

**Mount Nittany Health System and Affiliates
d/b/a Mount Nittany Health**

Consolidated Financial Statements
and Supplementary Information

June 30, 2017 and 2016



Candor. Insight. Results.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

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June 30, 2017 and 2016

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Independent Auditors' Report

Board of Directors
Mount Nittany Health System and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health (collectively, the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the 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 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 auditor's 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 financial position of Mount Nittany Health System and Affiliates as of June 30, 2017 and 2016, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 37 to 46 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
September 25, 2017

Mount Nittany Health System and Affiliates

Consolidated Statement of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 23,279,586	\$ 24,741,128	Current maturities of long-term debt:		
Short-term investments	6,277,078	2,652,157	Revenue bonds	\$ 3,235,000	\$ 2,850,000
Accounts receivable:			Obligations under capital leases	122,248	115,877
Patients (net of estimated allowance for doubtful accounts of approximately \$12,197,000 in 2017 and \$15,489,000 in 2016)	37,532,569	35,761,692	Accounts payable	12,300,803	10,301,944
Other	4,181,530	3,867,272	Blue Cross current financing advance	399,400	475,663
Inventories of drugs and supplies	8,807,309	8,523,066	Estimated third-party payor settlements	10,840,417	9,739,797
Prepaid expenses and other current assets	5,224,667	5,405,754	Accrued expenses:		
	<u>85,302,739</u>	<u>80,951,069</u>	Employee paid time off	14,680,288	13,264,981
			Payroll and withholdings	5,930,273	5,215,280
			Interest	1,440,961	1,783,457
			Employee health benefit costs	3,045,659	2,551,159
			Other	6,009,686	7,245,110
			Deferred compensation, current	23,784	13,780
			Current portion of charitable gift annuity liability	12,295	12,295
				<u>58,040,814</u>	<u>53,569,343</u>
Assets Whose Use is Limited			Total current liabilities		
Under trust indenture, held by trustee	9,610,274	17,769,976			
Board designated, debt service	2,347,884	2,633,061			
Workers' compensation self-insurance, held by trustee	1,427,957	1,425,709			
	<u>13,386,115</u>	<u>21,828,746</u>			
			Long-Term Debt		
			Revenue bonds	206,817,860	210,543,501
			Obligations under capital leases	200,886	325,063
			Deferred Revenue	802,506	808,134
			Charitable Gift Annuity Liability	49,568	40,628
			Accrued Pension Costs	61,155,856	76,702,236
			Accrued Medical Malpractice and Workers' Compensation Costs	7,034,288	6,047,551
			Deferred Compensation	46,983	61,505
			Total liabilities	<u>334,148,761</u>	<u>348,097,961</u>
			Net Assets		
			Unrestricted	302,900,583	223,517,627
			Temporarily restricted	3,020,706	3,165,679
			Permanently restricted	2,021,858	1,966,445
			Total net assets	<u>307,943,147</u>	<u>228,649,751</u>
			Total liabilities and net assets	<u>\$ 642,091,908</u>	<u>\$ 576,747,712</u>
Total assets	<u>\$ 642,091,908</u>	<u>\$ 576,747,712</u>			

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statement of Operations

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Revenues, Gains, and Other Support		
Patient service revenues (net of contractual allowances and discounts)	\$ 434,521,204	\$ 416,252,550
Provision for bad debts	(14,132,484)	(13,971,411)
Net patient service revenues less provision for bad debts	420,388,720	402,281,139
Other operating revenues	7,893,257	7,577,864
Net assets released from restrictions used in operations	652,919	1,389,345
Gain on sale of equipment	58,750	254,400
Total unrestricted revenues, gains, and other support	<u>428,993,646</u>	<u>411,502,748</u>
Expenses		
Salaries and wages	173,673,387	162,998,060
Supplies and other	130,950,425	129,423,907
Employee benefits	52,671,156	44,093,061
Depreciation and amortization	22,178,317	21,069,425
Interest (net of capitalized interest of \$474,000 in 2017 and \$367,000 in 2016)	7,700,777	8,299,510
Insurance	3,826,152	2,995,723
Total expenses	<u>391,000,214</u>	<u>368,879,686</u>
Operating income	<u>37,993,432</u>	<u>42,623,062</u>
Other Income (Loss)		
Investment income	23,033,250	6,484,148
Contributions	274,981	1,151,404
Non-operating grant revenue	250,000	250,000
Equity in loss of investees	(967,771)	(876,867)
Change in fair value of derivative financial instruments	-	734,397
Loss on refinancing	-	(17,387,209)
Other income (loss), net	<u>22,590,460</u>	<u>(9,644,127)</u>
Revenues in excess of expenses	60,583,892	32,978,935
Pension Liability Adjustment	17,928,763	(51,885,786)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	<u>870,301</u>	<u>246,939</u>
Increase (decrease) in unrestricted net assets	<u>\$ 79,382,956</u>	<u>\$ (18,659,912)</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statement of Changes in Net Assets
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 60,583,892	\$ 32,978,935
Pension liability adjustment	17,928,763	(51,885,786)
Net assets released from restrictions used for purchase of property and equipment	<u>870,301</u>	<u>246,939</u>
Increase (decrease) in unrestricted net assets	<u>79,382,956</u>	<u>(18,659,912)</u>
Temporarily Restricted Net Assets		
Contributions	1,377,552	558,486
Investment income	695	604
Net assets released from restrictions	<u>(1,523,220)</u>	<u>(1,587,258)</u>
Decrease in temporarily restricted net assets	<u>(144,973)</u>	<u>(1,028,168)</u>
Permanently Restricted Net Assets		
Contributions	51,163	38,530
Valuation gain (loss)	4,250	(2,593)
Net assets released from restriction	<u>-</u>	<u>(49,026)</u>
Increase (decrease) in permanently restricted net assets	<u>55,413</u>	<u>(13,089)</u>
Increase (decrease) in net assets	79,293,396	(19,701,169)
Net Assets, Beginning	<u>228,649,751</u>	<u>248,350,920</u>
Net Assets, Ending	<u><u>\$ 307,943,147</u></u>	<u><u>\$ 228,649,751</u></u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 79,293,396	\$ (19,701,169)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	22,178,317	21,069,425
Net amortization of premium on long-term debt	(614,586)	(341,283)
Net amortization of debt issuance costs	123,945	114,551
Provision for bad debts	14,132,484	13,971,411
Change in fair value of derivative financial instruments	-	(734,397)
Equity loss of investees	967,771	876,867
Loss on refinancing, including write-off of deferred financing costs and original issue discount of \$501,000	-	17,387,209
Restricted contributions, investment income, and valuation loss/gain	(1,433,660)	(595,027)
Unrestricted net realized and unrealized gains	(23,615,980)	(6,814,280)
Pension liability adjustment	(17,928,763)	51,885,786
Gain on sale of equipment	(58,750)	(254,400)
Changes in assets and liabilities:		
Accounts receivable	(16,217,619)	(17,174,525)
Inventories of drugs and supplies	(284,243)	(730,575)
Prepaid expenses and other current assets	181,087	(1,573,708)
Accounts payable, accrued expenses, and other liabilities	7,429,070	1,250,225
Net cash provided by operating activities	<u>64,152,469</u>	<u>58,636,110</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(30,979,489)	(23,820,295)
Increase in investments and assets whose use is limited	(30,795,325)	(50,490,141)
Increase in other assets	(1,630,391)	(3,444,803)
Purchase of medical practice	(657,953)	-
Proceeds from sale of equipment	256,171	357,509
Net cash used in investing activities	<u>(63,806,987)</u>	<u>(77,397,730)</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	\$ (2,967,806)	\$ (2,681,865)
Proceeds from restricted contributions and investment income	1,151,842	1,172,158
Change in charitable gift annuity liability	8,940	(2,632)
Proceeds of long-term debt, including premium of \$8,254,488 in 2016	-	39,864,488
Payment to fund escrow account	-	(16,886,111)
Proceeds to terminate derivative financial instruments	-	3,633,000
Payment of financing costs	-	(957,691)
	<u>(1,807,024)</u>	<u>24,141,347</u>
Net cash (used in) provided by financing activities	(1,807,024)	24,141,347
Net (decrease) increase in cash and cash equivalents	(1,461,542)	5,379,727
Cash and Cash Equivalents, Beginning	<u>24,741,128</u>	<u>19,361,401</u>
Cash and Cash Equivalents, Ending	<u>\$ 23,279,586</u>	<u>\$ 24,741,128</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	<u>\$ 8,533,914</u>	<u>\$ 8,225,333</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Capital lease incurred for purchase of property and equipment	<u>\$ -</u>	<u>\$ 8,505</u>
Refinancing of long-term debt	<u>\$ -</u>	<u>\$ 61,240,000</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

1. Nature of Operations

Mount Nittany Health System (the "System") is a not-for-profit corporation organized to coordinate and manage the integration and delivery of healthcare services and activities that benefit its affiliates.

Mount Nittany Medical Center (the "Medical Center") is a not-for-profit, acute care hospital providing inpatient, outpatient and emergency care services. Effective September 28, 2017, the Medical Center will be recognized as a sole community hospital by the Medicare program.

Mount Nittany Medical Center Health Services, Inc. d/b/a Mount Nittany Physician Group (the "Physician Group") is a not-for-profit corporation that provides primary care and other specialty physician services, as well as certain diagnostic testing.

The Foundation for Mount Nittany Medical Center, Inc. (the "Foundation") is a not-for-profit corporation that operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Medical Center or such other organizations that are controlled by or affiliated with the Medical Center.

