

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Saint Peter's Healthcare System, Inc.
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Saint Peter’s Healthcare System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2017 and 2016

Contents

| | |
|--|----|
| Report of Independent Auditors..... | 1 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations and Changes in Net Assets | 4 |
| Consolidated Statements of Cash Flows..... | 6 |
| Notes to Consolidated Financial Statements..... | 7 |
| Supplementary Information | |
| Saint Peter’s Healthcare System, Inc. Consolidating Balance Sheet..... | 44 |
| Saint Peter’s Healthcare System, Inc. Consolidating Statement of Operations and Changes in Net Assets | 46 |



Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors

The Board of Governors
Saint Peter's Healthcare System, Inc.

We have audited the accompanying consolidated financial statements of Saint Peter's Healthcare System, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Risk Assurance Company of Saint Peter's University Hospital (RAC), a wholly-owned subsidiary, which statements reflect total assets of \$24,259,000 and \$27,334,000 as of December 31, 2017 and 2016, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for RAC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Peter's Healthcare System, Inc. at December 31, 2017 and 2016, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets as of and for the year ended December 31, 2017, are presented for purposes of additional analysis and are 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

May 11, 2018

Saint Peter's Healthcare System, Inc.

Consolidated Balance Sheets
(In Thousands)

| | December 31 | |
|--|-------------|------------|
| | 2017 | 2016 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,824 | \$ 20,737 |
| Patient accounts receivable, less allowance for doubtful accounts of \$23,887 and \$22,734 in 2017 and 2016, respectively | 54,759 | 61,281 |
| Assets whose use is limited, current portion | 101,949 | 99,301 |
| Supplies | 6,060 | 4,701 |
| Estimated third-party payor settlements, current portion | 1,150 | 1,608 |
| Other current assets | 14,024 | 17,316 |
| Total current assets | 193,766 | 204,944 |
| Assets whose use is limited, less current portion | 37,485 | 40,599 |
| Property, plant, equipment, and construction, net | 200,151 | 193,236 |
| Estimated third-party payor settlements, less current portion | 44 | 640 |
| Investments in joint ventures and other assets | 5,708 | 7,205 |
| | \$ 437,154 | \$ 446,624 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Current portion of long-term debt and lines of credit | \$ 18,292 | \$ 10,186 |
| Accounts payable | 30,295 | 27,724 |
| Accrued expenses and other liabilities | 37,347 | 36,208 |
| Accrued interest | 4,183 | 4,314 |
| Estimated third-party payor settlements, current portion | 2,778 | 4,268 |
| Total current liabilities | 92,895 | 82,700 |
| Long-term debt, less current portion | 148,382 | 154,475 |
| Estimated third-party payor settlements, less current portion | 2,251 | 1,734 |
| Accrued pension liability | 135,449 | 134,637 |
| Other liabilities | 22,845 | 23,439 |
| Total liabilities | 401,822 | 396,985 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | 27,760 | 39,777 |
| Temporarily restricted | 7,222 | 9,512 |
| Permanently restricted | 350 | 350 |
| Total net assets | 35,332 | 49,639 |
| | \$ 437,154 | \$ 446,624 |

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

| | Year Ended December 31 | |
|---|-------------------------------|-------------|
| | 2017 | 2016 |
| Revenue, gains, and other support: | | |
| Net patient service revenue | \$ 460,101 | \$ 466,727 |
| Provision for bad debts | (15,327) | (16,385) |
| Net patient service revenue less provision for bad debts | 444,774 | 450,342 |
| Other operating revenue | 30,627 | 30,244 |
| Net assets released from restriction | 3,165 | 2,499 |
| Total revenue, gains, and other support | 478,566 | 483,085 |
| Expenses: | | |
| Salaries and wages | 233,883 | 221,729 |
| Resident and physician fees | 16,451 | 16,222 |
| Employee benefits | 53,791 | 61,121 |
| Supplies and other | 148,652 | 144,929 |
| Interest | 9,627 | 9,782 |
| Depreciation and amortization | 22,438 | 24,219 |
| Total expenses | 484,842 | 478,002 |
| (Loss) income from operations | (6,276) | 5,083 |
| Severance costs | (5,377) | - |
| Abandonment of equipment | (6,981) | - |
| Information technology settlement | 7,300 | - |
| Equity in net earnings of joint ventures | 1,061 | 913 |
| Pharmacy school pledge | - | 881 |
| (Deficiency) excess of revenue over expenses | (10,273) | 6,877 |
| Net change in unrealized gains and losses on investments | 3,263 | 2,467 |
| Change in pension liability to be recognized in future periods | (10,602) | (2,132) |
| Donated equipment and other | 6,201 | 1,776 |
| (Decrease) increase in unrestricted net assets before discontinued operations | (11,411) | 8,988 |
| (Loss) gain discontinued skilled nursing facility | (606) | 11,393 |
| (Decrease) increase in unrestricted net assets | (12,017) | 20,381 |

Continued on next page.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2017 | 2016 |
| (Decrease) increase in unrestricted net assets | \$ (12,017) | \$ 20,381 |
| Temporarily restricted: | | |
| Restricted gifts and contributions | 875 | 4,453 |
| Net assets released from restriction | (3,165) | (2,499) |
| (Decrease) increase in temporarily restricted net assets | (2,290) | 1,954 |
| (Decrease) increase in net assets | (14,307) | 22,335 |
| Net assets at beginning of year | 49,639 | 27,304 |
| Net assets at end of year | \$ 35,332 | \$ 49,639 |

