

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

Consolidated Financial Statements
and Supplementary Information

June 30, 2019 and 2018



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

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Independent Auditors' Report

To the Board of Directors of
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 statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the 2019 and 2018 consolidated financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

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 36 to 45 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.

The 2019 and 2018 supplementary information has been restated to correct the errors described above.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
September 18, 2019, except as to Note 3 and the restated portions of Notes 5, 9 and 18,
which is as of November 7, 2019

Mount Nittany Health System and Affiliates

Consolidated Statements of Financial Position
June 30, 2019 and 2018

Assets	2019 (Restated)	2018 (Restated)	Liabilities and Net Assets	2019 (Restated)	2018 (Restated)
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 31,903,468	\$ 27,308,447	Current maturities of long-term debt:		
Short-term investments	11,558,966	8,122,146	Revenue bonds	\$ 3,840,000	\$ 3,655,000
Accounts receivable:			Obligations under capital leases	122,599	183,417
Patients	40,607,228	31,499,648	Accounts payable	11,088,233	9,451,866
Other	3,936,059	2,436,951	Blue Cross current financing advance	-	399,400
Inventories of drugs and supplies	9,412,207	8,724,744	Estimated third-party payor settlements	1,736,204	1,035,113
Prepaid expenses and other current assets	6,622,372	5,762,854	Accrued expenses:		
			Employee paid time off	16,240,402	15,328,237
Total current assets	104,040,300	83,854,790	Payroll and withholdings	7,613,836	6,845,132
			Interest	1,642,998	1,663,319
Assets Whose Use is Limited			Employee health benefit costs	2,319,712	2,998,212
Under trust indenture, held by trustee	27,801,397	34,024,463	Other	8,041,010	6,006,947
Board designated, debt service	1,364,174	1,778,102	Deferred compensation, current	282,084	15,245
Workers' compensation self-insurance, held by trustee	1,507,985	1,427,799	Current portion of charitable gift annuity liability	12,295	12,295
			Total current liabilities	52,939,373	47,594,183
Total assets whose use is limited	30,673,556	37,230,364			
			Long-Term Debt		
Long-Term Investments	418,389,583	356,655,002	Revenue bonds	230,943,665	235,403,364
Pledges Receivable	938,082	1,119,333	Obligations under capital leases	123,512	248,316
Property and Equipment, Net	233,349,290	236,065,304	Deferred Revenue	324,025	889,726
Beneficial Interest in Perpetual Trusts	79,656	74,252	Charitable Gift Annuity Liability	29,693	31,689
Goodwill	1,867,820	1,867,820	Accrued Pension Costs	84,799,096	64,582,867
Other Assets, Net	13,622,616	12,204,546	Accrued Medical Malpractice and Workers' Compensation Costs	5,919,165	5,878,629
			Deferred Compensation	15,548	31,678
			Total liabilities	375,094,077	354,660,452
			Net Assets		
			Net assets without donor restrictions	418,260,590	366,770,637
			Net assets with donor restrictions	9,606,236	7,640,322
			Total net assets	427,866,826	374,410,959
Total assets	\$ 802,960,903	\$ 729,071,411	Total liabilities and net assets	\$ 802,960,903	\$ 729,071,411

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statements of Operations
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	(Restated)	(Restated)
Unrestricted Revenues, Gains and Other Support		
Patient service revenues	\$ 455,995,434	\$ 458,207,446
Provision for bad debts	-	(15,250,020)
Net patient service revenues	455,995,434	442,957,426
Other operating revenues	9,784,095	8,377,853
Net assets released from restrictions used in operations	234,077	416,614
(Loss) gain on sale of equipment	(153,499)	209,367
Total unrestricted revenues, gains and other support	<u>465,860,107</u>	<u>451,961,260</u>
Expenses		
Salaries and wages	186,275,573	178,717,049
Supplies and other	136,358,181	129,595,871
Employee benefits	55,998,630	53,944,115
Depreciation and amortization	25,351,905	23,843,039
Interest (net of capitalized interest of approximately \$484,000 in 2019 and \$480,000 in 2018)	8,818,324	7,770,631
Insurance	3,508,709	2,979,976
Total expenses	<u>416,311,322</u>	<u>396,850,681</u>
Operating income	<u>49,548,785</u>	<u>55,110,579</u>
Other Income (Loss)		
Investment income	23,243,246	12,818,377
Contributions	835,059	2,008,610
Equity loss of investees	(755,253)	(392,334)
Net periodic pension cost, nonoperating	(1,078,273)	(1,607,033)
Loss on refinancing	-	(732,709)
Other income (loss), net	<u>22,244,779</u>	<u>12,094,911</u>
Revenues in excess of expenses	71,793,564	67,205,490
Pension Liability Adjustment	(20,484,644)	(3,439,232)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	<u>181,033</u>	<u>103,796</u>
Change in net assets without donor restrictions	<u>\$ 51,489,953</u>	<u>\$ 63,870,054</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statements of Changes in Net Assets

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	(Restated)	(Restated)
Changes in Net Assets Without Donor Restrictions		
Revenues in excess of expenses	\$ 71,793,564	\$ 67,205,490
Pension liability adjustment	(20,484,644)	(3,439,232)
Net assets released from restrictions used for purchase of property and equipment	<u>181,033</u>	<u>103,796</u>
Change in net assets without donor restrictions	<u>51,489,953</u>	<u>63,870,054</u>
Changes in Net Assets With Donor Restrictions		
Contributions	2,353,289	3,114,039
Investment income	24,348	5,138
Valuation gain (loss)	3,387	(1,009)
Net assets released from restrictions	<u>(415,110)</u>	<u>(520,410)</u>
Change in net assets with donor restrictions	<u>1,965,914</u>	<u>2,597,758</u>
Change in net assets	53,455,867	66,467,812
Net Assets, Beginning	<u>374,410,959</u>	<u>307,943,147</u>
Net Assets, Ending	<u>\$ 427,866,826</u>	<u>\$ 374,410,959</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	(Restated)	(Restated)
Cash Flows from Operating Activities		
Change in net assets	\$ 53,455,867	\$ 66,467,812
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,351,905	23,843,039
Net amortization of premium on long-term debt	(775,200)	(634,310)
Net amortization of debt issuance costs	155,501	129,916
Provision for bad debts	-	15,250,020
Equity loss of investees	755,253	392,334
Loss on refinancing, including write-off of deferred financing costs of \$180,720 and unamortized premium of \$729,091 in 2018	-	732,709
Restricted contributions, investment income and valuation loss/gain	(2,383,042)	(3,118,168)
Unrestricted net realized and unrealized gains on investments	(23,906,993)	(13,442,021)
Pension liability adjustment	20,484,644	3,439,232
Loss (gain) on sale of equipment	153,499	(209,367)
Changes in assets and liabilities:		
Accounts receivable	(10,606,688)	(18,099,680)
Inventories of drugs and supplies	(687,463)	82,565
Prepaid expenses and other current assets	(859,518)	(538,187)
Accounts payable, accrued expenses and and other liabilities	4,411,298	(1,396,605)
Net cash provided by operating activities	<u>65,549,063</u>	<u>72,899,289</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(22,933,366)	(28,648,057)
Increase in investments and assets whose use is limited	(34,707,600)	(71,468,089)
Increase in other assets	(2,242,535)	(380,634)
Proceeds from sale of equipment	<u>213,188</u>	<u>349,137</u>
Net cash used in investing activities	<u>(59,670,313)</u>	<u>(100,147,643)</u>

See notes to consolidated financial statements

Mount Nittany Health System and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	(Restated)	(Restated)
Cash Flows from Financing Activities		
Proceeds from long-term debt, including premium of \$3,343,401 in 2018	\$ -	\$ 34,123,401
Payment to fund escrow	-	(1,278,980)
Repayment of long-term debt	(3,840,622)	(3,404,713)
Payment of debt issuance costs	-	(832,232)
Proceeds from restricted contributions and investment income	2,558,889	2,687,618
Changes in charitable gift annuity liability	(1,996)	(17,879)
	<u>(1,283,729)</u>	<u>31,277,215</u>
Net cash (used in) provided by financing activities	(1,283,729)	31,277,215
Net increase in cash and cash equivalents	4,595,021	4,028,861
Cash and Cash Equivalents, Beginning	<u>27,308,447</u>	<u>23,279,586</u>
Cash and Cash Equivalents, Ending	<u>\$ 31,903,468</u>	<u>\$ 27,308,447</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	<u>\$ 9,458,344</u>	<u>\$ 8,052,667</u>
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital lease incurred for purchase of property and equipment	<u>\$ -</u>	<u>\$ 278,312</u>
Refinancing of long-term debt	<u>\$ -</u>	<u>\$ 19,250,000</u>
Defeasance of long-term debt	<u>\$ -</u>	<u>\$ 17,170,000</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, 2019 and 2018

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. The affiliates of the System include:

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 was 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., d/b/a Mount Nittany Health Foundation (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, Medical Center, Physician Group, Foundation, and 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.