The Centre County Children's Advocacy Center (the "Children's Advocacy Center") is a not-for-profit corporation whose primary purpose is to reduce the trauma of child abuse by providing a child centered environment for the coordinated and multidisciplinary investigation, intervention, prosecution, and treatment of child abuse.

The Medical Center, Physician Group and Children's Advocacy Center provide services to residents of their primary service area, which includes State College, Pennsylvania, Centre County, Pennsylvania, and surrounding counties.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the System, the Medical Center, the Physician Group, the Foundation, and the Children's Advocacy Center (collectively, the "Corporation"). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as 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 investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Accounts Receivable, Patients

Accounts receivable, patients, are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on a periodic review of the accounts receivable aging, payor classifications, and application of historical write-off percentages. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractual amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients which includes both patients without insurance and insured patients with deductible and copayment balances, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Corporation's allowance for doubtful accounts for self-pay patients decreased to 54% of self-pay accounts receivable at June 30, 2017, from 60% of self-pay accounts receivable at June 30, 2016. The Corporation's self-pay account write-offs (net of recoveries) increased to approximately \$12,582,000 in 2017 from \$7,906,000 in 2016. The increase was the result of overall efforts to clean up the accounts receivable sub-ledger combined with higher levels of co-pays and deductibles for patients with insurance coverage.

The Corporation has not changed its financial assistance policy in 2017 or 2016. The Corporation does not maintain material allowances for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors in 2017 and 2016.

Accounts Receivable, Other

Accounts receivable, other, are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. No allowance for doubtful accounts was recorded because management believes realization losses on other receivables will be immaterial.

Inventories of Drugs and Supplies

Inventories of drugs and medical and surgical supplies are stated at the lower of cost or market value. Cost is determined on a first-in, first-out basis.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Directors for debt service payments, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a bond trustee under a trust indenture; and assets held in an irrevocable self-insurance workers' compensation trust arrangement.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The Corporation has certain alternative investment holdings which represent ownership interest in funds. The alternative investment funds are stated at fair value which is based on the Corporation's percentage of the net asset value of the funds as this represents a practical expedient for fair value. Amounts available to meet current liabilities of the Corporation have been classified as current assets in the accompanying consolidated statement of financial position. Cash and cash equivalents and certificates of deposit are carried at cost which approximates fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the determination of revenues in excess of expenses unless the income or loss is restricted by donor or law. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Property and Equipment and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of depreciable assets. Equipment acquired under capital lease and leasehold improvements are amortized on the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated statement of operations. The Corporation follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Beneficial Interest in Perpetual Trusts

The Medical Center receives income from perpetual trusts. Under the terms of the trust agreements, the Medical Center has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but generally does not receive the assets held in trust. Assets can be distributed from the trust with approval from the Orphan's court. The assets are recorded at the estimated present value of the Medical Center's future cash receipts from trust assets, measured by the Medical Center's allocable share of trust income times the fair values of trust assets.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and related revenue is included in the appropriate net asset category. Pledges expected to be collected in future years are recorded at the present value of the estimated future cash flows. Amortization of the discount is included in contribution income. Pledges are written off when they are determined to be uncollectible based on management's assessment of individual pledges. The allowance for uncollectible pledges is estimated based on an estimated percentage of uncollectible amounts.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the amount paid to acquire certain businesses over the fair value of the net assets purchased. The Corporation evaluates goodwill on an annual basis or more frequently if management believes indicators of impairment exist. The Corporation first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The Corporation's evaluation of goodwill resulted in no impairment losses in 2017 and 2016.

Intangible assets with finite lives are included in other assets in the accompanying consolidated statement of financial position (Note 7). These assets are being amortized over their estimated useful lives. Amortization of such intangible assets was \$15,700 in 2017 and \$727,758 in 2016.

Derivative Financial Instruments

The Medical Center entered into interest rate swap agreements, which are considered derivative financial instruments, to manage interest rate exposure in connection with the Series 2009 Bonds, which were advanced refunded by the Series 2012B Bonds. Changes in the fair value of the interest rate swap agreements are reported in other income on the consolidated statement of operations.

During 2016, in connection with the issuance of the Series 2016 Bonds, the interest rate swap agreements were terminated. The Medical Center received proceeds totaling \$3,633,000 as a result of the swap termination.

Other Assets

Other assets include the Corporation's investment in several entities in which the Corporation has a financial interest. Where the Corporation has the ability to influence management or has a twenty percent or more interest in the entity, the investment is recorded at cost, adjusted for the Corporation's proportionate share of their undistributed earnings or losses. All other investments in such entities are recorded at cost.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Debt Issuance Costs

Debt issuance costs represents costs incurred in connection with the issuance of long-term debt. Debt issuance costs are reported in the statement of financial position as a reduction of long-term debt and amortized over the term of the related debt using the effective-interest method. Amortization expense was \$123,945 in 2017 and \$114,379 in 2016. Accumulated amortization was \$396,531 at June 30, 2017 and \$272,586 at June 30, 2016.

Deferred Revenue

Proceeds from the rental of a certain property are deferred. Rental revenues are recognized ratably over the term of the lease. The deferred revenue associated with this lease was \$205,742 at June 30, 2017 and \$211,370 at June 30, 2016.

The Medical Center received proceeds from The Tobacco Settlement Act that is administered through the Department of Human Services ("DHS"). These funds are intended to partially reimburse the Medical Center for the uncompensated care services it has provided. The Medical Center's claim to these funds is subject to review by the Department of the Auditor General of the Commonwealth of Pennsylvania. The Medical Center has not recognized as revenue a portion of the funds received in the amount of \$596,764 at June 30, 2017 and June 30, 2016, pending the results of a review by the Department of the Auditor General.

Charitable Gift Annuity Liability

The charitable gift annuity liability represents funds received by the Corporation subject to agreements whereby assets are made available to the Corporation on the condition that the Corporation agrees to pay stipulated amounts periodically to designated individuals. Payments of such amounts terminate at a time specified in the agreement, typically upon the death of the donor. Annuity assets are included in long-term investments and are accounted for at fair value. Annuity payables represent the present value of the aggregate liability.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Net Patient Service Revenues

The Medical Center, Physician Group and Children's Advocacy Center have agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenues on the basis of its standard rates, discounted in accordance with the Corporation's policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Charity Care

The Medical Center and Physician Group provide care to patients who meet certain criteria without charge or at amounts less than their established rates. Because the Medical Center and Physician Group do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenues. The Medical Center and Physician Group maintain records to identify and monitor the level of charity care they provide. The cost associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for patients receiving charity care. The level of charity care provided by the Corporation amounted to approximately in \$1,252,000 in 2017 and \$1,047,000 in 2016.

Donor-Restricted Gifts

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

Revenues in Excess of Expenses

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include the pension liability adjustment and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such long-lived assets).

Medical Malpractice, Workers' Compensation, and Employee Health Benefit Costs

The provision for estimated medical malpractice, workers' compensation, and employee health benefit costs includes estimates of the ultimate costs for both reported claims and claims incurred but not reported based on the Corporation's past experience and current trend factors. Anticipated insurance recoveries associated with reported claims are included in other assets on the Corporation's consolidated statement of financial position.

Income Taxes

The System, Medical Center, Physician Group, Children's Advocacy Center, and Foundation are not-for-profit organizations as described in section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on related income pursuant to section 501(a) of the IRC.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2017 and 2016.

The Corporation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were approximately \$521,000 in 2017 and \$631,000 in 2016.

Reclassifications

Certain reclassifications were made to the 2016 consolidated financial statements to conform with the 2017 presentation.

New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017 (i.e. its fiscal year ended June 30, 2019); early application is permitted.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* 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 No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018 (i.e. its fiscal year ended June 30, 2020), with early adoption permitted.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017 (i.e. its fiscal year ended June 30, 2019), with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions.

The Corporation has not yet determined the impact of adoption of the above standards on its consolidated financial statements.

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Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through September 25, 2017, the date the consolidated financial statements were issued.

3. Investments

The composition of short-term and long-term investments at June 30, 2017 and 2016 is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 680,519	\$ 2,652,157
Mutual funds:		
Equity	41,600	38,956
Fixed income	23,622	24,275
Alternative investments	<u>302,965,546</u>	<u>238,141,963</u>
Total	303,711,287	240,857,351
Less short-term investments	<u>6,277,078</u>	<u>2,652,157</u>
Long-term investments	<u>\$ 297,434,209</u>	<u>\$ 238,205,194</u>

The composition of assets whose use is limited at June 30, 2017 and 2016, is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 5,407,761	\$ 20,417,070
Certificates of deposit	508,954	1,411,676
Mutual funds, fixed income	284,328	-
Government obligations	606,806	-
Corporate bonds	<u>6,578,266</u>	<u>-</u>
Total	<u>\$ 13,386,115</u>	<u>\$ 21,828,746</u>

Unrestricted investment income, gains and losses for cash and cash equivalents, assets whose use is limited, and investments are comprised of the following in 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment return:		
Interest and dividend income	\$ 865,399	\$ 1,360,678
Net realized gain on sales of securities	913,447	935,913
Net unrealized gain on trading securities	22,702,533	5,878,367
Fees	<u>(1,448,129)</u>	<u>(1,690,810)</u>
Total	<u>\$ 23,033,250</u>	<u>\$ 6,484,148</u>

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4. Fair Value Measurements and Financial Instruments

The Corporation measures its short-term investments, assets whose use is limited, long-term investments, and beneficial interest in perpetual trusts at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets and liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets and liabilities, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