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2017 | 2016 |
| Operating activities | | |
| (Decrease) increase in net assets | \$ (14,307) | \$ 22,335 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,438 | 24,219 |
| Net change in unrealized gains and losses on investments | (3,263) | (2,467) |
| Equity in net earnings of joint ventures | (1,061) | (913) |
| Donated equipment | (6,201) | (1,776) |
| Gain on disposal of discontinued skilled nursing facility | (1,200) | (11,710) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable, net | 6,522 | (3,853) |
| Supplies and other assets | 3,410 | (3,178) |
| Accounts payable, accrued expenses, and other liabilities | 2,985 | 4,337 |
| Estimated third-party payor settlements, net | 81 | 1,112 |
| Accrued pension liability | 812 | (5,309) |
| Net cash provided by operating activities | 10,216 | 22,797 |
| Investing activities | | |
| Cash received from joint ventures | 1,081 | 937 |
| Net sales (purchases) of assets whose use is limited | 3,729 | (641) |
| Purchases of property, plant, equipment, and construction, net | (22,867) | (21,135) |
| Proceeds from disposal of discontinued skilled nursing facility, excluding amount held in escrow | 1,200 | 10,800 |
| Net cash used in investing activities | (16,857) | (10,039) |
| Financing activities | | |
| Draws on line of credit | 9,225 | - |
| Repayments of line of credit | (1,550) | - |
| Proceeds from issuance of long-term debt | 4,778 | 1,281 |
| Payments on long-term debt and capital lease obligations | (10,725) | (8,617) |
| Net cash provided by (used in) financing activities | 1,728 | (7,336) |
| Net (decrease) increase in cash and cash equivalents | (4,913) | 5,422 |
| Cash and cash equivalents, beginning of year | 20,737 | 15,315 |
| Cash and cash equivalents, end of year | \$ 15,824 | \$ 20,737 |
| Supplemental disclosure of non-cash investing and financing activities and cash flow information | | |
| Assets deposited in escrow related to disposal | \$ - | \$ 1,200 |
| Assets acquired under capitalized lease obligations | \$ 58 | \$ - |
| Cash paid for interest, net of amounts capitalized | \$ 9,758 | \$ 9,909 |

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

Saint Peter's Healthcare System, Inc. (the System) is a nonprofit corporation. The Diocese of Metuchen of the State of New Jersey (the Diocese) is the sponsor of the System and, as provided in the System's bylaws, certain powers are reserved to the Bishop of the Diocese. The System's consolidated financial statements include the following entities: Saint Peter's University Hospital (the Hospital), an acute care 478 licensed bed teaching hospital located in New Brunswick, New Jersey; Saint Peter's Health & Management Services Corporation (Management Services); Saint Peter's Foundation (the Foundation); Margaret McLaughlin McCarrick Care Center (the Care Center); Saint Peter's Properties Corporation (Properties); Risk Assurance Company of Saint Peter's University Hospital (RAC); Saint Peter's Solar Energy Solutions, Inc. (Solar Energy Solutions); Sports Physical Therapy Institute of New Brunswick, Inc. (Sports Physical Therapy); Saint Peter's Faculty Foundation PC (SPFF); Gianna Physician Practice of New York, P.C. (Gianna NY PC); Saint Peter's Healthcare System Physician Associates, P.C. (Physician Associates PC); The National Gianna Center for Women's Health and Fertility, Inc. (National Gianna); Saint Peter's Advanced Care, P.C. (Advanced Care); Saint Peter's Specialty Physicians, P.C. (Specialty Physicians); and Park Avenue Collections Corporation (Park Avenue) (Park Avenue had no operations during 2017 or 2016). SPFF and Sports Physical Therapy were dissolved in 2016.

All intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

On February 1, 2016, the System sold certain assets and the operations of the Care Center to an unrelated entity for approximately \$12,000. Activities pertaining to the Care Center are reported within discontinued operations.

Other unconsolidated entities, for which the System records its interest or investment, include CARES Surgicenter, LLC (CARES); New Brunswick Cardiac Cath Lab, LLC (Cardiac Cath); New Brunswick CK Leasing, LLC (Cyber Knife joint venture); New Brunswick Affiliated Hospitals (NBAH), and Sovereign Oncology of New Brunswick, LLC (a radiation oncology joint venture). On April 6, 2016, the System signed an agreement for approximately \$1,000 to obtain a 10% ownership and voting interest in Holy Redeemer Healthcare System's New Jersey (Holy

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Redeemer) homecare operation. The System accounts for its investments in CARES, Cardiac Cath, and the radiation oncology joint ventures on the equity method of accounting (see Note 5), because the System does not control the operations of the investees. The System accounts for its investments in Cyber Knife, Holy Redeemer and NBAH on the cost basis of accounting. The investment in NBAH is fully reserved.

Significant Accounting Policy

A summary of the significant accounting policies follows:

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as estimated uncollectibles for accounts receivable for services to patients, estimated settlements with third-party payors, medical malpractice insurance liabilities and pension benefit liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents: The System considers all highly liquid investments with a maturity of three months or less at date of purchase, other than amounts held in the assets whose use is limited investment portfolio, to be cash equivalents. The carrying amount of cash and cash equivalents reported on the consolidated balance sheets approximates fair value. The System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Receivables for Patient Care: Patient accounts receivable for which the System receives payment under cost reimbursement, prospective payment formulae, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the System.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

The amount of the allowance for doubtful accounts is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

Assets Whose Use is Limited: Assets whose use is limited represent assets whose use is restricted for specific purposes through internal designation, by donors or under terms of bond indenture agreements or trust agreements, as well as investments held by RAC (see Note 4). Assets whose use is limited investments consist of marketable securities and alternative investments. Marketable securities are recorded at fair value as determined by reference to quoted market prices. Alternative investments consist of interests in funds of funds investments structured as limited partnerships and commingled funds. Alternative investment interests are reported based upon net asset values derived from the application of the equity method of accounting. Board designated assets are available for current use subject to approval by the System's Board.