Accounts Receivable, Patients

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

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Accounts Receivable, Other

Accounts receivable, other, represents amounts due to the Corporation for charges other than providing health care services to patients and 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.

Inventories of Drugs and Supplies

Inventories of drugs and medical and surgical supplies are stated at the lower of cost or net realizable 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.

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 statements 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 net assets with donor restrictions.

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated statements 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 without restriction 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 additions to net assets with donor restrictions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 value of trust assets.

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 2019 and 2018.

Intangible assets with finite lives are included in other assets in the accompanying consolidated statements of financial position (Note 8). These assets are being amortized over their estimated useful lives. Amortization of such intangible assets was \$69,212 in 2019 and \$28,200 in 2018.

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.

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 statements of financial position as a reduction of long-term debt and are being amortized over the term of the related debt using the effective-interest method. Amortization expense was \$155,501 in 2019 and \$129,916 in 2018. Accumulated amortization was \$624,286 at June 30, 2019 and \$468,785 at June 30, 2018.

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 \$194,486 at June 30, 2019 and \$200,114 at June 30, 2018.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 \$129,539 at June 30, 2019 and \$689,612 at June 30, 2018, 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.

Net Assets

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

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

Net Assets With Donor Restrictions - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 net assets with restrictions if they are received with donor stipulations that limit the use of the donated assets.

Net Patient Service Revenues

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

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

All of the Corporation's performance obligations relate to contracts with a duration of less than one year, therefore the Corporation has elected to apply the optional exemptions provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606-10-50-14(a) and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Corporation's policies, and/or implicit price concessions provided to uninsured or underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimates of implicit price concessions based on its historical collection experience with a respective class of patient.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. The Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year; however, in these cases the financing component is not deemed to be significant to the contract.

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 \$957,000 in 2019 and \$1,006,000 in 2018.

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

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Measure of Operations

The consolidated statements of operations reflects all operating revenues and expenses that are an integral part of the Corporation's healthcare services and supporting activities and net assets released from donor restrictions to support operating expenditures. Changes in revenues in excess of expenses that are excluded from operating income, consistent with industry practice, include investment income (including realized and unrealized gains and losses on investments, interest, dividends, and investment expense), contributions, non-operating grant revenue, equity loss of investees, net periodic pension cost, nonoperating, and loss on refinancing.

Revenues in Excess of Expenses

The consolidated statements of operations includes the determination of revenues in excess of expenses. Changes in net assets without restriction, 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 statements of financial position.

Income Taxes

The System, Medical Center, Physician Group, Foundation and Children's Advocacy Center 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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were approximately \$451,000 in 2019 and \$628,000 in 2018.

Reclassifications

Certain 2018 amounts were reclassified to conform to the current year presentation.

New Accounting Standards

In 2019, the Corporation adopted FASB Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle under ASU No. 014-09 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. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

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June 30, 2019 and 2018

The Corporation applied the modified retrospective approach to all contracts when adopting ASU No. 2014-09. As a result of the adoption, what was previously classified as the provision for bad debts in the consolidated statements of operations is now reflected as implicit price concessions, as defined in Topic 606, and therefore included as a reduction of net patient service revenues. For changes in transaction price related to changes in patient circumstances, the Corporation will prospectively recognize those amounts as a provision for bad debts within operating expenses on the consolidated statements of operations. For periods prior to July 1, 2018, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required separate presentation of these amounts as a component of net patient service revenue. Additionally, as a result of the adoption of ASU No. 2014-09, the allowance for doubtful accounts of approximately \$18,465,000 as of July 1, 2018 was reclassified as a component of net patient accounts receivable.

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).

During November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 30), Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. The Corporation will be required to be retrospectively adopt this guidance in for fiscal years beginning after December 15, 2018 (i.e. its fiscal year ended June 30, 2020), and interim periods within those fiscal years.

In August 2018, FASB issued ASU No. 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU No. 2018-15 modifies and clarifies the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. These amendments remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2018-14 for years beginning after December 15, 2021 (i.e. its fiscal year ended June 30, 2022), with early adoption permitted.

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

3. Restatement

The Corporation restated its previously issued consolidated financial statements to correct an error, which was caused by an oversight related to the defeasance of the Hospital Revenue Bonds, Series 2012A which was not recorded in 2018. The 2019 and 2018 tables in Note 9 and the disclosure related to the Hospital Revenue Bonds, Series 2012A were restated to correct the error. In addition, the 2019 and 2018 tables in Note 5 and the 2018 table in Note 18 were restated to correct the error.

The following is a summary of the effects of the restatement on the Corporation's consolidated statement of financial position as of June 30, 2019 and 2018 and its consolidated statements of operations and changes in net asset for the years then ended:

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The effects of the restatement on the 2019 consolidated financial statements are as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Consolidated Statement of Financial Position			
Current Liabilities			
Accrued expenses:			
Interest	\$ 1,786,081	\$ (143,083)	\$ 1,642,998
Total current liabilities	53,082,456	(143,083)	52,939,373
Long-Term Debt			
Revenue bonds	248,113,665	(17,170,000)	230,943,665
Total liabilities	392,407,160	(17,313,083)	375,094,077
Net Assets,			
Net assets with donor restrictions	400,947,507	17,313,083	418,260,590
Total net assets	410,553,743	17,313,083	427,866,826
Consolidated Statement of Changes in Net Assets			
Net Assets, Beginning	357,097,876	17,313,083	374,410,959
Net Assets, Ending	410,553,743	17,313,083	427,866,826

The effects of the restatement on the 2018 consolidated financial statements are as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Consolidated Statement of Financial Position			
Current Liabilities			
Accrued expenses:			
Interest	\$ 1,806,402	\$ (143,083)	\$ 1,663,319
Total current liabilities	47,737,266	(143,083)	47,594,183
Long-Term Debt			
Revenue bonds	252,573,364	(17,170,000)	235,403,364
Total liabilities	371,973,535	(17,313,083)	354,660,452
Net Assets,			
Net assets with donor restrictions	349,457,554	17,313,083	366,770,637
Total net assets	357,097,876	17,313,083	374,410,959
Consolidated Statement of Operations			
Expenses			
Interest	7,913,714	(143,083)	7,770,631
Total expenses	396,993,764	(143,083)	396,850,681
Operating income	54,967,496	143,083	55,110,579
Other Income (Loss)			
Loss on refinancing	(17,902,709)	17,170,000	(732,709)
Other income (loss), net	(5,075,089)	17,170,000	12,094,911
Revenues in excess of expenses	49,892,407	17,313,083	67,205,490
Change in net assets without donor restrictions	46,556,971	17,313,083	63,870,054

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June 30, 2019 and 2018

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Consolidated Statement of Changes in Net Assets			
Changes in Net Assets Without Donor Restrictions			
Revenues in excess of expenses	\$ 49,892,407	\$ 17,313,083	\$ 67,205,490
Change in net assets without donor restrictions	46,556,971	17,313,083	63,870,054
Change in net assets	49,154,729	17,313,083	66,467,812
Net Assets, Ending	357,097,876	17,313,083	374,410,959
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities			
Change in net assets	49,154,729	17,313,083	66,467,812
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Loss on refinancing	17,902,709	(17,170,000)	732,709
Changes in assets and liabilities			
Accounts payable, accrued expenses, and other liabilities	(1,253,522)	(143,083)	(1,396,605)
Cash Flows from Financing Activities			
Proceeds from long-term debt	51,293,401	(17,170,000)	34,123,401
Payment to fund escrow	(18,448,980)	17,170,000	(1,278,980)
Supplemental Disclosures of Non-Cash Investing and Financing Activities			
Defeasance of long-term debt	-	17,170,000	17,170,000