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Notes to Consolidated Financial Statements

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The financial assets recorded at fair value and financial instruments disclosed at fair value were measured using the following inputs at June 30, 2017 and 2016:

	2017				
	Total	Level 1	Level 2	Level 3	NAV (a)
Assets, recurring fair value measurements:					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 6,088,280	\$ 6,088,280	\$ -	\$ -	\$ -
Certificates of deposit	508,954	-	508,954	-	-
Corporate bonds	6,578,266	-	6,578,266	-	-
Government obligations	606,806	-	606,806	-	-
Alternative investments	302,965,546	-	-	-	302,965,546
Mutual funds, equity funds:					
International funds	9,073	9,073	-	-	-
Domestic equity	11,788	11,788	-	-	-
Closed end equity	14,695	14,695	-	-	-
International close end	1,296	1,296	-	-	-
Global funds	4,748	4,748	-	-	-
Mutual funds, fixed income funds:					
Short-term bond funds	1,008	1,008	-	-	-
Financial institution funds	18,594	18,594	-	-	-
Other	288,348	288,348	-	-	-
Subtotal	317,097,402	6,437,830	7,694,026	-	302,965,546
Beneficial interest in perpetual trusts	75,261	-	-	75,261	-
Total	\$ 317,172,663	\$ 6,437,830	\$ 7,694,026	\$ 75,261	\$ 302,965,546
Assets disclosed at fair value:					
Cash and cash equivalents (carrying value \$23,279,586)	\$ 23,279,586	\$ 23,279,586	\$ -	\$ -	\$ -
Pledges receivable (carrying value (\$687,774))	687,774	-	-	687,774	-
Total	\$ 23,967,360	\$ 23,279,586	\$ -	\$ 687,774	\$ -
Liabilities disclosed at fair value,					
Revenue bonds (carrying value of \$212,098,415)	\$ 213,759,312	\$ -	\$ 213,759,312	\$ -	\$ -

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	2016				NAV (a)
	Total	Level 1	Level 2	Level 3	
Assets, recurring fair value measurements:					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 23,069,227	\$ 23,069,227	\$ -	\$ -	\$ -
Certificates of deposit	1,411,676	-	1,411,676	-	-
Alternative investments	238,141,963	-	-	-	238,141,963
Mutual funds, equity funds:					
International funds	3,990	3,990	-	-	-
Domestic equity	11,346	11,346	-	-	-
Closed end equity	15,866	15,866	-	-	-
International close end	1,285	1,285	-	-	-
Global funds	6,469	6,469	-	-	-
Mutual funds, fixed income funds:					
Short-term bond funds	2,297	2,297	-	-	-
Financial institution funds	15,541	15,541	-	-	-
Other	6,437	6,437	-	-	-
Subtotal	<u>262,686,097</u>	<u>23,132,458</u>	<u>1,411,676</u>	<u>-</u>	<u>238,141,963</u>
Beneficial interest in perpetual trusts	71,011	-	-	71,011	-
Total	<u>\$ 262,757,108</u>	<u>\$ 23,132,458</u>	<u>\$ 1,411,676</u>	<u>\$ 71,011</u>	<u>\$ 238,141,963</u>
Assets disclosed at fair value:					
Cash and cash equivalents (carrying value \$24,741,128)	\$ 24,741,128	\$ 24,741,128	\$ -	\$ -	\$ -
Pledges receivable (carrying value \$410,206)	410,206	-	-	410,206	-
Total	<u>\$ 25,151,334</u>	<u>\$ 24,741,128</u>	<u>\$ -</u>	<u>\$ 410,206</u>	<u>\$ -</u>
Liabilities disclosed at fair value,					
Revenue bonds (carrying value of \$215,563,001)	\$ 225,801,209	\$ -	\$ 225,801,209	\$ -	\$ -

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

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The Corporation's investments and assets whose use is limited are reflected in the accompanying consolidated statement of financial position as follows at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 6,277,078	\$ 2,652,157
Assets whose use is limited	13,386,115	21,828,746
Long-term investments	<u>297,434,209</u>	<u>238,205,194</u>
Total	<u>\$ 317,097,402</u>	<u>\$ 262,686,097</u>

The following is a description of the valuation methodologies used for assets measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at June 30, 2017 and 2016.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Certificates of deposit: Valued at cost, which approximates the fair value based on similar instruments.

Corporate bonds and government obligations: Valued based on quoted market prices and/or other market data for the same or comparable instruments.

Mutual funds: Valued at fair value based upon quoted market prices in active markets for those securities.

Beneficial interest in perpetual trusts: Valued based on the fair value of the trusts' underlying assets, which represents a proxy for discounted present value of future cash flows.

Pledges receivable: Valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

Revenue bonds: Fair value of the Corporation's fixed rate long-term debt was estimated using quoted market prices or discounted cash flows analyses based on the Corporation's incremental borrowing rate for debt instruments with comparable maturities.

Alternative investments: The Corporation's alternative investments represent investments in various private investment companies, which are considered funds of funds. The Corporation measures the fair value of these investments based on the net asset value per share (the "NAV"), as calculated on the reporting entity's measurement date, as a practical expedient for fair value since these investments do not have readily determinable fair values.

The Corporation measures the fair value of an investment that does not have a readily determinable fair value based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment

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strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments.

The following presents the nature and risk of the investments reported at net asset value and whether they have redemption restrictions as of June 30, 2017 and 2016:

<u>Name of Fund</u>	<u>Fair Value at June 30, 2017</u>	<u>Fair Value at June 30, 2016</u>	<u>Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Russell Institutional Funds, Russell Multi-Asset Core Plus Fund	\$ 163,867,524	\$ 125,319,507	Seeks to provide long term capital growth and offers a convenient way to diversify a portfolio by combining funds and separate accounts investing in U.S. and non-U.S. stocks, bonds, global commodities, listed real estate and infrastructure into one fund	N/A	Daily	N/A
Russell Institutional Funds, Russell Core Bond Fund	130,707,435	102,097,329	Seeks to take advantage of market trading opportunities, to generate current income, as well as provide a competitive rate of return on assets with a moderate to low level of absolute volatility	N/A	Daily	N/A
Russell Total Return Fund (Quarterly) Ltd.	8,390,587	7,983,182	To achieve long-term capital appreciation with low to moderate volatility and low correlation to global equity markets by selecting and investing in a number of portfolio funds and/or through one or more accounts managed by one or more money managers, which employ a diverse range of alternative investment strategies	N/A	Quarterly	65 days
Russell Institutional Funds, Russell Large Cap U.S. Equity Fund	-	1,666,727	Seeks to provide long-term capital growth by investment primarily in equity securities to achieve above average results over a market cycle	N/A	Daily	N/A
Russell Institutional Funds, Russell International Equity Fund	-	557,908	Seeks to provide appreciation of capital by investing in international financial markets, primarily those of developed economies in Europe and the Pacific Basin	N/A	Daily	N/A
Russell Institutional Funds, Russell Small Cap U.S. Equity Fund	-	292,585	Designed to provide maximum long-term appreciation through investments that are well diversified by industry	N/A	Daily	N/A
Russell Institutional Funds, Russell Emerging Markets Equity Plus Fund	-	224,725	Seeks to provide long-term capital appreciation in line with that of emerging market economies	N/A	Daily	N/A
Total	<u>\$ 302,965,546</u>	<u>\$ 238,141,963</u>				

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The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Corporation's beneficial interest in perpetual trusts:

Balances at June 30, 2015	\$	122,630
Income		2,383
Distributions		(51,409)
Valuation loss		(2,593)
		<u>71,011</u>
Balances at June 30, 2016		71,011
Income		1,121
Distributions		(1,121)
Valuation gain		4,250
		<u>75,261</u>
Balances at June 30, 2017	\$	<u>75,261</u>

5. Pledges Receivable

A pledge campaign was undertaken to raise funds in connection with building projects at the Medical Center. Pledges related to this campaign have been recorded as temporarily restricted contributions. Other pledges are received on annual basis for the use in operations and purchase of equipment for the Medical Center, Physician Group, and Children's Advocacy Center.

Pledges receivable are recorded as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Campaign pledges before unamortized discount and allowance for uncollectible pledges	\$ 1,320,881	\$ 1,015,979
Less unamortized discount	<u>61,875</u>	<u>27,534</u>
Subtotal	1,259,006	988,445
Less allowance for uncollectible pledges	<u>571,232</u>	<u>578,239</u>
Net unconditional promises to give	<u>\$ 687,774</u>	<u>\$ 410,206</u>
Amounts due in:		
Less than one year	\$ 280,874	\$ 202,106
One to five years	<u>1,040,007</u>	<u>813,873</u>
Total	<u>\$ 1,320,881</u>	<u>\$ 1,015,979</u>

The discount rate used was approximately 3.3% at June 30, 2017 and 2016.

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6. Property and Equipment

Property and equipment and accumulated depreciation and amortization as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 6,269,022	\$ 6,269,022
Buildings	234,276,316	232,746,884
Equipment	168,363,894	154,091,900
Leasehold improvements	36,881,358	21,535,909
Equipment held under capital lease	1,917,884	1,917,884
Total	447,708,474	416,561,599
Less accumulated depreciation and amortization	230,614,485	209,016,643
Total	217,093,989	207,544,956
Construction in progress	13,999,555	14,929,137
Property and equipment, net	<u>\$ 231,093,544</u>	<u>\$ 222,474,093</u>

Amortization of equipment held under capital lease was \$162,299 in 2017 and \$217,796 in 2016. Accumulated amortization was \$1,588,525 at June 30, 2017 and \$1,426,226 at June 30, 2016.