All assets whose use is limited investments are classified as other than trading securities. Unrealized gains and losses on assets whose use is limited, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the (deficiency) excess of revenue over expenses on the accompanying consolidated statements of operations and changes in net assets. Investment income and realized gains and losses on unrestricted net assets are recorded as other operating revenue. Investment income derived from temporarily restricted investments is also recorded as other operating revenue unless the income or gain or loss is restricted by donor or law.

Supplies: Supplies are carried at the lower of cost or net realizable value determined using the first-in, first-out method, or market method. Supplies are used in the provision of patient care and are not held for sale.

Deferred Financing Costs: Deferred financing costs were incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided on the effective interest method extending over the remaining term of the applicable indebtedness.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Plant, Equipment, and Construction: Property, plant, equipment, and construction that were purchased by the System are carried at cost. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Donated assets are recorded at fair market value at the date of donation. Annual provisions for depreciation and amortization of property, plant, and equipment are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the related lease for equipment held under capital lease obligations.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of: The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Classification of Net Assets: The System separately accounts for and reports donor-restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Resources arising from the results of operations or assets set aside by the System's Board are not considered to be donor restricted. Temporarily restricted net assets are those whose use is temporarily limited by the donor.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanently restricted contributions and net assets, as enacted by the State of New Jersey in 2009. The System annually expends the income distributed from the related assets according to donor stipulations.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments due to ongoing and future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations (see Note 3).

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

(Deficiency) Excess of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include (deficiency) excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the (deficiency) excess of revenue over expenses include the net change in unrealized gains and losses on investments, unless the unrealized losses are deemed to be other than temporary, donated equipment and other, the change in pension liability to be recognized in future periods, and the (loss) gain from discontinued operations. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within (loss) income from operations.

Discontinued Operations: During November 2015, the Board of Governors, with no disapproval from the Vatican, approved the sale of the Care Center to an unrelated entity. The sale was approved by the New Jersey Attorney General in December 2015 and finalized on February 1, 2016. Proceeds from the sale were received in 2016 for approximately \$12,000 less approximately \$1,200 held temporarily as an escrow reserve. The escrow was released in July 2017. This transaction met the criteria to be reported as a discontinued operation initially in 2016. A gain on sale of approximately \$11,700 is reported in discontinued operations in 2016. A loss on sale of approximately \$564 is reported within discontinued operations in 2017. The System reported the loss from the operations of the discontinued skilled nursing facility of \$42 and \$317 for the years ended December 31, 2017 and 2016, respectively, on the accompanying consolidated statements of operations and changes in net assets, consisting of operating expenses in 2017 and 2016, net of operating revenue of \$649 in 2016.

Income Taxes: The System parent entity, the Hospital, the Care Center, Management Services, the Foundation, and National Gianna are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Properties is a not-for-profit corporation as described in Section 501(c)(2) of the Code and is also exempt from federal income taxes pursuant to Section 501(a) of the Code. These entities are also exempt from state and local taxes. RAC is not subject to taxes on income or gains under the Cayman Islands tax concessions law.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Solar Energy Solutions, Gianna NY PC, Physician Associates PC, Advanced Care, Specialty Physicians, and Park Avenue are for-profit entities and, as such, are subject to federal, state, and local income taxes. Gianna NY PC and Physician Associates PC are in the process of filing for tax exemption. The provision for income taxes is not material to the System's consolidated results of operations and is included in supplies and other expenses on the consolidated statements of operations and changes in net assets. Solar Energy Solutions, Advance Care, and Specialty Physicians had federal and state net operating loss carryforwards of approximately \$29,000 and \$22,000 at December 31, 2017 and 2016, respectively, which begin to expire in 2023 for federal purposes and 2018 for state purposes.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions, as well as taxable entities. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the System cannot be determined presently.

Related-Party Transactions: The entities comprising the System provide various inter-entity services to their affiliated entities and the System parent company. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the System eliminate in consolidation.

At December 31, 2014, the System had an unsecured loan with a related party which totaled approximately \$446. This loan was replaced with a substitute note effective January 1, 2015, which allowed for a loan discharge over a three-year. The loan was fully discharged in 2017.

The System entered into an agreement to become a major academic and clinical affiliate of Rutgers University through its Rutgers Biomedical and Health Sciences division. The agreement became effective July 1, 2014. In connection with the affiliation, the System pledged \$1,000 to the pharmacy school and recorded the pledge in 2015. In 2016, the academic and clinical affiliation was modified, effective June 30, 2018. Additionally, the unpaid balance of the pledge was rescinded in 2016.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 became effective for the System for annual reporting periods beginning after December 15, 2017. The System adopted ASU 2014-09 effective for its consolidated financial statements as of and for the quarter ended March 31, 2018. The System adopted ASU 2014-09 following the modified retrospective method. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain previously reported through December 31, 2017 as net patient service revenue and the provision for bad debts in the System's consolidated statements of operations no longer meets the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession. Additionally, the provision for bad debts for the quarter ended March 31, 2018 is now presented as an expense item rather than a reduction to net patient service revenue. Other aspects of the System's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The adoption of ASU 2014-09 in relation to other revenue activity, as applicable; however, other revenue is less significant to the System's consolidated statements of operations and changes in net assets.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, the System will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. The System has not completed the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for the System for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the System for annual periods beginning after December 15, 2017. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, 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 shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the System for annual periods beginning after December 15, 2018, and interim periods within

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

annual periods beginning after December 15, 2019. The System intends to early adopt ASU 2017-07 effective for its consolidated financial statements as of and for the quarter ended March 31, 2018. Adoption of ASU 2017-07 will require the System to present the components of net periodic benefit cost related to its defined benefit plan other than service cost, if any, (aggregate of approximately \$4,157 for 2017) as a separate line item excluded from the subtotal for operating (loss) income on the consolidated statements of operations. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of operations.