4. Investments

The composition of short-term and long-term investments at June 30, 2019 and 2018 is set forth in the following table:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,024,406	\$ 819,994
Mutual funds:		
Equity	36,288	38,238
Fixed income	17,848	21,017
Alternative investments	428,870,007	363,897,899
Total	429,948,549	364,777,148
Less short-term investments	11,558,966	8,122,146
Long-term investments	<u>\$ 418,389,583</u>	<u>\$ 356,655,002</u>

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The composition of assets whose use is limited at June 30, 2019 and 2018, is set forth in the following table:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 16,327,566	\$ 18,564,054
Certificates of deposit	761,211	420,914
Mutual funds, fixed income	-	276,490
Government obligations	729,206	700,401
Corporate bonds	12,855,573	17,268,505
Total	<u>\$ 30,673,556</u>	<u>\$ 37,230,364</u>

Investment income, gains and losses for cash and cash equivalents, assets whose use is limited, and investments are comprised of the following in 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment return:		
Interest and dividend income	\$ 1,400,566	\$ 1,101,739
Net realized gain on sales of securities	1,042,489	2,850,367
Net unrealized gain on trading securities	22,864,504	10,591,654
Fees	(2,064,313)	(1,725,383)
Total	<u>\$ 23,243,246</u>	<u>\$ 12,818,377</u>

5. 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

June 30, 2019 and 2018

The financial assets recorded at fair value and financial instruments disclosed at fair value were measured using the following inputs at June 30, 2019 and 2018:

	2019				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	\$ 17,351,972	\$ 17,351,972	\$ -	\$ -	\$ -
Certificates of deposit	761,211	-	761,211	-	-
Corporate bonds	12,855,573	-	12,855,573	-	-
Government obligations	729,206	-	729,206	-	-
Alternative investments	428,870,007	-	-	-	428,870,007
Mutual funds, equity funds:					
U.S. Large/Mid Cap	18,244	18,244	-	-	-
U.S. Small Cap	4,308	4,308	-	-	-
International Developed	5,511	5,511	-	-	-
International Emerging Markets	1,440	1,440	-	-	-
International Blend	4,474	4,474	-	-	-
Other	2,311	2,311	-	-	-
Mutual funds, fixed income funds:					
Short-term bond funds	4,453	4,453	-	-	-
Financial institution funds	12,808	12,808	-	-	-
Other	587	587	-	-	-
Subtotal	460,622,105	17,406,108	14,345,990	-	428,870,007
Beneficial interest in perpetual trusts	79,656	-	-	79,656	-
Total	<u>\$ 460,701,761</u>	<u>\$ 17,406,108</u>	<u>\$ 14,345,990</u>	<u>\$ 79,656</u>	<u>\$ 428,870,007</u>
Assets disclosed at fair value:					
Cash and cash equivalents (carrying value \$31,903,468)	\$ 31,903,468	\$ 31,903,468	-	-	-
Pledges receivable (carrying value \$938,082)	938,082	-	-	938,082	-
Total	<u>\$ 32,841,550</u>	<u>\$ 31,903,468</u>	<u>\$ -</u>	<u>\$ 938,082</u>	<u>\$ -</u>
Liabilities disclosed at fair value,					
Revenue bonds (carrying value of \$234,783,665) (restated)	<u>\$ 243,147,947</u>	<u>\$ -</u>	<u>\$ 243,147,947</u>	<u>\$ -</u>	<u>\$ -</u>

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	2018				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					
	\$ 19,384,048	\$ 19,384,048	\$ -	\$ -	\$ -
Certificates of deposit	420,914	-	420,914	-	-
Corporate bonds	17,268,505	-	17,268,505	-	-
Government obligations	700,401	-	700,401	-	-
Alternative investments	363,897,899	-	-	-	363,897,899
Mutual funds, equity funds:					
International funds	8,369	8,369	-	-	-
Domestic equity	10,878	10,878	-	-	-
Closed end equity	13,549	13,549	-	-	-
International close end	1,487	1,487	-	-	-
Global funds	3,955	3,955	-	-	-
Mutual funds, fixed income funds:					
Short-term bond funds	619	619	-	-	-
Financial institution funds	17,357	17,357	-	-	-
Other	279,531	279,531	-	-	-
Subtotal	402,007,512	19,719,793	18,389,820	-	363,897,899
Beneficial interest in perpetual trusts	74,252	-	-	74,252	-
Total	<u>\$ 402,081,764</u>	<u>\$ 19,719,793</u>	<u>\$ 18,389,820</u>	<u>\$ 74,252</u>	<u>\$ 363,897,899</u>
Assets disclosed at fair value:					
Cash and cash equivalents (carrying value \$27,308,447)					
	\$ 27,308,447	\$ 27,308,447	\$ -	\$ -	\$ -
Pledges receivable (carrying value \$1,119,333)	1,119,333	-	-	1,119,333	-
Total	<u>\$ 28,427,780</u>	<u>\$ 27,308,447</u>	<u>\$ -</u>	<u>\$ 1,119,333</u>	<u>\$ -</u>
Liabilities disclosed at fair value,					
Revenue bonds (carrying value of \$239,058,364) (restated)					
	\$ 240,230,409	\$ -	\$ 240,230,409	\$ -	\$ -

(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 statements of financial position.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Corporation's investments and assets whose use is limited are reflected in the accompanying consolidated statements of financial position as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Short-term investments	\$ 11,558,966	\$ 8,122,146
Assets whose use is limited	30,673,556	37,230,364
Long-term investments	<u>418,389,583</u>	<u>356,655,002</u>
Total	<u>\$ 460,622,105</u>	<u>\$ 402,007,512</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, 2019 and 2018.

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, 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 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.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018:

Name of Fund	Fair Value at June 30, 2019	Fair Value at June 30, 2018	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Russell Institutional Funds, Russell Multi-Asset Core Plus Fund	\$ 232,853,546	\$ 197,461,641	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	187,444,490	157,783,833	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.	8,571,971	8,652,425	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
Total	<u>\$ 428,870,007</u>	<u>\$ 363,897,899</u>				

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, 2017	\$ 75,261
Valuation loss	<u>(1,009)</u>
Balances at June 30, 2018	74,252
Valuation gain	<u>5,404</u>
Balances at June 30, 2019	<u>\$ 79,656</u>

6. 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 restricted contributions. Other pledges are received on an annual basis for use in operations and purchase of equipment for the Medical Center, Physician Group, and Children's Advocacy Center.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Pledges receivable are recorded as follows as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Campaign pledges before unamortized discount and allowance for uncollectible pledges	\$ 1,169,575	\$ 1,416,643
Less unamortized discount	<u>88,700</u>	<u>124,484</u>
Subtotal	1,080,875	1,292,159
Less allowance for uncollectible pledges	<u>142,793</u>	<u>172,826</u>
Net unconditional promises to give	<u>\$ 938,082</u>	<u>\$ 1,119,333</u>
Amounts due in:		
Less than one year	\$ 101,672	\$ 109,930
One to five years	<u>1,067,903</u>	<u>1,306,713</u>
Total	<u>\$ 1,169,575</u>	<u>\$ 1,416,643</u>

The discount rate used was approximately 3.3 percent and 4.0 percent at June 30, 2019 and 2018, respectively.

7. Property and Equipment

Property and equipment and accumulated depreciation and amortization as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 6,416,146	\$ 7,717,958
Buildings	243,128,071	243,064,838
Equipment	201,894,312	177,875,544
Leasehold improvements	37,026,700	36,888,482
Equipment held under capital lease	<u>890,974</u>	<u>2,004,587</u>
Total	489,356,203	467,551,409
Less accumulated depreciation and amortization	<u>273,946,333</u>	<u>252,340,762</u>
Total	215,409,870	215,210,647
Construction in progress	<u>17,939,420</u>	<u>20,854,657</u>
Property and equipment, net	<u>\$ 233,349,290</u>	<u>\$ 236,065,304</u>

Amortization of equipment held under capital lease was \$178,917 in 2019 and \$157,940 in 2018. Accumulated amortization was \$633,189 at June 30, 2019 and \$1,567,884 at June 30, 2018.