Depreciation expense was \$22,162,616 in 2017 and \$20,341,667 in 2016.

Commitments for construction contracts for various projects existing at June 30, 2017 totaled approximately \$3,933,000.

7. Other Assets

Other assets as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Estimated medical malpractice insurance recoveries	\$ 4,063,608	\$ 4,104,641
Other intangible assets (net of accumulated amortization of \$24,500 at June 30, 2017 and \$8,800 at June 30, 2016)	41,500	7,200
Other	534,395	510,860
Other investments:		
Community Hospital Alternative for Risk Transfer	4,267,015	3,522,289
Centre County Cancer Center	1,127,513	1,416,147
ADG Hospital Drive Associates	1,429,606	1,260,575
Bellefonte Medical Investors	780,809	775,814
Total	7,604,943	6,974,825
Other assets, net	<u>\$ 12,244,446</u>	<u>\$ 11,597,526</u>

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Centre County Cancer Center

The Medical Center holds a 50% ownership interest in the Centre County Cancer Center (the "Cancer Center"), a not-for-profit corporation. The Cancer Center is a joint venture with the Penn State Milton S. Hershey Medical Center. The Medical Center recognizes its proportionate share of the Cancer Center's operating results as a component of equity in loss of investee on the accompanying consolidated statement of operations. The Medical Center's proportionate share of such loss was \$1,226,694 in 2017 and \$1,087,502 in 2016. No distributions were received from the Cancer Center during 2017 or 2016. Equity contributions made to the Cancer Center were \$938,060 in 2017 and \$1,303,635 in 2016.

The Corporation leases office and medical space to the Cancer Center, as well as provides certain clinical, administrative, and operational services under the terms of a Services Agreement. Rental income from the Cancer Center was \$336,131 in 2017 and \$342,400 in 2016; reimbursement received under the terms of the Services Agreement amounted to \$495,028 in 2017 and \$462,479 in 2016; and the related receivables were \$130,004 at June 30, 2017 and \$131,597 at June 30, 2016.

Summary financial information for the Cancer Center is as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 3,595,825	\$ 3,923,191
Property and equipment, net	351,370	387,613
Other assets, net	<u>765,500</u>	<u>765,500</u>
Total assets	<u>\$ 4,712,695</u>	<u>\$ 5,076,304</u>
Liabilities and Net Assets:		
Current liabilities	\$ 2,457,669	\$ 2,244,009
Unrestricted net assets	<u>2,255,026</u>	<u>2,832,295</u>
Total liabilities and net assets	<u>\$ 4,712,695</u>	<u>\$ 5,076,304</u>
Total Unrestricted Revenues, Gains, and Other Support	<u>\$ 17,880,931</u>	<u>\$ 14,290,037</u>
Revenues Less Than Expenses	<u>\$ (2,110,043)</u>	<u>\$ (2,417,359)</u>

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ADG Hospital Drive Associates

The Medical Center holds an approximate 24% ownership in ADG Hospital Drive Associates (“ADG”), a limited partnership, at June 30, 2017 and 2016. The Medical Center recognizes its proportionate share of ADG’s operating results as a component of equity in loss of investee on the accompanying consolidated statement of operations. The Medical Center’s proportionate share of income was \$201,047 in 2017 and \$183,278 in 2016. Distributions received from ADG were \$32,016 in 2017 and 2016. No additional capital contributions were made to ADG in 2017 and 2016.

Summary financial information for ADG is as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 772,699	\$ 777,226
Property and equipment, net	7,621,578	8,059,506
Deferred financing costs	36,453	54,679
Total assets	<u>\$ 8,430,730</u>	<u>\$ 8,891,411</u>
Liabilities and Partners’ Equity:		
Current liabilities	\$ 1,342,930	\$ 1,342,860
Long-term debt	1,193,731	2,351,374
Total liabilities	2,536,661	3,694,234
Partners’ equity	<u>5,894,069</u>	<u>5,197,177</u>
Total liabilities and partners’ equity	<u>\$ 8,430,730</u>	<u>\$ 8,891,411</u>
Gross Rental Income	<u>\$ 1,472,000</u>	<u>\$ 1,472,000</u>
Net Income	<u>\$ 828,892</u>	<u>\$ 755,628</u>

Bellefonte Medical Investors

The Physician Group holds an approximate 39% ownership in Bellefonte Medical Investors (“BMI”), a partnership, at June 30, 2017 and 2016. Approximately 61% is owned by certain current and former employees of the Physician Group. The Physician Group recognizes its proportionate share of BMI’s operating results as a component of equity in loss of investee on the accompanying consolidated statement of operations. Such proportionate income was \$57,876 in 2017 and \$27,357 in 2016. Distributions received from BMI were \$52,881 in 2017 and \$50,844 in 2016. No additional capital was contributed by the Physician Group in 2017 and 2016. The Corporation paid rent of \$401,669 in 2017 and \$475,004 in 2016 for office space leased from BMI. This lease expires in December 2020.

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Summary financial information for BMI is as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ -	\$ -
Property and equipment, net	924,492	1,639,100
Other assets	3,786	4,209
	<u>928,278</u>	<u>1,643,309</u>
Total assets	<u>\$ 928,278</u>	<u>\$ 1,643,309</u>
Liabilities	<u>\$ 504,570</u>	<u>\$ 583,779</u>
Partners' equity	<u>423,708</u>	<u>1,059,530</u>
	<u>\$ 928,278</u>	<u>\$ 1,643,309</u>
Total liabilities and partners' equity	<u>\$ 928,278</u>	<u>\$ 1,643,309</u>
Gross rental income	<u>\$ 421,472</u>	<u>\$ 434,685</u>
Net income	<u>\$ 130,089</u>	<u>\$ 97,053</u>

8. Revenue Bonds

The Medical Center's revenue bonds at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Centre County Hospital Authority Revenue Bonds:		
Series 2016A	\$ 73,015,000	\$ 73,205,000
Series 2016B	19,520,000	19,645,000
Series 2012A	41,470,000	42,075,000
Series 2012B	60,875,000	62,030,000
Series 2011	5,340,000	6,115,000
	<u>200,220,000</u>	<u>203,070,000</u>
Total	<u>200,220,000</u>	<u>203,070,000</u>
Net unamortized bond premium	11,878,415	12,493,001
Debt issuance costs	(2,045,555)	(2,169,500)
Less current maturities	<u>(3,235,000)</u>	<u>(2,850,000)</u>
	<u>\$ 206,817,860</u>	<u>\$ 210,543,501</u>
Long-term debt, net	<u>\$ 206,817,860</u>	<u>\$ 210,543,501</u>

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Scheduled principal repayments on revenue bonds as of June 30, 2017 are as follows:

Years ending June 30:	
2018	\$ 3,235,000
2019	3,355,000
2020	3,540,000
2021	3,735,000
2022	3,870,000
Thereafter	<u>182,485,000</u>
Total	<u>\$ 200,220,000</u>

Centre County Hospital Authority Revenue Bonds, Series 2016A and 2016B

In April 2016, the Centre County Hospital Authority (the "Authority") issued \$92,850,000 of tax exempt Hospital Revenue Bonds (the "2016 Bonds") on behalf of the Medical Center. The proceeds of the 2016A Bonds were issued for the purpose of providing funds to refund a portion of the Authority's outstanding Hospital Revenue Bonds, Series 2011 and to pay the costs of issuance of the Series 2016A Bonds. The Series 2016B Bonds were issued for the purpose of financing and/or reimbursing the cost of the acquisition, construction, installation and equipping of certain capital projects and to pay for the costs of issuance of the Series 2016B Bonds. The 2016A and 2016B Bonds are due in varying annual installments through November 2047 with interest rates ranging from 2% to 5.0%.

Centre County Hospital Authority Revenue Bonds, Series 2012A and 2012B

In October 2012, the Authority issued \$108,800,000 of tax exempt Hospital Revenue Bonds (the "2012 Bonds") on behalf of the Medical Center. The proceeds of the 2012A Bonds were issued for the purpose of financing and/or reimbursing the cost of the acquisition, construction, installation and equipping of certain capital projects, funding capitalized interest on the Series 2012A Bonds, and paying for the costs of issuance of the Series 2012A Bonds. The Series 2012B Bonds were issued for the purpose of providing funds to advance refund the Authority's outstanding Hospital Revenue Bonds, Series 2009 and to pay the costs of issuance of the Series 2012B Bonds. The 2012A and 2012B Bonds are due in varying annual installments through November 2048 with interest rates ranging from 2.25% to 5.0%.

Centre County Hospital Authority Revenue Bonds, Series 2011

In April 2011, the Authority issued \$70,230,000 of tax exempt Hospital Revenue Bonds (the "2011 Bonds") on behalf of the Medical Center. The proceeds of the 2011 Bonds were used to finance certain capital projects of the Medical Center. The 2011 Bonds are due in varying annual installments through November 2022 with interest rates ranging from 4% to 5.0%.

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Notes to Consolidated Financial Statements

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The 2011 Bonds were partially refinanced during 2016 with proceeds from the 2016 Bonds. In conjunction with this, a loss on refinancing was recognized in the accompanying consolidated statement of operations, which is comprised of the following:

Write-off deferred financing costs	\$ 728,759
Write-off unamortized premium	(227,661)
Additional funds required to fund escrow	<u>16,886,111</u>
Loss on refinancing	<u>\$ 17,387,209</u>

Payments of principal and interest on the 2016 Bonds, 2012 Bonds, and 2011 Bonds are secured by the gross revenues of the Obligated Group together with a lien on, and security interest in all property and equipment of the Obligated Group. At present, the Medical Center and the Physician Group are the only members of the Obligated Group. The 2016 Bonds, 2012 Bonds, and 2011 Bonds also require the Obligated Group to meet certain financial ratios.