Reclassifications: Certain reclassifications have been made to the 2016 amounts previously reported in order to conform to the current year presentation. These reclassifications had no impact on the previously reported net assets.

2. Charity Care and Community Benefits

The System provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

In accordance with its mission and philosophy, the System commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community.

Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies, or staff time volunteered on behalf of the community.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Charity Care and Community Benefits (continued)

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics, and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students, and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the estimated cost of community benefits provided to both the indigent and the broader community follows:

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2017 | 2016 |
| Community benefits provided to the indigent: | | |
| Charity care provided | \$ 19,987 | \$ 16,443 |
| Unpaid cost of public programs, Medicaid, and other indigent care programs | 7,896 | 10,085 |
| Community benefits provided to the broader community: | | |
| Non-billed services for the community | 4,606 | 5,560 |
| Education and research provided for the community | 5,513 | 6,075 |
| Estimated cost of community benefits | \$ 38,002 | \$ 38,163 |

The costs of charity care and other community benefit activities are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

The estimated cost of community benefit was 8.3% and 8.4% of total Hospital operating expenses in 2017 and 2016, respectively.

The System receives payments from the New Jersey Health Care Subsidy Funds for charity care, and such amounts totaled approximately \$3,477 and \$5,618 for the years ended December 31, 2017 and 2016, respectively.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue

Accounts Receivable and Net Patient Service Revenue

The System recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of discounted rates under the System's self-pay patient policy. Under the policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient. The impact of this policy on the consolidated financial statements is lower net patient service revenue, as the discount is considered a revenue allowance, and a lower provision for bad debt.

Patient service revenue for the years ended December 31, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------|-------------------|-------------------|
| Third-party payors | \$ 451,193 | \$ 459,793 |
| Self-pay | 8,908 | 6,934 |
| Total payors | <u>\$ 460,101</u> | <u>\$ 466,727</u> |

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patients' responsibility and the System considers these amounts in its determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is reported in the allowance for doubtful accounts.

The System's allowance for doubtful accounts totaled \$23,887 and \$22,734 at December 31, 2017 and 2016, respectively. The allowance for doubtful accounts for self-pay patients was approximately 93% and 96% of self-pay accounts receivable as of December 31, 2017 and 2016, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly for the years ended December 31, 2017 and 2016. The System has not experienced significant changes in write-off trends and has not changed its charity care policy in the years ended December 31, 2017 or 2016.

Third-Party Payment Programs

The System has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the System have been audited and settled for years through 2014 at December 31, 2017.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The System is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the System for years through 2015 have been audited and settled.

Other Third-Party Payors: The System also has entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

The System has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations and changes in net assets.

Revenue from Medicare, Medicaid and their corresponding managed care programs accounted for approximately 33% and 32% of the System's net patient service revenue for the years ended December 31, 2017 and 2016, respectively. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the accompanying consolidated financial statements. Non-compliance with such laws and regulations could result in fines, penalties, and exclusion from such programs.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

State and Other Funding

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide. Effective January 1, 2014, the State of New Jersey replaced the Hospital Relief Subsidy Fund with the Delivery System Reform Incentive Payment Pool (the Pool). The Pool is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria, with adjustments to the Pool allocations processed prospectively. The following state and other funding amounts have been included in the System's net patient service revenue:

| | Year Ended December 31 | |
|---|-------------------------------|------------------|
| | 2017 | 2016 |
| State: | | |
| Delivery System Reform Incentive Payments | \$ 5,229 | \$ 4,707 |
| Charity Care (Note 2) | 3,477 | 5,618 |
| Graduate Medical Education | 5,761 | 4,883 |
| Federal: | | |
| Graduate Medical Education | 3,525 | 3,341 |
| | \$ 17,992 | \$ 18,549 |

The System expects to receive approximately \$1,261 in Charity Care subsidies for distributions scheduled through June 30, 2018. Charity Care subsidies subsequent to June 30, 2018 are presently unknown.

In addition to direct Graduate Medical Education funding received from the federal and state Medicare and Medicaid programs, the System also receives a portion of its rate for indirect medical education costs.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Assets Whose Use is Limited

Assets whose use is limited, primarily at fair value, are maintained for the following purposes (see Note 12 for the composition by asset type):

| | December 31 | |
|---|--------------------|-------------|
| | 2017 | 2016 |
| Assets held as designated by Board of Trustees of the Care Center | \$ — | \$ 1,200 |
| Assets held as designated by Board of Trustees of the Hospital | 89,724 | 86,333 |
| Assets held as designated by donors | 5,458 | 5,055 |
| Assets held under bond indenture | 22,163 | 22,070 |
| Assets held by RAC (Note 10) | 22,089 | 25,242 |
| Total assets whose use is limited | 139,434 | 139,900 |
| Less current portion | 101,949 | 99,301 |
| Non-current portion | \$ 37,485 | \$ 40,599 |

The System's holdings of alternative investments and commingled funds within assets whose use is limited totaled approximately \$9,324 and \$6,997 at December 31, 2017 and 2016, respectively. These investments are measured based on the equity method of accounting as described in Note 1.

