20)	-	-	-	-	-	-	-	-	-	-	-	-	(785)	
(84)	-	-	(84)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(84)	
539	-	-	539	142	-	-	152	-	-	16	-	191	(16)	-	-	-	-	-	-	(7)	-	-	1,017	
20,684	(6,598)	-	15,088	888	(226)	942	(221)	299	83	(982)	738	(379)	(2,460)	(220)	844	480	5,285	(95)	134	(178)	(444)	(2,754)	16,842	
225,866	(34,091)	-	191,775	364,110	1,772	14,839	6,745	(819)	(649)	(4,874)	(5,775)	2,638	(6,071)	2,714	-	-	-	1,172	(3,228)	(1,365)	(2,228)	(487)	232,469	
(2,389)	(645)	-	(2,833)	578	-	-	-	-	-	54	408	-	(38)	207	-	-	-	-	-	(208)	-	-	(1,952)	
\$ 244,156	\$ (40,262)	\$ -	\$ 203,894	\$ 372,678	\$ 1,546	\$ 15,281	\$ 6,624	\$ (620)	\$ (658)	\$ (5,324)	\$ (4,620)	\$ 2,629	\$ (8,566)	\$ 2,701	\$ 844	\$ 480	\$ 5,285	\$ 1,077	\$ (3,302)	\$ (1,641)	\$ (2,677)	\$ -	\$ (247,269)	

NET ASSETS WITHOUT DONOR RESTRICTIONS
 Other Expenses and Losses and Gains
 Other Change in Net Assets Without Donor Restrictions
 on Other than-Trading Securities
 Net Assets Released from Restrictions Used for Purchase of Property and Equipment
 Other Changes in Pension Liability
 Distributions
 Increase (Decrease) in Net Assets Without Donor Restrictions

NET ASSETS WITH DONOR RESTRICTIONS
 Contributions
 Income (Loss) on Long-Term Investments
 Income on Long-Term Investments Transferred from Net Assets With Donor Restrictions
 Net Assets Released from Restrictions Used for Purchase of Property and Equipment
 Net Assets Released from Restrictions Used for Purchase of Property and Equipment
 Increase (Decrease) in Net Assets With Donor Restrictions

INCREASE (DECREASE) IN NET ASSETS
 Net Assets - Beginning of Year as Originally Reported
 Change in Accounting Principal

NET ASSETS - END OF YEAR, AS RESTATED

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