9. Obligations Under Capital Leases

The Corporation's obligations under the terms of capital lease arrangements at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital lease obligation, interest at 4.3%; collateralized by equipment; monthly payments of \$4,554 with final payment due August 2019	\$ 112,862	\$ 161,518
Capital lease obligation, interest at 5.7%; collateralized by equipment; monthly payments of \$3,910 with final payment due March 2020	119,171	158,087
Capital lease obligation, interest at 6.94%; collateralized by equipment; monthly payments of \$2,837 with final payment due March 2020	82,663	109,934
Capital lease obligation, interest at 6.69%; collateralized by equipment; monthly payments of \$167 with final payment due October 2020	5,845	7,404
Capital lease obligation, interest at 3.5%; collateralized by equipment; monthly payments of \$183 with the final payment due March 2019	<u>2,593</u>	<u>3,997</u>
Total	323,134	440,940
Less current maturities	<u>122,248</u>	<u>115,877</u>
Long-term	<u>\$ 200,886</u>	<u>\$ 325,063</u>

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The following is a schedule, by year, of the future minimum lease payments together with the present value of the net minimum lease payments:

Years ending June 30:		
2018	\$	139,258
2019		138,849
2020		69,004
2021		668
		<hr/>
Total minimum lease payments		347,779
		<hr/>
Less amounts representing interest		24,645
		<hr/>
Present value of net minimum lease payments	\$	<u>323,134</u>

10. Pension Plans

Defined Benefit Plan

The Corporation maintains a noncontributory defined benefit pension plan covering substantially all Medical Center employees.

The following table summarizes information about the plan at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 238,625,611	\$ 182,406,928
Service cost	10,594,632	7,829,340
Interest cost	9,433,072	8,275,470
Actuarial loss	(6,884,999)	45,333,964
Benefits paid	(5,967,937)	(5,220,091)
	<hr/>	<hr/>
Projected benefit obligation, end of year	245,800,379	238,625,611
Change in plan assets:		
Fair value of plan assets, beginning of year	161,923,375	153,697,598
Actual return on plan assets (net of expense)	18,012,696	2,292,022
Employer contributions	10,676,389	11,153,846
Benefits paid	(5,967,937)	(5,220,091)
	<hr/>	<hr/>
Fair value of plan assets, end of year	184,644,523	161,923,375
	<hr/>	<hr/>
Funded status at end of year	\$ (61,155,856)	\$ (76,702,236)
	<hr/>	<hr/>
Accumulated benefit obligation	\$ 220,308,451	\$ 213,900,423
	<hr/>	<hr/>
Reconciliation of amounts recognized in the consolidated statement of financial position,		
Accrued pension costs	\$ 61,155,856	\$ 76,702,236
	<hr/>	<hr/>

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The following table sets forth the components of net periodic cost in 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 10,594,632	\$ 7,829,340
Interest cost	9,433,072	8,275,470
Expected return on plan assets	(12,436,082)	(11,619,548)
Amortization of actuarial loss	5,550,420	2,775,704
Net periodic pension cost	<u>\$ 13,142,042</u>	<u>\$ 7,260,966</u>

A net loss of \$89,745,849 and \$107,757,882 represents the unrecognized component of net periodic pension cost included in unrestricted net assets at June 30, 2017 and 2016, respectively. Estimated amortization of net loss of \$4,568,143 is expected to be recognized in net periodic pension cost in the next fiscal year.

The weighted-average assumptions used in the measurement of the Medical Center's benefit obligation at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	4.25 %	4.00 %
Rate of compensation increase	2.00	2.00

The weighted-average assumptions used in the measurement of the Medical Center's net periodic benefit cost for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	4.00 %	4.60 %
Rate of compensation increase	2.00	2.00
Expected long-term return on plan assets	7.25	7.50

The expected long-term return on assets was developed using the Building Block Method covered under Actuarial Standard of Practice No. 27. Under this approach, the weighted average return is developed based on applying historical average total returns by asset class to the plan's current asset allocation. The calculation of the Weighted Average Expected Long-Term Rate of Return uses the 50-year historical market performance data over the period from 1956-2005. The 50-year period was selected as a reasonable estimate of the runout period of expected future benefit payments.

When determining an appropriate risk tolerance, the Medical Center examines the financial ability to accept risk within the investment program and its willingness to accept return volatility. Based on these factors, the Medical Center established a range of investment percentages, by asset type, to which the mix of assets should be generally maintained. When necessary, the Medical Center will rebalance its investment portfolio within its target allocation.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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

	<u>Target</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	0 - 10 %	0 %	0 %
Equity/return seeking assets (combination of equities and alternatives)	55 - 75	67	66
Fixed income	20 - 40	30	31
Alternatives	0 - 8	3	3

Plan assets are comprised of alternative investments in the amount of \$184,644,523 at June 30, 2017 and \$161,923,375 at June 30, 2016. The alternative investments represent investments in various private investment companies, which are considered funds of funds. The Corporation measures the fair value of these investments based on NAV, as calculated on the reporting entity's measurement date, as a practical expedient for fair value since these investments do not have readily determinable fair values.

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

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The following presents the investment strategy, unfunded commitments and redemption restrictions for investments reported at NAV as of June 30:

<u>Name of Fund</u>	<u>2017</u>	<u>2016</u>	<u>Investment Strategy</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Russell Total Return Fund (Quarterly) Ltd.	\$ 5,762,210	\$ 5,482,426	To achieve long-term capital appreciation with low to moderate volatility and low correlation to global equity markets by selecting and investing in a number of portfolio funds and/or through one or more accounts managed by one or more money managers, which employ a diverse range of alternative investment strategies	N/A	Quarterly	65 days
Russell Institutional Funds, Russell Multi-Asset Core Plus Fund	123,188,117	107,272,673	Seeks to provide long term capital growth and offers a convenient way to diversify a portfolio by combining funds and separate accounts investing in U.S. and non-U.S. stocks, bonds, global commodities, listed real estate and infrastructure into one fund	N/A	Daily	N/A
Russell Institutional Funds, Russell Core Bond Fund	55,694,196	49,168,276	Seeks to take advantage of market trading opportunities, to generate current income, as well as provide a competitive rate of return on assets	N/A	Daily	N/A
Total	<u>\$ 184,644,523</u>	<u>\$ 161,923,375</u>				

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Medical Center expects to contribute \$12,000,000 to its pension plan in the 2018 fiscal year.

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

Years ending June 30:	
2018	\$ 6,466,218
2019	6,896,833
2020	7,425,532
2021	8,017,237
2022	8,671,710
2023 - 2027	55,376,257

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Defined Contribution Plan

The Corporation maintains a 403(b) qualified plan for the employees of the Physician Group and non-bargaining unit employees of the Medical Center hired after January 1, 2014. The Corporation maintains a 457(b) non-qualified plan for certain Physician Group employees. Total pension expense associated with these retirement plans was approximately \$2,814,000 in 2017 and \$2,594,000 in 2016.

11. Medical Malpractice Claims Coverage

The medical malpractice insurance coverages for the Medical Center and Physician Group are provided under the provisions of various insurance arrangements, as follows:

Primary coverage: Primary coverage is provided under the terms of an insurance contract which covers losses, if any, which are reported during the period the contract is in force, "claims-made coverage," subject to the per occurrence and aggregate limits of such contract with an initial effective date of July 1, 1976 for the Medical Center. The initial effective date for the Physician Group was January 1, 2011.

MCARE Fund coverage: The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides coverage in accordance with the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred.

Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. MCARE Fund coverage is currently scheduled to be compressed in 2018, unless the State Insurance Commissioner determines that additional primary insurance capacity is not available at that time, and to be eliminated three years after such reduction. The Medical Center and Physician Group will be required to purchase higher primary insurance limits to take the place of the MCARE Fund coverage if it is compressed. Depending upon the ultimate resolution of this matter, the Medical Center and Physician Group may incur additional insurance costs.

Excess coverage: The Medical Center and Physician Group have excess liability insurance contracts that insure against losses in excess of the above coverages reported during the period of policy coverage.

The primary and excess coverages are provided by Community Hospital Alternative For Risk Transfer ("CHART"). CHART was formed as a reciprocal risk retention group to provide liability insurance, reinsurance, and risk management services for its subscribers. The Medical Center is a subscriber in CHART and retains an ownership interest of approximately 3%. This cost basis investment is included in other assets in the accompanying consolidated statement of financial position (Note 7).

The Corporation's estimated future payments of its unasserted medical malpractice liability claims was \$6,696,021 at June 30, 2017 and \$5,646,281 at June 30, 2016. The insurance recoveries receivable on these claims is \$4,063,608 at June 30, 2017 and \$4,104,641 at June 30, 2016, which are included in other assets, in the accompanying consolidated statement of financial position (Note 7). These liabilities are determined at an undiscounted rate.

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Medical Center and Physician Group believe they have adequate insurance coverage for all asserted claims and they have no knowledge of unasserted claims that would exceed their insurance coverage.

12. Self-Funded Insurance Plans

The Corporation self-insures its employee health benefits. The Corporation has accrued the estimated cost of incurred and reported and incurred but not reported claims based upon data provided by third-party administrators of the program, its historical claims experience, and its individual medical stop-loss insurance coverage. There is no aggregate stop loss insurance coverage.