Assets held by a trustee under bond indenture agreements are maintained for the following purposes:

| | December 31 | |
|-----------------------------|--------------------|-------------|
| | 2017 | 2016 |
| Debt service interest fund | \$ 4,243 | \$ 4,318 |
| Debt service principal fund | 2,524 | 2,395 |
| Debt service reserve fund | 15,396 | 15,357 |
| | \$ 22,163 | \$ 22,070 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Assets Whose Use is Limited (continued)

Investment income, included in other operating revenue, consists of the following:

| | Year Ended December 31 | |
|---|-------------------------------|-------------|
| | 2017 | 2016 |
| Interest and dividend income | \$ 3,001 | \$ 2,250 |
| Realized gains and losses | 433 | (1,537) |
| Total investment income reported in other operating revenue <i>(Note 15)</i> | \$ 3,434 | \$ 713 |

The System's gross unrealized losses and fair value of individual securities, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2017 and 2016, are as follows:

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|---------------------|----------------------|---------------------|----------------------|------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2017 | | | | | | |
| U.S. government obligations (16 securities) | \$ 6,603 | \$ (57) | \$ 7,331 | \$ (50) | \$ 13,934 | \$ (107) |
| Corporate bonds/fixed income (44 securities) | 11,689 | (69) | 3,819 | (25) | 15,508 | (94) |
| Mortgage and asset-backed securities (92 securities) | 29,730 | (247) | 25,276 | (365) | 55,006 | (612) |
| Mutual funds – equities (1 securities) | 396 | (6) | – | – | 396 | (6) |
| Total | \$ 48,418 | \$ (379) | \$ 36,426 | \$ (440) | \$ 84,844 | \$ (819) |
| December 31, 2016 | | | | | | |
| U.S. government obligations (34 securities) | \$ 10,259 | \$ (90) | \$ 3,836 | \$ (5) | \$ 14,095 | \$ (95) |
| Corporate bonds/fixed income (80 securities) | 6,549 | (36) | 7,792 | (25) | 14,341 | (61) |
| Mortgage and asset-backed securities (124 securities) | 19,924 | (181) | 8,968 | (77) | 28,892 | (258) |
| Mutual funds – equities (16 securities) | 2,094 | (122) | 2,498 | (141) | 4,592 | (263) |
| Total | \$ 38,826 | \$ (429) | \$ 23,094 | \$ (248) | \$ 61,920 | \$ (677) |

At December 31, 2017 and 2016, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Other Assets

Included within investment in joint ventures and other assets on the accompanying consolidated balance sheets are the System's joint venture investments, including CARES and Cardiac Cath which are equity method investments (aggregate balance of approximately \$1,700 and \$1,800 at December 31, 2017 and 2016, respectively). CARES leases and operates an ambulatory surgery center located in a building owned by the Hospital. Cardiac Cath leases a portion of the CARES building to operate a low-risk outpatient cardiac catheterization laboratory. In 2017 and 2016, the System collected distributions from these joint ventures of approximately \$1,081 and \$800, respectively, and recorded gains of \$1,061 and \$900, respectively. In January 2014, the System sold 25% of its equity interest in CARES for a fair market value of \$677. The amount is payable over five years at an interest rate of 3.576% per annum plus London Interbank Offered Rate with a balance of \$145 at December 31, 2017.

The following is a condensed summary of financial information of CARES and Cardiac Cath:

| | CARES | | Cardiac Cath | |
|-------------------|--------------------|-------------|---------------------|-------------|
| | December 31 | | December 31 | |
| | 2017 | 2016 | 2017 | 2016 |
| Total assets | \$ 3,339 | \$ 3,478 | \$ 2,287 | \$ 2,417 |
| Total liabilities | 727 | 963 | 721 | 843 |
| Total equity | 2,612 | 2,515 | 1,566 | 1,574 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Property, Plant, Equipment, and Construction

Property, plant, equipment, and construction consist of the following:

| | December 31 | |
|---|--------------------|-------------|
| | 2017 | 2016 |
| Land | \$ 8,663 | \$ 9,076 |
| Buildings, building service equipment, and improvements | 315,853 | 307,278 |
| Fixed equipment | 9,115 | 9,114 |
| Major movable equipment | 238,897 | 235,058 |
| | 572,528 | 560,526 |
| Less accumulated depreciation and amortization | 382,723 | 390,283 |
| | 189,805 | 170,243 |
| Construction-in-progress | 10,346 | 22,993 |
| | \$ 200,151 | \$ 193,236 |

The System capitalized \$146 of interest costs, net of earnings, for the year ended December 31, 2016 (none in 2017).

Depreciation expense was \$22,211 and \$23,986 in 2017 and 2016, respectively. Useful lives of depreciable assets range from 3 to 40 years.

During 2017, the System finalized the implementation of an integrated electronic medical record and patient billing system. A significant portion of the software costs associated with this implementation were provided by the vendor at no charge in order to replace a previous medical record system from the same vendor that will no longer be supported. As a result, the System recognized a gain of \$7,300 for the upgraded software provided at no charge and an impairment loss of \$6,981 for the abandonment of the net book value of the previously installed system.