Depreciation expense, including amortization of equipment under capital lease, was \$25,282,693 in 2019 and \$23,814,839 in 2018.

Commitments for construction contracts for various projects existing at June 30, 2019 totaled approximately \$1,475,000.

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Notes to Consolidated Financial Statements

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8. Other Assets

Other assets as of June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Estimated medical malpractice insurance recoveries	\$ 2,921,748	\$ 3,032,491
Other intangible assets (net of accumulated amortization of \$121,912 at June 30, 2019 and \$52,700 at June 30, 2018)	503,209	13,300
Other	525,865	534,593
Other investments:		
Community Hospital Alternative for Risk Transfer	5,683,707	4,809,246
Centre County Cancer Center	1,523,492	1,408,528
ADG Hospital Drive Associates	1,658,195	1,616,407
Bellefonte Medical Investors	806,400	789,981
 Total other investments	 <u>9,671,794</u>	 <u>8,624,162</u>
 Other assets, net	 <u>\$ 13,622,616</u>	 <u>\$ 12,204,546</u>

Centre County Cancer Center

The Medical Center holds a 50 percent 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 statements of operations. The Medical Center's proportionate share of such loss was \$886,055 in 2019 and \$659,714 in 2018. No distributions were received from the Cancer Center during 2019 or 2018. Equity contributions made to the Cancer Center were \$101,019 in 2019 and \$940,729 in 2018.

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 \$339,265 in 2019 and \$338,636 in 2018; reimbursement received under the terms of the Services Agreement amounted to \$302,630 in 2019 and \$318,565 in 2018; and the related receivables were \$301,236 at June 30, 2019 and \$146,751 at June 30, 2018.

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Summary financial information for the Cancer Center is as follows for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assets:		
Current assets	\$ 4,384,270	\$ 4,648,107
Property and equipment, net	225,007	284,150
Other assets, net	765,500	765,500
Total assets	<u>\$ 5,374,777</u>	<u>\$ 5,697,757</u>
Liabilities and Net Assets:		
Current liabilities	\$ 2,327,792	\$ 2,880,700
Net assets	3,046,985	2,817,057
Total liabilities and net assets	<u>\$ 5,374,777</u>	<u>\$ 5,697,757</u>
Total revenues, gains and other support	<u>\$ 26,883,414</u>	<u>\$ 23,752,133</u>
Revenues less than expenses	<u>\$ (1,772,110)</u>	<u>\$ (1,319,428)</u>

ADG Hospital Drive Associates

The Medical Center holds an approximate 24 percent ownership in ADG Hospital Drive Associates ("ADG"), a limited partnership, at June 30, 2019 and 2018. 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 statements of operations. The Medical Center's proportionate share of income was \$73,805 in 2019 and \$218,818 in 2018. Distributions received from ADG were \$32,017 in 2019 and 2018. No additional capital contributions were made to ADG in 2019 and 2018. The Medical Center paid rent of \$1,007,962 in 2019 and \$1,054,990 in 2018 for office space leased from ADG. This lease expires in February 2052. The Corporation paid rent of \$1,224,543 in 2019 and \$1,094,912 in 2018 for office space leased from ADG. This lease expires in September 2029.

Summary financial information for ADG is as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets	\$ 93,865	\$ 763,249
Property and equipment, net	6,745,722	7,183,651
Deferred financing costs	-	18,226
Total assets	<u>\$ 6,839,587</u>	<u>\$ 7,965,126</u>
Liabilities and Partners' Equity:		
Current liabilities	\$ 3,080	\$ 1,300,906
Partners' equity	6,836,507	6,664,220
Total liabilities and partners' equity	<u>\$ 6,839,587</u>	<u>\$ 7,965,126</u>
Gross rental income	<u>\$ 797,000</u>	<u>\$ 1,467,000</u>
Net income	<u>\$ 304,287</u>	<u>\$ 902,151</u>

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Bellefonte Medical Investors

The Physician Group holds an approximate 39 percent ownership in Bellefonte Medical Investors ("BMI"), a partnership, at June 30, 2019 and 2018. Approximately 61 percent 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 statements of operations. Such proportionate income was \$56,997 in 2019 and \$48,562 in 2018. Distributions received from BMI were \$40,578 in 2019 and \$39,390 in 2018. No additional capital was contributed by the Physician Group in 2019 and 2018. The Corporation paid rent of \$416,072 in 2019 and \$416,977 in 2018 for office space leased from BMI. This lease expires in December 2020.

Summary financial information for BMI is as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets	\$ 12,328	\$ 1,319
Property and equipment, net	805,216	892,877
Other assets	2,940	3,786
Total assets	<u>\$ 820,484</u>	<u>\$ 897,982</u>
Liabilities	\$ 327,213	\$ 416,222
Partners' equity	493,271	481,760
Total liabilities and partners' equity	<u>\$ 820,484</u>	<u>\$ 897,982</u>
Gross rental income	<u>\$ 420,405</u>	<u>\$ 403,270</u>
Net income	<u>\$ 131,838</u>	<u>\$ 140,779</u>

9. Revenue Bonds

The Medical Center's revenue bonds at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
	(Restated)	(Restated)
Centre County Hospital Authority Revenue Bonds:		
Series 2018A	\$ 46,575,000	\$ 48,730,000
Series 2018B	18,445,000	18,470,000
Series 2016A	72,135,000	72,585,000
Series 2016B	19,155,000	19,345,000
Series 2012A	17,025,000	17,025,000
Series 2012B	47,075,000	47,075,000
Series 2011	3,700,000	4,535,000
Total	224,110,000	227,765,000
Net unamortized bond premium	13,085,315	13,860,515
Debt issuance costs	(2,411,650)	(2,567,151)
Less current maturities	<u>(3,840,000)</u>	<u>(3,655,000)</u>
Long-term debt, net	<u>\$ 230,943,665</u>	<u>\$ 235,403,364</u>

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Scheduled principal repayments on revenue bonds as of June 30, 2019 are as follows:

Years ending June 30:	
2020	\$ 3,840,000
2021	4,045,000
2022	4,220,000
2023	4,470,000
2024	4,690,000
Thereafter	<u>202,845,000</u>
Total	<u>\$ 224,110,000</u>

Centre County Hospital Authority Revenue Bonds, Series 2018A and 2018B

In March 2018, the Centre County Hospital Authority (the "Authority") issued \$67,200,000 of Hospital Revenue Bonds (the "2018 Bonds") on behalf of the Medical Center. The proceeds of the 2018A Federally Taxable Bonds were issued for the purpose of providing funds to refund a portion of the Authority's outstanding Hospital Revenue Bonds, Series 2012 and to pay the costs of issuance of the Series 2018A Bonds. The Series 2018B Tax Exempt 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 2018B Bonds. The 2018A and 2018B Bonds are due in varying annual installments through November 2047 with interest rates ranging from 3.0 percent to 5.0 percent.

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

In April 2016, 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 3.0 percent to 5.0 percent.

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 percent to 5.0 percent. A portion of the 2012 Bonds were partially refinanced and a portion was also defeased during 2018 with proceeds from the 2018 Bonds.

The 2012 Bonds were partially refinanced during 2018 with proceeds from the 2018 Bonds. In conjunction with this, a loss on refinancing was recognized in the accompanying consolidated statements of operations, which is comprised of the following:

Write-off debt issuance costs	\$ 180,720
Write-off unamortized premium	(726,991)
Additional funds required to fund escrow	<u>1,278,980</u>
Loss on refinancing	<u>\$ 732,709</u>

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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 4.5 percent to 5.0 percent. The 2011 Bonds were partially refinanced during 2016 with proceeds from the 2016 Bonds.

Payments of principal and interest on the 2018 Bonds, 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 2018 Bonds, 2016 Bonds, 2012 Bonds, and 2011 Bonds also require the Obligated Group to meet certain financial ratios.