The Corporation self-insures its workers' compensation benefits. The Corporation has accrued the estimated cost of incurred and reported and incurred but not reported claims based upon data provided by the third-party administrator of the program, its historical claims experience, and the terms of its excess workers' compensation insurance policy. Under the terms of this policy, the Corporation is subject to a maximum retention of \$400 per occurrence and a per occurrence and aggregate policy limit of \$1,000.

13. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Use in operations	\$ 2,122,538	\$ 2,145,392
Purchase of property and equipment	898,170	1,020,287
Total	<u>\$ 3,020,708</u>	<u>\$ 3,165,679</u>

Permanently Restricted Net Assets

Permanently restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investments to be held in perpetuity, the income from which is expendable:		
For the purchase of equipment	\$ 200,134	\$ 233,258
To support health care services	1,821,724	1,733,187
Total	<u>\$ 2,021,858</u>	<u>\$ 1,966,445</u>

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

14. Net Patient Service Revenues

The Medical Center and Physician Group have agreements with third-party payors that provide for payments at amounts different from their established rates. A significant portion of the net patient service revenues is derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- Medicare: Inpatient acute care and nonacute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2008. Revenue from Medicare was 29% and 30% of total net patient service revenues (net of contractual allowances and discounts) for the years ended June 30, 2017 and 2016, respectively.
- Medical Assistance: Inpatient acute care services and nonacute services rendered to Medical Assistance program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a published fee schedule. Revenue from Medical Assistance was 3% and 4% of total net patient service revenues (net of contractual allowances and discounts) for the years ended June 30, 2017 and 2016, respectively.
- Blue Cross and Blue Shield: Inpatient and outpatient services rendered to Blue Cross and Blue Shield subscribers are reimbursed at prospectively determined rates. Revenue from Blue Cross and Blue Shield was 29% and 44% for the years ended June 30, 2017 and 2016, respectively.

The Medical Center and Physician Group may, from time to time, also enter into payment agreements with certain insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

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

<u>Year Ended</u>	<u>Third-Party Government Payors</u>	<u>Third-Party Non- Government Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
June 30, 2017	<u>\$ 139,694,568</u>	<u>\$ 279,181,240</u>	<u>\$ 15,655,396</u>	<u>\$ 434,531,204</u>
June 30, 2016	<u>\$ 130,658,101</u>	<u>\$ 271,515,469</u>	<u>\$ 14,078,980</u>	<u>\$ 416,252,550</u>

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

15. Rental Commitments

The Medical Center and Physician Group lease equipment and facilities under operating leases expiring at various dates through 2051. Total rental expense for all operating leases was \$6,228,843 in 2017 and \$5,690,417 in 2016 (see Note 7 for related party portions).

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year.

Years ending June 30:		
2018	\$	5,770,635
2019		4,607,259
2020		4,607,259
2021		4,607,259
2022		4,480,733
Thereafter		<u>37,017,488</u>
Total	\$	<u>61,090,633</u>

16. Functional Expenses

The Corporation provides general acute care and related services to individuals within its geographic region. Expenses related to providing these services for the years ended June 30, 2017 and 2016 are approximately as follows:

	<u>2017</u>	<u>2016</u>
Health care and other related services	\$ 345,978,741	\$ 328,028,929
General and administrative	44,577,119	40,330,461
Fundraising	<u>454,354</u>	<u>520,296</u>
Total expenses	<u>\$ 391,010,214</u>	<u>\$ 368,879,686</u>

17. Significant Concentrations of Credit Risk

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

Mount Nittany Health System and Affiliates d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

At June 30, 2017 and 2016, concentrations of receivables from third-party payors and others are as follows:

	<u>2017</u>	<u>2016</u>
Commercial and other	31 %	26 %
Blue Cross	21	27
Self pay	18	18
Medicare	15	15
Medicare Advantage	11	11
Medical Assistance	<u>4</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>

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

Approximately 46% of the Corporation's employees are covered by a collective bargaining agreement, which expires on June 30, 2019.

18. Contingencies

The Corporation is subject to lawsuits and claims arising out of its business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the consolidated statement of financial position of the Corporation or consolidated results of operations.

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Medical Center and Physician Group, if any, are not presently determinable.

The Corporation owns property constructed prior to the passage of the Clean Air Act that contains encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the property. The Corporation has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate this property and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the property and sufficient information becomes available to estimate the liability it will be recognized at that time.

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Financial Position
June 30, 2017

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	\$ -	\$ 20,710,657	\$ 512,238	\$ 2,020,931	\$ 35,760	\$ -	\$ 23,279,586
Short-term investments	-	204,167	6,072,911	-	-	-	6,277,078
Accounts receivable:							
Patients (net of estimated allowance for doubtful accounts of approximately \$12,197,000)	-	32,530,344	-	4,972,810	29,415	-	37,532,569
Other	-	3,396,134	-	765,421	19,975	-	4,181,530
Inventories of drugs and supplies	-	8,620,447	-	186,862	-	-	8,807,309
Prepaid expenses and other current assets	-	4,007,037	-	1,217,630	-	-	5,224,667
Total current assets	-	69,468,786	6,585,149	9,163,654	85,150	-	85,302,739
Assets Whose Use is Limited							
Under trust indenture, held by trustee	-	9,610,274	-	-	-	-	9,610,274
Board designated, debt service	-	2,347,884	-	-	-	-	2,347,884
Workers' compensation self-insurance, held by trustee	-	1,427,957	-	-	-	-	1,427,957
Total assets whose use is limited	-	13,386,115	-	-	-	-	13,386,115
Long-Term Investments	-	294,456,369	2,977,840	-	-	-	297,434,209
Pledges Receivable	-	-	687,774	-	-	-	687,774
Property and Equipment, Net	-	211,003,838	1,844	19,933,926	153,936	-	231,093,544
Beneficial Interest in Perpetual Trusts	-	75,261	-	-	-	-	75,261
Goodwill	-	-	-	1,867,820	-	-	1,867,820
Other Assets, Net	-	9,873,337	-	2,371,109	-	-	12,244,446
Due from Affiliates	-	461	-	-	40,966	(41,427)	-
Interest in Net Assets of Foundation for Mount Nittany Medical Center	-	9,834,320	-	-	302,734	(10,137,054)	-
Total assets	\$ -	\$ 608,098,487	\$ 10,252,607	\$ 33,336,509	\$ 582,786	\$ (10,178,481)	\$ 642,091,908

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Financial Position
 June 30, 2017

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidated	
						Eliminations	Consolidated
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt:							
Revenue bonds	\$ -	\$ 3,235,000	\$ -	\$ -	\$ -	\$ -	\$ 3,235,000
Obligations under capital leases	-	122,248	-	-	-	-	122,248
Accounts payable	-	10,080,903	14,784	2,204,893	223	-	12,300,803
Blue Cross current financing advance	-	399,400	-	-	-	-	399,400
Estimated third-party payor settlements	-	10,840,417	-	-	-	-	10,840,417
Accrued expenses:							
Employee paid time off	-	11,202,142	22,008	3,442,064	14,074	-	14,680,288
Payroll and withholdings	-	4,928,111	16,668	984,194	1,300	-	5,930,273
Interest	-	1,440,961	-	-	-	-	1,440,961
Employee health benefit costs	-	2,395,688	-	649,971	-	-	3,045,659
Other	-	4,729,056	50	1,268,580	12,000	-	6,009,686
Deferred compensation, current	-	23,784	-	-	-	-	23,784
Current portion of charitable gift annuity liability	-	-	12,295	-	-	-	12,295
Refundable advance from Mount Nittany Medical Center	-	-	165,909	-	-	(165,909)	-
Total current liabilities	-	49,397,710	231,714	8,549,702	27,597	(165,909)	58,040,814
Long-Term Debt							
Revenue bonds	-	206,817,860	-	-	-	-	206,817,860
Obligations under capital leases	-	200,886	-	-	-	-	200,886
Deferred Revenue	-	802,506	-	-	-	-	802,506
Charitable Gift Annuity Liability	-	-	49,568	-	-	-	49,568
Accrued Pension Costs	-	61,155,856	-	-	-	-	61,155,856
Accrued Medical Malpractice and Workers' Compensation Costs	-	4,250,594	-	2,783,694	-	-	7,034,288
Deferred Compensation	-	46,983	-	-	-	-	46,983
Due (from) to Affiliates	-	-	-	41,427	-	(41,427)	-
Total liabilities	-	322,672,395	281,282	11,374,823	27,597	(207,336)	334,148,761
Net Assets							
Unrestricted	-	280,686,262	5,230,719	21,961,686	252,455	(5,230,539)	302,900,583
Temporarily restricted	-	2,717,972	2,794,009	-	302,734	(2,794,009)	3,020,706
Permanently restricted	-	2,021,858	1,946,597	-	-	(1,946,597)	2,021,858
Total net assets	-	285,426,092	9,971,325	21,961,686	555,189	(9,971,145)	307,943,147
Total liabilities and net assets	\$ -	\$ 608,098,487	\$ 10,252,607	\$ 33,336,509	\$ 582,786	\$ (10,178,481)	\$ 642,091,908