During 2017, the System received grants related to certain energy upgrade projects. Approximately \$4,190 and \$1,500 related to the energy resilient project (see Note 7) and a lighting efficiency project, respectively, were recognized within donated equipment and other in the accompanying statements of operations and changes in net assets.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit

Long-term debt and line of credit consist of the following:

| | December 31 | |
|--|--------------------|-------------|
| | 2017 | 2016 |
| New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2011 Revenue and Refunding Bonds, which bear interest at rates between 5.00% and 6.25% due in varying maturities through July 1, 2035 (a) | \$ 82,845 | \$ 86,710 |
| NJHCFFA Series 2007 Revenue Bonds, which bear interest at rates between 5.25% and 5.75% due in varying maturities through July 1, 2037 (a) | 61,235 | 62,155 |
| Other loans (b) | 13,372 | 12,886 |
| Line of credit advances (c) | 7,675 | – |
| Mortgages payable with interest between 3.25% and 5.25% payable in monthly installments of principal and interest through December 1, 2031 | 2,530 | 3,214 |
| Capital lease obligations, with interest rates ranging from 1.95% to 6.00% and payments through 2021 | 1,425 | 2,331 |
| | 169,082 | 167,296 |
| Less unamortized original issue discount | 609 | 650 |
| Less unamortized deferred financing costs | 1,799 | 1,985 |
| Less current portion | 18,292 | 10,186 |
| | \$ 148,382 | \$ 154,475 |

(a) In August 2011, the Hospital and the Care Center, collectively the Saint Peter's University Hospital Obligated Group (the Obligated Group), closed on the Series 2011 Revenue and Refunding Bonds (the Series 2011 Bonds) in the amount of \$100,640 issued by the NJHCFFA on behalf of the Obligated Group. The proceeds of the Series 2011 Bonds were used for (i) the current refunding of all of the outstanding Series F Revenue Bonds, Series 2000A Revenue Bonds, and Series 2000B Bonds; (ii) the payment or reimbursement of the costs of certain capital expenditures relating to the renovation of portions of the Hospital's facilities and the acquisition and installation of various equipment to be used by the Hospital at its facilities (approximately \$5,500); (iii) the funding of the Debt Service Reserve Fund relating to the Series 2011 Bonds; and (iv) the payment of the costs of issuance of the Series 2011 Bonds.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

In December 2007, the Obligated Group closed on the Series 2007 Revenue Bonds (the Series 2007 Bonds) with the NJHCFFA in the amount of \$65,175, the proceeds of which were used to (i) refund a portion of the outstanding principal amount of the St. Peter's Medical Center Issue, Series F; (ii) pay or reimburse the costs of the construction and renovation of certain portions of the Hospital's facilities and the acquisition of various capital equipment; (iii) pay capitalized interest on a portion of the Series 2007 Bonds; (iv) fund the Debt Service Reserve Fund related to the Series 2007 Bonds; and (v) pay or reimburse the costs of issuance of the Series 2007 Bonds.

The Series 2011 and Series 2007 Bonds were issued in the name of the Obligated Group. Each of the Series 2011 and Series 2007 Bonds is collateralized by a pledge of the revenue of the Obligated Group and the assets held under bond indenture pursuant to the Master Trust Indenture (the Indenture). Under the terms of the Indenture, the Obligated Group is required to maintain a Debt Service Reserve Fund in an amount equal to one year's principal and interest for the Series 2011 and Series 2007. At December 31, 2017 and 2016, the Obligated Group was in compliance with this requirement.

Under the terms of the Indenture and other agreements with the NJHCFFA, the Obligated Group is required to maintain certain financial ratios and be in compliance with other restrictive covenants as described in the respective agreements. At December 31, 2017 and 2016, the Obligated Group was in compliance with such financial covenants.

Subsequent to February 1, 2016, the Obligated Group consists of the Hospital only and the mortgage on the Care Center was released. Residual assets held by the Care Center which existed at that date were transferred to the Hospital in 2017 upon final disposition and, accordingly, are included in the Obligated Group.

- (b) At December 31, 2017 and 2016, the System has a loan to a utility company totaling \$3,991 and \$4,324, respectively, related to amounts borrowed for the installation of solar panels by Solar Energy Solutions. The loan is being repaid by tax credits that are purchased by the utility company. The tax credits are created when solar energy is produced.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

The System is in the process of completing an \$8,500 energy resilient project through the New Jersey Economic Development Authority (EDA). Using grant funding received from the U.S. Department of Housing and Urban Development, the EDA has set aside \$4,400 towards the cost of this project which will be provided to the System in form of a grant combined with a loan from the EDA of \$3,100 paid over 20 years at a 2% interest rate. The loan was approved by the EDA in 2017. The project will also be funded by a \$1,000 loan payable over 10 years to a utility company. The System had drawn down approximately \$897 and \$563 of the \$1,000 loan as of December 31, 2017 and 2016, respectively.

During 2015, the System entered into an agreement for an equipment loan from a financial institution for approximately \$4,900 maturing in December 2020 with an interest rate of approximately 4.01% for the installation of information technology for an electronic health record and a new patient accounting system. The balance outstanding on this loan was approximately \$2,623 and \$3,433 at December 31, 2017 and 2016, respectively.

The System has other loans with financial institutions maturing in 2019 with interest rates ranging from approximately 3.50% to 4.50% to finance the construction of the interventional radiology and catheterization suites and the replacement of the System's power plant totaling \$5,861 and \$4,565 at December 31, 2017 and 2016, respectively.