10. Obligations Under Capital Leases

The Corporation's obligations under the terms of capital lease arrangements at June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Capital lease obligation, interest at 4.3%; collateralized by equipment; monthly payments of \$4,554 with final payment due August 2019	\$ 9,059	\$ 62,073
Capital lease obligation, interest at 5.7%; collateralized by equipment; monthly payments of \$3,910 with final payment due March 2020	34,371	77,977
Capital lease obligation, interest at 6.94%; collateralized by equipment; monthly payments of \$2,837 with final payment due March 2020	22,118	53,438
Capital lease obligation, interest at 6.69%; collateralized by equipment; monthly payments of \$167 with final payment due October 2020	2,297	4,078
Capital lease obligation, interest at 3.5%; collateralized by equipment; monthly payments of \$183 with the final payment due March 2019	-	1,194
Capital lease obligation, interest at 1.4%; collateralized by equipment; monthly payments of \$4,796 with the final payment due August 2022	<u>178,266</u>	<u>232,973</u>
Total	246,111	431,733
Less current maturities	<u>122,599</u>	<u>183,417</u>
Long-term	<u>\$ 123,512</u>	<u>\$ 248,316</u>

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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:		
2020	\$	126,560
2021		58,058
2022		57,557
2023		9,593
		<u>251,768</u>
Total minimum lease payments		251,768
Less amounts representing interest		<u>5,657</u>
Present value of net minimum lease payments	\$	<u><u>246,111</u></u>

11. 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 263,493,418	\$ 245,800,379
Service cost	10,653,312	10,380,746
Interest cost	11,049,163	10,310,539
Actuarial loss	19,973,841	3,656,440
Benefits paid	<u>(7,474,579)</u>	<u>(6,654,686)</u>
Projected benefit obligation, end of year	<u>297,695,155</u>	<u>263,493,418</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	198,910,551	184,644,523
Actual return on plan assets (net of expense)	9,460,087	8,920,714
Employer contributions	12,000,000	12,000,000
Benefits paid	<u>(7,474,579)</u>	<u>(6,654,686)</u>
Fair value of plan assets, end of year	<u>212,896,059</u>	<u>198,910,551</u>
Funded status at end of year	<u>\$ (84,799,096)</u>	<u>\$ (64,582,867)</u>
Accumulated benefit obligation	<u>\$ 268,623,216</u>	<u>\$ 235,741,159</u>
Reconciliation of amounts recognized in the consolidated statements of financial position, Accrued pension costs	<u>\$ 84,799,096</u>	<u>\$ 64,582,867</u>

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The following table sets forth the components of net periodic pension cost in 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Operating,		
Service cost	\$ 10,653,312	\$ 10,380,746
Nonoperating:		
Interest cost	11,049,163	10,310,539
Expected return on plan assets	(14,451,317)	(13,271,649)
Amortization of actuarial loss	<u>4,480,427</u>	<u>4,568,143</u>
Net periodic pension cost	<u>\$ 11,731,585</u>	<u>\$ 11,987,779</u>

A net loss of \$113,669,725 and \$93,185,081 represents the unrecognized component of net periodic pension cost included in net assets without donor restrictions at June 30, 2019 and 2018, respectively. Estimated amortization of net loss of \$5,620,026 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.75 %	4.25 %
Rate of compensation increase	1.75	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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	4.25 %	4.25 %
Rate of compensation increase	2.00	2.00
Expected long-term return on plan assets	7.00	7.00

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.

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

	<u>Target</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	0 - 10 %	0 %	0 %
Equity/return seeking assets (combination of equities and alternatives)	55 - 75	67	67
Fixed income	20 - 40	30	30
Alternatives	0 - 8	3	3

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Plan assets are comprised of alternative investments in the amount of \$212,896,059 at June 30, 2019 and \$198,910,551 at June 30, 2018. 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.

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

Name of Fund	2019	2018	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Russell Total Return Fund (Quarterly) Ltd.	\$ 5,886,776	\$ 5,942,027	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	142,530,999	132,328,441	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	64,478,284	60,640,083	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>\$ 212,896,059</u>	<u>\$ 198,910,551</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 \$12,500,000 to its pension plan in the 2020 fiscal year.

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

Years ending June 30:	
2020	\$ 7,958,365
2021	8,424,372
2022	8,994,210
2023	9,665,920
2024	10,446,116
2025-2029	63,755,649

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 \$3,343,000 in 2019 and \$3,028,000 in 2018.

12. 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.

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 percent. This cost basis investment is included in other assets in the accompanying consolidated statements of financial position (Note 8).

The Corporation's estimated future payments of its unasserted medical malpractice liability claims was \$5,657,001 at June 30, 2019 and \$5,587,625 at June 30, 2018. The insurance recoveries receivable on these claims is \$2,921,748 at June 30, 2019 and \$3,032,491 at June 30, 2018, which are included in other assets, in the accompanying consolidated statements of financial position (Note 8). These liabilities are determined at an undiscounted rate.

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.

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13. 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.

14. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Use for operations	\$ 2,805,414	\$ 2,966,318
Purchases of property and equipment	<u>4,042,380</u>	<u>2,641,855</u>
Total	<u>6,847,794</u>	<u>5,608,173</u>
Endowment funds, income expendable to support:		
Use for operations	2,295,280	1,597,269
Purchases of property and equipment	<u>463,162</u>	<u>434,880</u>
Total	<u>2,758,442</u>	<u>2,032,149</u>
Total net assets with donor restrictions	<u>\$ 9,606,236</u>	<u>\$ 7,640,322</u>

15. 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, 2016.
- 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.

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- Blue Cross and Blue Shield: Inpatient and outpatient services rendered to Blue Cross and Blue Shield subscribers are reimbursed at prospectively determined rates.

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.

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenues in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

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

The composition of net patient service revenues by primary payor for the years ended June 30 is as follows:

	2019	2018
Commercial and other	\$ 177,995,421	\$ 144,484,247
Medicare	81,370,971	72,856,820
Blue Cross	102,502,281	129,485,179
Self-pay	1,361,731	14,366,253
Medicare HMO	79,092,202	66,543,695
Medical Assistance	13,672,828	15,221,232
Total	<u>\$ 455,995,434</u>	<u>\$ 442,957,426</u>

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

The composition of net patient service revenues by service type for the years ended June 30, 2019 is as follows:

Inpatient	\$ 192,925,907
Outpatient	205,436,858
Physician services	57,553,221
Other	79,448
	<hr/>
Total	\$ 455,995,434

16. 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 \$6,940,886 in 2019 and \$6,296,592 in 2018 (see Note 8 for related party portions).

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year:

Years ending June 30:	
2020	\$ 5,901,806
2021	5,582,764
2022	5,077,055
2023	4,782,571
2024	4,652,290
Thereafter	52,255,281
	<hr/>
Total	\$ 78,251,767

17. Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position date, consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 31,903,468	\$ 27,308,447
Short-term investments	11,558,966	8,122,146
Accounts receivable, net	44,543,287	33,936,599
	<hr/>	<hr/>
Total	\$ 88,005,721	\$ 69,367,192

The Corporation has assets whose use is limited for debt service and under trust indenture, workers' compensation self-insurance. These assets are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation's Board of Directors designated certain assets for future debt service payments which could be made available is necessary.

A portion of the Corporation's long-term investments includes contributions and endowment funds that have donor-restricted purposes. The remaining amount of long-term investments could be made available, if necessary.

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As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Corporation invests excess cash in short-term investments.

18. Functional Expenses

The System provides general health care and related services to individuals within its geographic region. Expenses related to providing these services in 2019 are as follows:

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 158,392,544	\$ 27,603,030	\$ 279,960	\$ 186,275,534
Supplies and other	107,112,749	28,944,793	300,638	136,358,180
Employee benefits	37,291,772	18,592,881	113,977	55,998,630
Depreciation and amortization	1,793,345	23,558,560	-	25,351,905
Interest	8,818,324	-	-	8,818,324
Insurance	1,334,633	2,174,076	-	3,508,709
Total	<u>\$ 314,743,367</u>	<u>\$ 100,873,340</u>	<u>\$ 694,575</u>	<u>\$ 416,311,282</u>

Expenses related to providing these services in 2018 are as follows:

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 153,515,402	\$ 24,885,985	\$ 315,662	\$ 178,717,049
Supplies and other	105,978,293	23,323,475	294,103	129,595,871
Employee benefits	33,921,492	19,908,603	114,020	53,944,115
Depreciation and amortization	2,308,464	21,534,575	-	23,843,039
Interest (restated)	7,770,631	-	-	7,770,631
Insurance	1,224,772	1,755,204	-	2,979,976
Total	<u>\$ 304,719,054</u>	<u>\$ 91,407,842</u>	<u>\$ 723,785</u>	<u>\$ 396,850,681</u>

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

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June 30, 2019 and 2018

19. 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.