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2017

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Patient service revenues (net of contractual allowances and discounts)	\$ -	\$ 385,166,508	\$ -	\$ 49,239,042	\$ 125,654	\$ (10,000)	\$ 434,521,204
Provision for bad debts	-	(14,053,750)	-	(78,734)	-	-	(14,132,484)
Net patient service revenues less provision for bad debts	-	371,112,758	-	49,160,308	125,654	(10,000)	420,388,720
Other operating revenues	-	8,478,566	-	3,837,016	107,179	(4,529,504)	7,893,257
Net assets released from restrictions used in operations	-	422,941	652,919	138,811	91,167	(652,919)	652,919
Gain on sale of equipment	-	29,274	-	29,476	-	-	58,750
Total unrestricted revenues, gains and other support	-	380,043,539	652,919	53,165,611	324,000	(5,192,423)	428,993,646
Expenses							
Salaries and wages	-	126,194,105	293,329	46,944,825	241,128	-	173,673,387
Supplies and other	419,046	114,479,677	338,809	20,091,438	160,959	(4,539,504)	130,950,425
Employee benefits	-	42,584,739	98,782	9,920,457	67,178	-	52,671,156
Depreciation and amortization	-	19,623,353	410	2,487,105	67,449	-	22,178,317
Interest, net of capitalized interest of \$474,000	-	7,700,777	-	-	-	-	7,700,777
Insurance	-	2,209,755	-	1,616,397	-	-	3,826,152
Total expenses	419,046	312,792,406	731,330	81,060,222	536,714	(4,539,504)	391,000,214
Operating income (loss)	(419,046)	67,251,133	(78,411)	(27,894,611)	(212,714)	(652,919)	37,993,432
Other (Loss) Income							
Investment income	-	22,504,521	528,729	-	-	-	23,033,250
Contributions	-	-	274,981	-	-	-	274,981
Non-operating grant revenue	-	250,000	-	-	-	-	250,000
Equity in (loss) income of investees	-	(1,025,647)	-	57,876	-	-	(967,771)
Change in interest in The Foundation for Mount Nittany Medical Center, Inc.	-	(556,472)	-	(138,811)	(91,167)	786,450	-
Other (loss) income, net	-	21,172,402	803,710	(80,935)	(91,167)	786,450	22,590,460
Revenues in excess of (less than) expenses	(419,046)	88,423,535	725,299	(27,975,546)	(303,881)	133,531	60,583,892
Pension Liability Adjustment	-	17,928,763	-	-	-	-	17,928,763
Net Assets Released from Restrictions Used for the Purchase Property and Equipment	-	870,301	870,301	-	-	(870,301)	870,301
Transfer of Unrestricted Net Assets	419,046	(34,642,370)	(858,650)	34,943,650	138,324	-	-
Increase (decrease) in unrestricted net assets	\$ -	\$ 72,580,229	\$ 736,950	\$ 6,968,104	\$ (165,557)	\$ (736,770)	\$ 79,382,956

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows
Year Ended June 30, 2017

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Operating Activities							
Increase (decrease) in net assets	\$ -	\$ 72,271,150	\$ 643,139	\$ 6,968,104	\$ 53,962	\$ (642,959)	\$ 79,293,396
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	-	19,623,353	410	2,487,105	67,449	-	22,178,317
Net amortization of premium on long-term debt	-	(614,586)	-	-	-	-	(614,586)
Net amortization of debt issuance costs	-	123,945	-	-	-	-	123,945
Provision for bad debts	-	14,053,750	-	78,734	-	-	14,132,484
Equity in (loss) income of investees	-	1,025,647	-	(57,876)	-	-	967,771
Restricted contributions, investment income, and valuation loss/gain	-	(984,163)	(1,429,409)	(138,811)	(310,686)	1,429,409	(1,433,660)
Unrestricted net realized and unrealized gains on investments	-	(23,057,661)	(558,319)	-	-	-	(23,615,980)
Pension liability adjustment	-	(17,928,763)	-	-	-	-	(17,928,763)
Gain on sale of equipment	-	(29,274)	-	(29,476)	-	-	(58,750)
Transfers from (to) affiliates	(419,046)	34,642,370	858,650	(34,943,650)	(138,324)	-	-
Changes in assets and liabilities:							
Accounts receivable	-	(14,707,649)	-	(1,586,462)	76,492	-	(16,217,619)
Inventories of drugs and supplies	-	(309,095)	-	24,852	-	-	(284,243)
Prepaid expenses and other current assets	-	388,722	-	(209,772)	2,137	-	181,087
Accounts payable, accrued expenses, and other liabilities	-	6,267,150	16,805	1,137,339	4,019	3,757	7,429,070
Net cash provided by (used in) operating activities	(419,046)	90,764,896	(468,724)	(26,269,913)	(244,951)	790,207	64,152,469
Cash Flows from Investing Activities							
Increase in investments and assets whose use is limited	-	(30,272,638)	(522,687)	-	-	-	(30,795,325)
Purchases of property and equipment	-	(22,874,416)	-	(8,105,073)	-	-	(30,979,489)
(Increase) decrease in other assets	-	(2,002,282)	-	371,891	-	-	(1,630,391)
Proceeds from sale of equipment	-	220,071	-	36,100	-	-	256,171
Acquisition of medical practice	-	-	-	(657,953)	-	-	(657,953)
Change in interest of net assets Foundation for Mount Nittany Medical Center	-	(454,225)	-	34,542	(219,519)	639,202	-
Net cash used in investing activities	-	(55,383,490)	(522,687)	(8,320,493)	(219,519)	639,202	(63,806,987)

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Cash Flows
 Year Ended June 30, 2017

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Financing Activities							
Repayment of long-term debt	\$ -	\$ (2,967,806)	\$ -	\$ -	\$ -	\$ -	\$ (2,967,806)
Proceeds from restricted contributions and investment income	-	979,913	1,151,841	138,811	310,686	(1,429,409)	1,151,842
Change in charitable gift annuity liability	-	-	8,940	-	-	-	8,940
Transfers (from) to affiliates	419,046	(34,642,370)	(858,650)	34,943,650	138,324	-	-
Change in due to/due from affiliates	-	(461)	-	42,806	(42,345)	-	-
	<u>419,046</u>	<u>(36,630,724)</u>	<u>302,131</u>	<u>35,125,267</u>	<u>406,665</u>	<u>(1,429,409)</u>	<u>(1,807,024)</u>
Net cash (used in) provided by financing activities							
	-	(1,249,318)	(689,280)	534,861	(57,805)	-	(1,461,542)
Net (decrease) increase in cash and cash equivalents							
	-	21,959,975	1,201,518	1,486,070	93,565	-	24,741,128
Cash and Cash Equivalents, Beginning							
	-	20,710,657	512,238	2,020,931	35,760	-	23,279,586
Cash and Cash Equivalents, Ending							
	\$ -	\$ 20,710,657	\$ 512,238	\$ 2,020,931	\$ 35,760	\$ -	\$ 23,279,586

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Financial Position

June 30, 2016

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	-	\$ 21,959,975	\$ 1,201,518	\$ 1,486,070	\$ 93,565	\$ -	\$ 24,741,128
Short-term investments	-	203,536	2,448,621	-	-	-	2,652,157
Accounts receivable:							
Patients (net of estimated allowance for doubtful accounts of approximately \$15,489,000)	-	32,297,386	-	3,425,999	38,307	-	35,761,692
Other	-	2,975,193	-	804,504	87,575	-	3,867,272
Inventories of drugs and supplies	-	8,311,352	-	211,714	-	-	8,523,066
Prepaid expenses and other current assets	-	4,395,759	-	1,007,858	2,137	-	5,405,754
Total current assets	-	70,143,201	3,650,139	6,936,145	221,584	-	80,951,069
Assets Whose Use is Limited							
Under trust indenture, held by trustee	-	17,769,976	-	-	-	-	17,769,976
Board designated, debt service	-	2,633,061	-	-	-	-	2,633,061
Workers' compensation self-insurance, held by trustee	-	1,425,709	-	-	-	-	1,425,709
Total assets whose use is limited	-	21,828,746	-	-	-	-	21,828,746
Long-Term Investments	-	232,684,070	5,521,124	-	-	-	238,205,194
Pledges Receivable	-	-	410,206	-	-	-	410,206
Property and Equipment, Net	-	207,943,572	2,254	14,306,882	221,385	-	222,474,093
Beneficial Interest in Perpetual Trusts	-	71,011	-	-	-	-	71,011
Goodwill	-	-	-	1,209,867	-	-	1,209,867
Other Assets, Net	-	8,896,702	-	2,700,824	-	-	11,597,526
Due from Affiliates	-	-	-	1,379	-	(1,379)	-
Interest in Net Assets of Foundation for Mount Nittany Medical Center	-	9,380,095	-	34,542	83,215	(9,497,852)	-
Total assets	\$ -	\$ 550,947,397	\$ 9,583,723	\$ 25,189,639	\$ 526,184	\$ (9,499,231)	\$ 576,747,712

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Financial Position
 June 30, 2016