- (c) The System obtained a \$10,000 line of credit with a bank in April 2015 which replaced a previous \$5,000 line of credit. At December 31, 2017, \$7,675 was outstanding on the line (none at December 31, 2016). The line is due on demand and expires in September 2019. Interest on the line is a variable rate based on LIBOR plus 3%.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt and Line of Credit (continued)

Scheduled principal payments on long-term debt and capital lease obligations, net of interest, for the next five years and thereafter are as follows:

| | Series 2011 and 2007 Bonds | Other Loans | Line of Credit | Capital Lease Obligations | Total |
|------------|----------------------------------|------------------|-------------------|---------------------------------|-------------------|
| 2018 | \$ 5,030 | \$ 5,243 | \$ 7,675 | \$ 344 | \$ 18,292 |
| 2019 | 5,280 | 3,452 | – | 360 | 9,092 |
| 2020 | 5,550 | 1,749 | – | 376 | 7,675 |
| 2021 | 5,830 | 890 | – | 345 | 7,065 |
| 2022 | 6,245 | 646 | – | – | 6,891 |
| Thereafter | 116,145 | 3,922 | – | – | 120,067 |
| | <u>\$ 144,080</u> | <u>\$ 15,902</u> | <u>\$ 7,675</u> | <u>\$ 1,425</u> | <u>\$ 169,082</u> |

8. Retirement Plans

The System sponsors a non-contributory defined benefit retirement plan (the Plan) covering all eligible employees of affiliated organizations of the System. Plan benefits are based on years of service and employee compensation as defined in the plan document of affiliated organizations of the System.

The Plan was amended such that effective July 1, 2010, any employee hired after June 30, 2010, is not eligible to participate in the Plan. Additionally, active participation in the Plan is frozen for any employee who terminated employment before July 1, 2010, and is rehired after such date, and active participation in the Plan is frozen for any employee who terminated employment on or after July 1, 2010, unless he/she is rehired before the first anniversary of their termination. The System maintains a defined contribution plan for employees hired as of and subsequent to July 1, 2010. All existing eligible employees as of June 30, 2010 will remain as participants in the defined benefit plan and participate in the defined contribution plan. In February 2012, the System announced to participants of the Plan a plan freeze effective December 31, 2012.

The defined contribution plan established in 2011 provides for annual contributions for eligible employees of between 1% and 3% of pay based on the employee's years of service. Eligible employees begin to accrue benefits six months from their date of hire. The System funds the defined contribution expense on a current basis. Such expense was approximately \$8,790 and

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

\$8,908 in 2017 and 2016, respectively. Additionally, a defined contribution plan was established in 2014 for Physician Associates PC eligible employees with contribution expense of approximately \$244 and \$215 in 2017 and 2016, respectively.

The System recognizes on its consolidated balance sheets an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measures the defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the System's fiscal year, and recognizes changes in the funded status of a defined benefit postretirement plan in changes in unrestricted net assets in the year in which the changes occur. Amounts that are recognized as a component of changes in unrestricted net assets will be subsequently recognized as net periodic pension cost in future periods.

The underfunded status of the Plan as recognized on the System's consolidated balance sheets is as follows:

| | December 31 | |
|--|--------------------|--------------|
| | 2017 | 2016 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 304,965 | \$ 296,959 |
| Interest cost | 13,104 | 13,709 |
| Benefits paid | (8,578) | (8,012) |
| Actuarial loss | 29,610 | 2,315 |
| Benefit obligation at end of year | 339,101 | 304,971 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 170,334 | 157,013 |
| Actual return on plan assets | 25,075 | 8,386 |
| Employer contributions | 13,946 | 13,460 |
| Refund of PBGC premiums | 3,130 | - |
| Benefits paid | (8,578) | (8,012) |
| Administrative expenses and other | (255) | (513) |
| Fair value of plan assets at end of year | 203,652 | 170,334 |
| Accrued pension liability | \$ (135,449) | \$ (134,637) |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets are as follows:

| | December 31 | |
|--------------------------------|-------------|------------|
| | 2017 | 2016 |
| Projected benefit obligation | \$ 339,101 | \$ 304,971 |
| Accumulated benefit obligation | 339,101 | 304,971 |
| Fair value of plan assets | 203,652 | 170,334 |

The actuarial loss of \$29,610 in 2017 primarily relates to a reduction in the discount rate assumption. The actuarial loss of \$2,315 in 2016 primarily relates to a reduction in the discount rate assumption (actuarial loss of approximately \$14,500), offset by changes to certain demographic actuarial assumptions used to measure the benefit obligation at December 31, 2016 (actuarial gain of approximately \$12,200).

During 2017, the System received a refund of previously paid Pension Benefit Guaranty Corporation premiums related to the period 1998 to 2011. The premiums refund totaled \$3,130 and was contributed to the Plan.

The unrecognized actuarial loss included in other changes in unrestricted net assets at December 31, 2017 and 2016 is approximately \$128,100 and \$117,490, respectively, of which \$3,229 is expected to be recognized in net periodic pension cost during the year ending December 31, 2018. The change in the pension liability to be recognized in future periods as reported on the accompanying consolidated statements of operations and changes in net assets totaled \$10,609 in 2017 and represents the change in these amounts from December 31, 2016 to 2017.

The following table provides the components of net periodic pension cost:

| | Year Ended December 31 | |
|---|------------------------|-----------|
| | 2017 | 2016 |
| Interest cost | \$ 13,104 | \$ 13,709 |
| Expected return on plan assets | (12,690) | (11,190) |
| Recognized actuarial loss and administrative expenses | 3,743 | 3,492 |
| Net periodic pension cost | \$ 4,157 | \$ 6,011 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The following assumptions were used in determining the benefit obligations and net periodic pension costs:

| | December 31 | |
|--|--------------------|-------------|
| | 2017 | 2016 |
| Weighted average assumptions used to determine benefit obligations at December 31: | | |
| Discount rate | 3.78% | 4.36% |
| Weighted average assumptions used to determine net periodic benefit cost for the year ended December 31: | | |
| Discount rate | 4.36% | 4.69% |
| Expected long-term rate of return on plan assets | 7.25% | 7.25% |

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.25% expected long-term rate of return on assets assumption at December 31, 2017 and 2016, respectively.