At June 30, 2019 and 2018, concentrations of receivables from third-party payors and others are as follows:

	<u>2019</u>	<u>2018</u>
Commercial and other	39 %	38 %
Medicare	16	14
Blue Cross	14	14
Self-pay	14	14
Medicare Advantage	13	16
Medical Assistance	<u>4</u>	<u>4</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 \$250,000.

Approximately 47 percent of the Corporation's employees are covered by a collective bargaining agreement, which expires on June 30, 2019.

20. 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 statements 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 d/b/a Mount Nittany Health

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

21. Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through September 18, 2019, the date the consolidated financial statements were issued, except as to Note 3, which is as of November 7, 2019.

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Financial Position
 June 30, 2019

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Assets							
Current Assets							
Cash and cash equivalents	\$ -	\$ 30,305,078	\$ 1,119,568	\$ 423,871	\$ 54,951	\$ -	\$ 31,903,468
Short-term investments	-	204,891	-	11,354,075	-	-	11,558,966
Accounts receivable:							
Patients	-	34,269,291	6,314,942	-	22,995	-	40,607,228
Other	-	2,299,398	1,192,657	419,187	24,817	-	3,936,059
Inventories of drugs and supplies	-	9,116,651	295,556	-	-	-	9,412,207
Prepaid expenses and other current assets	-	5,042,240	1,580,132	-	-	-	6,622,372
Total current assets	-	81,237,549	10,502,855	12,197,133	102,763	-	104,040,300
Assets Whose Use is Limited							
Under trust indenture, held by trustee	-	27,801,397	-	-	-	-	27,801,397
Board designated, debt service	-	1,364,174	-	-	-	-	1,364,174
Workers' compensation self-insurance, held by trustee	-	1,507,985	-	-	-	-	1,507,985
Total assets whose use is limited	-	30,673,556	-	-	-	-	30,673,556
Long-Term Investments	-	413,746,737	-	4,642,846	-	-	418,389,583
Pledges Receivable	-	-	-	938,082	-	-	938,082
Property and Equipment, Net	-	217,110,376	16,207,471	1,024	30,419	-	233,349,290
Beneficial Interest in Perpetual Trusts	-	79,656	-	-	-	-	79,656
Goodwill	-	-	1,867,820	-	-	-	1,867,820
Other Assets, Net	-	11,506,687	2,115,929	-	-	-	13,622,616
Due from Affiliates	-	388	-	-	63,120	(63,508)	-
Interest in Net Assets of Foundation for Mount Nittany Medical Center	-	17,568,235	-	-	129,487	(17,697,722)	-
Total assets	\$ -	\$ 771,923,184	\$ 30,694,075	\$ 17,779,085	\$ 325,789	\$ (17,761,230)	\$ 802,960,903

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Financial Position

June 30, 2019

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt:							
Revenue bonds	\$ -	\$ 3,840,000	\$ -	\$ -	\$ -	\$ -	\$ 3,840,000
Obligations under capital leases	-	122,599	-	-	-	-	122,599
Accounts payable	-	10,178,466	908,486	1,281	-	-	11,088,233
Blue Cross current financing advance	-	-	-	-	-	-	-
Estimated third-party payor settlements	-	1,736,204	-	-	-	-	1,736,204
Accrued expenses:							
Employee paid time off	-	12,652,440	3,551,888	21,914	14,160	-	16,240,402
Payroll and withholdings	-	6,178,328	1,418,519	16,182	807	-	7,613,836
Interest	-	1,642,998	-	-	-	-	1,642,998
Employee health benefit costs	-	1,792,222	527,490	-	-	-	2,319,712
Other	-	6,073,118	1,962,859	-	5,033	-	8,041,010
Deferred compensation, current	-	282,084	-	-	-	-	282,084
Current portion of charitable gift annuity liability	-	-	-	12,295	-	-	12,295
Refundable advance from Mount Nittany Medical Center	-	-	-	161,789	-	(161,789)	-
Total current liabilities	-	44,498,459	8,369,242	213,461	20,000	(161,789)	52,939,373
Long-Term Debt							
Revenue bonds	-	230,943,665	-	-	-	-	230,943,665
Obligations under capital leases	-	123,512	-	-	-	-	123,512
Deferred Revenue							
	-	324,025	-	-	-	-	324,025
Charitable Gift Annuity Liability							
	-	-	-	29,693	-	-	29,693
Accrued Pension Costs							
	-	84,799,096	-	-	-	-	84,799,096
Accrued Medical Malpractice and Workers' Compensation Costs							
	-	3,938,619	1,980,546	-	-	-	5,919,165
Deferred Compensation							
	-	15,548	-	-	-	-	15,548
Due to (from) Affiliates							
	-	-	63,508	-	-	(63,508)	-
Total liabilities	-	364,642,924	10,413,296	243,154	20,000	(225,297)	375,094,077
Net Assets							
Net assets without donor restrictions	-	397,803,511	20,280,779	8,216,050	176,302	(8,216,052)	418,260,590
Net assets with donor restrictions	-	9,476,749	-	9,319,881	129,487	(9,319,881)	9,606,236
Total net assets	-	407,280,260	20,280,779	17,535,931	305,789	(17,535,933)	427,866,826
Total liabilities and net assets	\$ -	\$ 771,923,184	\$ 30,694,075	\$ 17,779,085	\$ 325,789	\$ (17,761,230)	\$ 802,960,903

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2019

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Unrestricted Revenues, Gains and Other Support							
Net patient service revenues	\$ -	\$ 398,362,765	\$ 57,553,221	\$ -	\$ 79,448	\$ -	\$ 455,995,434
Other operating revenues	-	11,977,400	8,244,562	-	73,500	(10,511,367)	9,784,095
Net assets released from restrictions used in operations	-	110,441	3,636	234,077	120,000	(234,077)	234,077
Loss on sale of equipment	-	(148,788)	(4,711)	-	-	-	(153,499)
Total unrestricted revenues, gains and other support	-	410,301,818	65,796,708	234,077	272,948	(10,745,444)	465,860,107
Expenses							
Salaries and wages	-	135,711,327	50,132,969	279,960	151,317	-	186,275,573
Supplies and other	483,924	122,698,840	23,206,617	337,930	123,903	(10,493,033)	136,358,181
Employee benefits	-	44,502,838	11,326,527	113,977	55,288	-	55,998,630
Depreciation and amortization	-	22,278,266	3,013,472	410	59,757	-	25,351,905
Interest, net of capitalized interest of approximately \$484,000	-	8,818,324	-	-	-	-	8,818,324
Insurance	-	2,355,528	1,153,181	-	-	-	3,508,709
Total expenses	483,924	336,365,123	88,832,766	732,277	390,265	(10,493,033)	416,311,322
Operating income (loss)	(483,924)	73,936,695	(23,036,058)	(498,200)	(117,317)	(252,411)	49,548,785
Other Income (Loss)							
Investment income	-	22,332,923	-	910,323	-	-	23,243,246
Contributions	-	282,000	-	553,059	-	-	835,059
Equity (loss) income of investees	-	(812,250)	56,997	-	-	-	(755,253)
Net periodic pension cost, nonoperating	-	(1,078,273)	-	-	-	-	(1,078,273)
Change in interest in The Foundation for Mount Nittany Medical Center, Inc.	-	2,405,659	(36,752)	-	(120,000)	(2,248,907)	-
Loss on refinancing	-	-	-	-	-	-	-
Other income (loss), net	-	23,130,059	20,245	1,463,382	(120,000)	(2,248,907)	22,244,779
Revenues in excess of (less than) expenses	(483,924)	97,066,754	(23,015,813)	965,182	(237,317)	(2,501,318)	71,793,564
Pension Liability Adjustment	-	(20,484,644)	-	-	-	-	(20,484,644)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	-	147,917	33,116	181,033	-	(181,033)	181,033
Transfer of Net Assets Without Donor Restrictions	483,924	(27,030,341)	24,762,317	1,517,802	266,298	-	-
Change in net assets without donor restrictions	\$ -	\$ 49,699,686	\$ 1,779,620	\$ 2,664,017	\$ 28,981	\$ (2,682,351)	\$ 51,489,953