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt:							
Revenue bonds	\$ -	\$ 2,850,000	\$ -	\$ -	\$ -	\$ -	\$ 2,850,000
Obligations under capital leases	-	115,877	-	-	-	-	115,877
Accounts payable	-	8,290,987	180	2,010,777	-	-	10,301,944
Blue Cross current financing advance	-	475,663	-	-	-	-	475,663
Estimated third-party payor settlements	-	9,739,797	-	-	-	-	9,739,797
Accrued expenses:							
Employee paid time off	-	10,264,119	16,418	2,968,915	15,529	-	13,264,981
Payroll and withholdings	-	4,378,073	16,350	819,608	1,249	-	5,215,280
Interest	-	1,783,457	-	-	-	-	1,783,457
Employee health benefit costs	-	2,138,900	-	412,259	-	-	2,551,159
Other	-	5,811,498	-	1,426,812	6,800	-	7,245,110
Deferred compensation, current	-	13,780	-	-	-	-	13,780
Current portion of charitable gift annuity liability	-	-	12,295	-	-	-	12,295
Refundable advance from Mount Nittany Medical Center	-	-	169,666	-	-	(169,666)	-
Total current liabilities	-	45,862,151	214,909	7,638,371	23,578	(169,666)	53,569,343
Long-Term Debt							
Revenue bonds	-	210,543,501	-	-	-	-	210,543,501
Obligations under capital leases	-	325,063	-	-	-	-	325,063
Deferred Revenue	-	808,134	-	-	-	-	808,134
Charitable Gift Annuity Liability	-	-	40,628	-	-	-	40,628
Accrued Pension Costs	-	76,702,236	-	-	-	-	76,702,236
Accrued Medical Malpractice and Workers' Compensation Costs	-	3,489,865	-	2,557,686	-	-	6,047,551
Deferred Compensation	-	61,505	-	-	-	-	61,505
Due to Affiliates	-	-	-	-	1,379	(1,379)	-
Total liabilities	-	337,792,455	255,537	10,196,057	24,957	(171,045)	348,097,961
Net Assets							
Unrestricted	-	208,106,033	4,493,769	14,993,582	418,012	(4,493,769)	223,517,627
Temporarily restricted	-	3,082,464	2,938,982	-	83,215	(2,938,982)	3,165,679
Permanently restricted	-	1,966,445	1,895,435	-	-	(1,895,435)	1,966,445
Total net assets	-	213,154,942	9,328,186	14,993,582	501,227	(9,328,186)	228,649,751
Total liabilities and net assets	\$ -	\$ 550,947,397	\$ 9,583,723	\$ 25,189,639	\$ 526,184	\$ (9,499,231)	\$ 576,747,712

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Operations
 Year Ended June 30, 2016

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support							
Patient service revenues (net of contractual allowances and discounts)	\$ -	\$ 369,828,221	\$ -	\$ 46,265,300	\$ 159,029	\$ -	\$ 416,252,550
Provision for bad debts	-	(13,363,249)	-	(608,162)	-	-	(13,971,411)
Net patient service revenues less provision for bad debts	-	356,464,972	-	45,657,138	159,029	-	402,281,139
Other operating revenues	-	8,484,817	-	3,248,621	134,111	(4,289,685)	7,577,864
Net assets released from restrictions used in operations	-	1,176,943	1,389,345	20,008	143,368	(1,340,319)	1,389,345
Gain on sale of equipment	-	254,400	-	-	-	-	254,400
Total unrestricted revenues, gains, and other support	-	366,381,132	1,389,345	48,925,767	436,508	(5,630,004)	411,502,748
Expenses							
Salaries and wages	-	120,203,526	267,721	42,295,093	231,720	-	162,998,060
Supplies and other	380,750	115,004,305	342,366	17,847,487	138,686	(4,289,687)	129,423,907
Employee benefits	-	34,806,267	95,628	9,131,431	59,735	-	44,093,061
Depreciation and amortization	-	18,449,689	410	2,552,710	66,616	-	21,069,425
Interest, net of capitalized interest of \$367,000	-	8,299,510	-	-	-	-	8,299,510
Insurance	-	1,820,942	-	1,174,781	-	-	2,995,723
Total expenses	380,750	298,584,239	706,125	73,001,502	496,757	(4,289,687)	368,879,686
Operating income (loss)	(380,750)	67,796,893	683,220	(24,075,735)	(60,249)	(1,340,317)	42,623,062
Other (Loss) Income							
Investment income	-	6,443,281	40,867	-	-	-	6,484,148
Contributions	-	-	1,151,404	-	-	-	1,151,404
Non-operating grant revenue	-	250,000	-	-	-	-	250,000
Equity in (loss) income of investees	-	(904,224)	-	27,357	-	-	(876,867)
Change in fair value of derivative financial instruments	-	734,397	-	-	-	-	734,397
Loss on refinancing	-	(17,387,209)	-	-	-	-	(17,387,209)
Change in interest in The Foundation for Mount Nittany Medical Center, Inc.	-	(201,810)	-	(36,708)	(143,368)	381,886	-
Other (loss) income, net	-	(11,065,565)	1,192,271	(9,351)	(143,368)	381,886	(9,644,127)
Revenues in excess of (less than) expenses	(380,750)	56,731,328	1,875,491	(24,085,086)	(203,617)	(958,431)	32,978,935
Pension Liability Adjustment	-	(51,885,786)	-	-	-	-	(51,885,786)
Net Assets Released from Restrictions Used for the Purchase Property and Equipment	-	230,238	246,939	16,701	-	(246,939)	246,939
Transfer of Unrestricted Net Assets	380,750	(26,570,727)	(917,060)	26,290,617	816,420	-	-
(Decrease) increase in unrestricted net assets	\$ -	\$ (21,494,947)	\$ 1,205,370	\$ 2,222,232	\$ 612,803	\$ (1,205,370)	\$ (18,659,912)

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows
Year Ended June 30, 2016

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Operating Activities							
(Decrease) increase in net assets	\$ -	\$ (22,427,517)	\$ 166,298	\$ 2,222,232	\$ 504,116	\$ (166,298)	\$ (19,701,169)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	-	18,449,689	410	2,552,710	66,616	-	21,069,425
Net amortization of premium on long-term debt	-	(341,283)	-	-	-	-	(341,283)
Net amortization of debt issuance costs	-	114,551	-	-	-	-	114,551
Provision for bad debts	-	13,363,249	-	608,162	-	-	13,971,411
Change in fair value of derivative financial instruments	-	(734,397)	-	-	-	-	(734,397)
Equity in (loss) income of investees	-	904,224	-	(27,357)	-	-	876,867
Loss on refinancing, including write-off of deferred financing costs and original issue discount of \$501,000	-	17,387,209	-	-	-	-	17,387,209
Restricted contributions, investment income, and valuation loss/gain	-	(520,145)	(597,212)	(36,708)	(34,681)	593,719	(595,027)
Unrestricted net realized and unrealized gains on investments	-	(6,741,402)	(72,878)	-	-	-	(6,814,280)
Pension liability adjustment	-	51,885,786	-	-	-	-	51,885,786
Gain on sale of equipment	-	(254,400)	-	-	-	-	(254,400)
Transfers from (to) affiliates	(380,750)	26,570,727	917,060	(26,290,617)	(816,420)	-	-
Changes in assets and liabilities:							
Accounts receivable	-	(15,923,555)	-	(1,226,914)	(24,056)	-	(17,174,525)
Inventories of drugs and supplies	-	(561,282)	-	(169,293)	-	-	(730,575)
Prepaid expenses and other current assets	-	(1,589,625)	-	18,054	(2,137)	-	(1,573,708)
Accounts payable, accrued expenses, and other liabilities	-	1,412,242	3,573	(172,523)	6,318	615	1,250,225
Net cash provided by (used in) operating activities	(380,750)	80,994,071	417,251	(22,522,254)	(300,244)	428,036	58,636,110
Cash Flows from Investing Activities							
Increase in investments and assets whose use is limited	-	(50,265,592)	(224,549)	-	-	-	(50,490,141)
Purchases of property and equipment	-	(17,243,874)	-	(6,336,855)	(239,566)	-	(23,820,295)
(Increase) decrease in other assets	-	(3,779,054)	-	334,251	-	-	(3,444,803)
Proceeds from sale of equipment	-	357,509	-	-	-	-	357,509
Change in interest of net assets Foundation for Mount Nittany Medical Center	-	(274,370)	-	-	108,687	165,683	-
Net cash (used in) provided by investing activities	-	(71,205,381)	(224,549)	(6,002,604)	(130,879)	165,683	(77,397,730)

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows

Year Ended June 30, 2016

	Mount Nittany Health System	Mount Nittany Medical Center	The Foundation for Mount Nittany Medical Center	Mount Nittany Physician Group	Child Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Financing Activities							
Proceeds of long-term debt, including premium of \$8,254,488	\$ -	\$ 39,864,488	\$ -	\$ -	\$ -	\$ -	39,864,488
Payment to fund escrow account		(16,886,111)	-	-	-	-	(16,886,111)
Proceeds to terminate derivative financial instruments		3,633,000	-	-	-	-	3,633,000
Repayment of long-term debt	-	(2,681,865)	-	-	-	-	(2,681,865)
Proceeds from restricted contributions and investment income	-	522,328	1,172,160	36,708	34,681	(593,719)	1,172,158
Payment of debt issuance costs	-	(957,691)	-	-	-	-	(957,691)
Changes in charitable gift annuity liability			(2,632)				(2,632)
Transfer (from) to affiliates	380,750	(26,570,727)	(917,060)	26,290,617	816,420	-	-
Change in due to/due from affiliates	-	595,469	(226,797)	4,676	(373,348)	-	-
	<u>380,750</u>	<u>(2,481,109)</u>	<u>25,671</u>	<u>26,332,001</u>	<u>477,753</u>	<u>(593,719)</u>	<u>24,141,347</u>
Net cash provided by (used in) financing activities							
	-	7,307,581	218,373	(2,192,857)	46,630	-	5,379,727
Net increase (decrease) in cash and cash equivalents							
	-	14,652,394	983,145	3,678,927	46,935	-	19,361,401
Cash and Cash Equivalents, Beginning							
	-	21,959,975	1,201,518	1,486,070	93,565	-	24,741,128
Cash and Cash Equivalents, Ending							