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Cash Flows
 Year Ended June 30, 2019

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Cash Flows from Operating Activities							
Change in net assets	\$ -	\$ 51,775,335	\$ 1,779,620	\$ 4,624,526	\$ (80,754)	\$ (4,642,860)	\$ 53,455,867
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	-	22,278,266	3,013,472	410	59,757	-	25,351,905
Net amortization of premium on long-term debt	-	(775,200)	-	-	-	-	(775,200)
Net amortization of debt issuance costs	-	155,501	-	-	-	-	155,501
Equity in loss (income) of investees	-	812,250	(56,997)	-	-	-	755,253
Restricted contributions, investment income, and valuation loss/gain	-	(2,336,024)	(36,753)	(2,375,619)	(10,265)	2,375,619	(2,383,042)
Unrestricted net realized and unrealized gains on investments	-	(22,923,497)	-	(983,496)	-	-	(23,906,993)
Pension liability adjustment	-	20,484,644	-	-	-	-	20,484,644
Gain on sale of equipment	-	148,788	4,711	-	-	-	153,499
Transfers from (to) affiliates	(483,924)	27,030,341	(24,762,317)	(1,517,802)	(266,298)	-	-
Changes in assets and liabilities:							
Accounts receivable	-	(6,774,159)	(3,406,595)	(419,187)	(6,747)	-	(10,606,688)
Inventories of drugs and supplies	-	(617,679)	(69,784)	-	-	-	(687,463)
Prepaid expenses and other current assets	-	(609,897)	(249,621)	-	-	-	(859,518)
Accounts payable, accrued expenses, and other liabilities	-	4,926,017	(486,351)	(24,697)	(7,791)	4,120	4,411,298
Net cash provided by (used in) operating activities	(483,924)	93,574,686	(24,270,615)	(695,865)	(312,098)	(2,263,121)	65,549,063
Cash Flows from Investing Activities							
Increase in investments and assets whose use is limited	-	(31,311,813)	-	(3,395,787)	-	-	(34,707,600)
Purchases of property and equipment	-	(20,566,457)	(2,366,909)	-	-	-	(22,933,366)
(Increase) decrease in other assets	-	(2,478,560)	236,025	-	-	-	(2,242,535)
Proceeds from sale of equipment	-	213,088	100	-	-	-	213,188
Change in interest of net assets Foundation for Mount Nittany Medical Center	-	(4,748,475)	-	-	109,735	4,638,740	-
Net cash (used in) provided by investing activities	-	(58,892,217)	(2,130,784)	(3,395,787)	109,735	4,638,740	(59,670,313)

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows
Year Ended June 30, 2019

	Mount Nittany Health System	Mount Nittany Medical Center	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Financing Activities							
Proceeds from restricted contributions and investment income	\$ -	\$ 2,330,620	\$ 36,753	\$ 2,556,870	\$ 10,265	\$ (2,375,619)	\$ 2,558,889
Repayment of long-term debt	-	(3,840,622)	-	-	-	-	(3,840,622)
Changes in charitable gift annuity liability	-	-	-	(1,996)	-	-	(1,996)
Transfers (from) to affiliates	483,924	(27,030,341)	24,762,317	1,517,802	266,298	-	-
Change in due to/due from affiliates	-	73	48,495	-	(48,568)	-	-
Net cash provided by (used in) financing activities	483,924	(28,540,270)	24,847,565	4,072,676	227,995	(2,375,619)	(1,283,729)
Net increase (decrease) in cash and cash equivalents	-	6,142,199	(1,553,834)	(18,976)	25,632	-	4,595,021
Cash and Cash Equivalents, Beginning	-	24,162,879	2,673,402	442,847	29,319	-	27,308,447
Cash and Cash Equivalents, Ending	\$ -	\$ 30,305,078	\$ 1,119,568	\$ 423,871	\$ 54,951	\$ -	\$ 31,903,468

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Financial Position
 June 30, 2018

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Assets							
Current Assets							
Cash and cash equivalents	\$ -	\$ 24,162,879	\$ 2,673,402	\$ 442,847	\$ 29,319	\$ -	\$ 27,308,447
Short-term investments	-	204,781	-	7,917,365	-	-	8,122,146
Accounts receivable:							
Patients (net of estimated allowance for doubtful accounts of approximately \$18,465,000)	-	27,543,264	3,927,819	-	28,565	-	31,499,648
Other	-	2,251,266	173,185	-	12,500	-	2,436,951
Inventories of drugs and supplies	-	8,498,972	225,772	-	-	-	8,724,744
Prepaid expenses and other current assets	-	4,432,343	1,330,511	-	-	-	5,762,854
Total current assets	-	67,093,505	8,330,689	8,360,212	70,384	-	83,854,790
Assets Whose Use is Limited							
Under trust indenture, held by trustee	-	34,024,463	-	-	-	-	34,024,463
Board designated, debt service	-	1,778,102	-	-	-	-	1,778,102
Workers' compensation self-insurance, held by trustee	-	1,427,799	-	-	-	-	1,427,799
Total assets whose use is limited	-	37,230,364	-	-	-	-	37,230,364
Long-Term Investments	-	352,954,729	-	3,700,273	-	-	356,655,002
Pledges Receivable	-	-	-	1,119,333	-	-	1,119,333
Property and Equipment, Net	-	219,184,061	16,789,633	1,434	90,176	-	236,065,304
Beneficial Interest in Perpetual Trusts	-	74,252	-	-	-	-	74,252
Goodwill	-	-	1,867,820	-	-	-	1,867,820
Other Assets, Net	-	9,840,377	2,364,169	-	-	-	12,204,546
Due from Affiliates	-	461	-	-	14,552	(15,013)	-
Interest in Net Assets of Foundation for Mount Nittany Medical Center	-	12,819,760	-	-	239,222	(13,058,982)	-
Total assets	\$ -	\$ 699,197,509	\$ 29,352,311	\$ 13,181,252	\$ 414,334	\$ (13,073,995)	\$ 729,071,411

Mount Nittany Health System and Affiliates

 Consolidating Schedule, Statement of Financial Position
 June 30, 2018

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt:							
Revenue bonds	\$ -	\$ 3,655,000	\$ -	\$ -	\$ -	\$ -	\$ 3,655,000
Obligations under capital leases	-	183,417	-	-	-	-	183,417
Accounts payable	-	8,683,405	767,675	786	-	-	9,451,866
Blue Cross current financing advance	-	399,400	-	-	-	-	399,400
Estimated third-party payor settlements	-	941,130	93,983	-	-	-	1,035,113
Accrued expenses:							
Employee paid time off	-	11,955,016	3,330,708	28,099	14,414	-	15,328,237
Payroll and withholdings	-	5,681,154	1,146,207	16,754	1,017	-	6,845,132
Interest	-	1,663,319	-	-	-	-	1,663,319
Employee health benefit costs	-	2,438,870	559,342	-	-	-	2,998,212
Other	-	3,835,417	2,144,855	14,315	12,360	-	6,006,947
Deferred compensation, current	-	15,245	-	-	-	-	15,245
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	-	39,451,373	8,042,770	238,158	27,791	(165,909)	47,594,183
Long-Term Debt							
Revenue bonds	-	235,403,364	-	-	-	-	235,403,364
Obligations under capital leases	-	248,316	-	-	-	-	248,316
Deferred Revenue							
	-	889,726	-	-	-	-	889,726
Charitable Gift Annuity Liability							
	-	-	-	31,689	-	-	31,689
Accrued Pension Costs							
	-	64,582,867	-	-	-	-	64,582,867
Accrued Medical Malpractice and Workers' Compensation Costs							
	-	3,085,260	2,793,369	-	-	-	5,878,629
Deferred Compensation							
	-	31,678	-	-	-	-	31,678
Due to Affiliates							
	-	-	15,013	-	-	(15,013)	-
Total liabilities	-	343,692,584	10,851,152	269,847	27,791	(180,922)	354,660,452
Net Assets							
Net assets without donor restrictions	-	348,103,825	18,501,159	5,552,033	147,321	(5,533,701)	366,770,637
Net assets with donor restrictions	-	7,401,100	-	7,359,372	239,222	(7,359,372)	7,640,322
Total net assets	-	355,504,925	18,501,159	12,911,405	386,543	(12,893,073)	374,410,959
Total liabilities and net assets	\$ -	\$ 699,197,509	\$ 29,352,311	\$ 13,181,252	\$ 414,334	\$ (13,073,995)	\$ 729,071,411

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2018

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Unrestricted Revenues, Gains, and Other Support							
Patient service revenues	\$ -	\$ 404,320,308	\$ 53,822,979	\$ -	\$ 64,159	\$ -	\$ 458,207,446
Provision for bad debts	-	(14,542,394)	(707,626)	-	-	-	(15,250,020)
Net patient service revenues	-	389,777,914	53,115,353	-	64,159	-	442,957,426
Other operating revenues	-	9,253,083	8,789,164	-	50,000	(9,714,394)	8,377,853
Net assets released from restrictions used in operations	-	150,122	179,825	396,614	86,667	(396,614)	416,614
Gain (loss) on sale of equipment	-	209,703	(336)	-	-	-	209,367
Total unrestricted revenues, gains, and other support	-	399,390,822	62,084,006	396,614	200,826	(10,111,008)	451,961,260
Expenses							
Salaries and wages	-	130,555,569	47,664,940	315,662	180,878	-	178,717,049
Supplies and other	461,268	117,874,277	20,499,397	335,917	139,227	(9,714,215)	129,595,871
Employee benefits	-	43,434,664	10,335,725	114,019	59,707	-	53,944,115
Depreciation and amortization	-	20,770,562	3,008,307	410	63,760	-	23,843,039
Interest, net of capitalized interest of \$480,000	-	7,770,631	-	-	-	-	7,770,631
Insurance	-	1,879,305	1,100,671	-	-	-	2,979,976
Total expenses	461,268	322,285,008	82,609,040	766,008	443,572	(9,714,215)	396,850,681
Operating income (loss)	(461,268)	77,105,814	(20,525,034)	(369,394)	(242,746)	(396,793)	55,110,579
Other Income (Loss)							
Investment income	-	12,587,585	-	230,792	-	-	12,818,377
Contributions	-	1,810,000	-	198,610	-	-	2,008,610
Equity (loss) income of investees	-	(440,896)	48,562	-	-	-	(392,334)
Net periodic pension cost, nonoperating	-	(1,607,033)	-	-	-	-	(1,607,033)
Change in interest in The Foundation for Mount Nittany Medical Center, Inc.	-	69,065	(179,825)	-	(86,667)	197,427	-
Loss on refinancing	-	(732,709)	-	-	-	-	(732,709)
Other (loss) income, net	-	11,686,012	(131,263)	429,402	(86,667)	197,427	12,094,911
Revenues in excess of (less than) expenses	(461,268)	88,791,826	(20,656,297)	60,008	(329,413)	(199,366)	67,205,490
Pension Liability Adjustment	-	(3,439,232)	-	-	-	-	(3,439,232)
Net Assets Released from Restrictions Used for the Purchase Property and Equipment	-	103,796	-	103,796	-	(103,796)	103,796
Transfer of Net Assets Without Donor Restrictions	461,268	(18,038,827)	17,195,770	157,510	224,279	-	-
Change in net assets without donor restrictions	\$ -	\$ 67,417,563	\$ (3,460,527)	\$ 321,314	\$ (105,134)	\$ (303,162)	\$ 63,870,054

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows

Year Ended June 30, 2018

	Mount Nittany Health System	Mount Nittany Medical Center (Restated)	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated (Restated)
Cash Flows from Operating Activities							
Change in net assets	\$ -	\$ 70,078,833	\$ (3,460,527)	\$ 2,940,080	\$ (168,646)	\$ (2,921,928)	\$ 66,467,812
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	-	20,770,562	3,008,307	410	63,760	-	23,843,039
Net amortization of premium on long-term debt	-	(634,310)	-	-	-	-	(634,310)
Net amortization of debt issuance costs	-	129,916	-	-	-	-	129,916
Provision for bad debts	-	14,542,394	707,626	-	-	-	15,250,020
Equity in loss (income) of investees	-	440,896	(48,562)	-	-	-	392,334
Loss on refinancing, including write-off of deferred financing costs of \$180,720 and unamortized premium of \$729,091	-	732,709	-	-	-	-	732,709
Restricted contributions, investment income, and valuation loss/gain	-	(2,915,188)	(179,825)	(3,119,175)	(23,155)	3,119,175	(3,118,168)
Unrestricted net realized and unrealized gains on investments	-	(13,153,760)	-	(288,261)	-	-	(13,442,021)
Pension liability adjustment	-	3,439,232	-	-	-	-	3,439,232
Gain on sale of equipment	-	(209,703)	336	-	-	-	(209,367)
Transfers from (to) affiliates	(461,268)	18,038,827	(17,195,770)	(157,510)	(224,279)	-	-
Changes in assets and liabilities:							
Accounts receivable	-	(19,037,606)	929,601	-	8,325	-	(18,099,680)
Inventories of drugs and supplies	-	121,475	(38,910)	-	-	-	82,565
Prepaid expenses and other current assets	-	(425,306)	(112,881)	-	-	-	(538,187)
Accounts payable, accrued expenses, and other liabilities	-	(905,986)	(497,257)	6,444	194	-	(1,396,605)
Net cash provided by (used in) operating activities	(461,268)	91,012,985	(16,887,862)	(618,012)	(343,801)	197,247	72,899,289
Cash Flows from Investing Activities							
Purchases of property and equipment	-	(28,045,492)	(602,565)	-	-	-	(28,648,057)
Increase in investments and assets whose use is limited	-	(69,189,463)	-	(2,278,626)	-	-	(71,468,089)
Transfers of property and equipment	-	(766,415)	766,415	-	-	-	-
(Increase) decrease in other assets	-	(407,936)	27,302	-	-	-	(380,634)
Proceeds from sale of equipment	-	349,137	-	-	-	-	349,137
Change in interest of net assets Foundation for Mount Nittany Medical Center	-	(2,985,440)	-	-	63,512	2,921,928	-
Net cash (used in) provided by investing activities	-	(101,045,609)	191,152	(2,278,626)	63,512	2,921,928	(100,147,643)

Mount Nittany Health System and Affiliates

Consolidating Schedule, Statement of Cash Flows

Year Ended June 30, 2018

	Mount Nittany Health System	Mount Nittany Medical Center	Mount Nittany Physician Group	Mount Nittany Health Foundation	Children's Advocacy Center	Consolidation	
						Eliminations	Consolidated
Cash Flows from Financing Activities							
Proceeds from long-term debt, including premium of \$3,343,401	\$ -	\$ 34,123,401	\$ -	\$ -	\$ -	\$ -	\$ 34,123,401
Payment to fund escrow account	-	(1,278,980)	-	-	-	-	(1,278,980)
Repayment of long-term debt	-	(3,404,713)	-	-	-	-	(3,404,713)
Payment of debt issuance costs	-	(832,232)	-	-	-	-	(832,232)
Proceeds from restricted contributions and investment income	-	2,916,197	179,825	2,687,616	23,155	(3,119,175)	2,687,618
Changes in charitable gift annuity liability	-	-	-	(17,879)	-	-	(17,879)
Transfer (from) to affiliates	461,268	(18,038,827)	17,195,770	157,510	224,279	-	-
Change in due to/due from affiliates	-	-	(26,414)	-	26,414	-	-
Net cash provided by (used in) financing activities	461,268	13,484,846	17,349,181	2,827,247	273,848	(3,119,175)	31,277,215
Net (decrease) increase in cash and cash equivalents	-	3,452,222	652,471	(69,391)	(6,441)	-	4,028,861
Cash and Cash Equivalents, Beginning	-	20,710,657	2,020,931	512,238	35,760	-	23,279,586
Cash and Cash Equivalents, Ending	\$ -	\$ 24,162,879	\$ 2,673,402	\$ 442,847	\$ 29,319	\$ -	\$ 27,308,447