The Plan's investment policy is designed to achieve return on assets to match or exceed the actuarial required rate of return. The asset allocation guidelines and permissible ranges by asset category are as follows:

| | Target | Permissible Range |
|---------------------------|---------------|--------------------------|
| Equities | 42% | 33% – 47% |
| Fixed income | 15% | 12% – 17% |
| Global asset allocation | 10% | 8% – 14% |
| Equity alternatives | 16% | 12% – 20% |
| Fixed-income alternatives | 17% | 12% – 22% |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The Plan's asset allocations by asset category are as follows:

| | December 31 | |
|---------------------------|-------------|-------------|
| | 2017 | 2016 |
| Equity Funds | 45% | 40% |
| Fixed Income | 13 | 13 |
| Global allocation | 10 | 12 |
| Equity alternatives | 15 | 13 |
| Fixed-income alternatives | 17 | 22 |
| | 100% | 100% |

Assets invested in the Plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments (non-traditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Plan holds a limited partnership interest or an interest in an investment management company. The Plan's ownership structure does not provide for control over the related investees and the Plan's financial risk is limited to the carrying amount reported for each investee. Fair value for alternative investments is determined by the Plan for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

Refer to Note 12 for the composition at fair value of the defined benefit pension plan assets at December 31, 2017 and 2016.

The System received a favorable ruling from the Internal Revenue Service (IRS) dated August 14, 2013, to operate the Plan as a church plan, which exempts the System from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and its funding requirements. In 2013, the System was sued by participants claiming the Plan did not qualify as a church plan. Management defended the lawsuit and in June 2017, the U.S. Supreme Court in a unanimous decision upheld that the Plan is a church plan. Other issues related to this matter are still in litigation.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Retirement Plans (continued)

The accrued pension liability reported in the accompanying consolidated financial statements of \$135,449 and \$134,637 at December 31, 2017 and 2016, respectively, is actuarially determined in accordance with the accounting requirements for reporting in the financial statements of the plan sponsor, which differs from the determination of the accumulated plan benefits as reported in the Plan's financial statements.

During 2017 and 2016, the System contributed \$13,946 and \$13,460 to the Plan, respectively. The System plans to contribute \$4,000 to the Plan in 2018.

The following benefit payments under the Plan are expected to be paid:

| | | |
|-----------|----|--------|
| 2018 | \$ | 10,785 |
| 2019 | | 11,591 |
| 2020 | | 12,488 |
| 2021 | | 13,277 |
| 2022 | | 14,124 |
| 2023–2027 | | 82,325 |

9. Leases and Other Commitments and Contingencies

Rent expense under operating leases amounted to approximately \$5,171 and \$4,484 in 2017 and 2016, respectively, and is reported within supplies and other expense on the accompanying consolidated statements of operations and changes in net assets.

The future minimum rental payments required under the non-cancelable operating leases are as follows:

| | | |
|------------|----|-------|
| 2018 | \$ | 3,699 |
| 2019 | | 3,314 |
| 2020 | | 2,844 |
| 2021 | | 2,220 |
| 2022 | | 1,472 |
| Thereafter | | 5,738 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Leases and Other Commitments and Contingencies (continued)

Various lawsuits and claims arising in the normal course of operations are pending or are on appeal against the System. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from the System's actions will not have a material adverse effect on the System's consolidated financial position or results of operations.

In relation to workers' compensation exposure, the System maintains a standby letter of credit in the amount of \$775 to secure its self-insured workers' compensation program. There were no draws on the letter of credit in 2017 or 2016.

10. Medical Malpractice and General Liability Claims

As part of a structured and comprehensive risk management program, the System funds its risk of professional and general liability loss through RAC, a wholly-owned captive insurance company domiciled in the Cayman Islands.

RAC began accepting risk on January 1, 2004, and provides professional and general liability insurance protection for all entities within the System, including the Hospital, the Care Center, employed physicians and surgeons, the paramedical staff, and all affiliated corporations and divisions. Professional liability insurance is written as claims-made coverage while general liability is written on an occurrence basis. Prior to 2004, the Hospital purchased first-dollar primary and excess liability coverage in the commercial insurance market.

Currently, RAC issues policies with a maximum retention of \$3,000 for each medical incident or occurrence (\$2,000 through December 31, 2016). RAC further retains, under a first excess or buffer policy, another \$2,000 for each medical incident with a \$2,000 aggregate retention. In addition, RAC issues an excess liability policy which provides separate limits towers of \$45,000 each. The first tower applies to professional liability claims; the second, to claims for all other liabilities. These excess limits are 100% reinsured by companies rated A or A+ by A.M. Best Company. The System has made, and will continue to make, adjustments to the structure, limits, and retentions of the captive program, as circumstances warrant.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Medical Malpractice and General Liability Claims (continued)

Reserves for loss and loss adjustment expense are set based on management's best estimate of liability and damages. At December 31, 2017 and 2016, undiscounted reserve amounts were \$9,431 and \$10,405, respectively, and are included within other liabilities on the accompanying consolidated balance sheets. These reserves are estimates of the ultimate value of loss and loss adjustment expenses for all claims made during respective policy years and are subject to changes in amounts of settlements, verdicts, frequency of claims, or other economic or legal factors. These undiscounted reserves are not offset by estimates of reinsurance claims. While management believes the reserves for losses and loss adjustment expenses are adequate, it also recognizes the variability inherent in the data used in estimating these liabilities and that the ultimate value of losses and loss adjustment expense may vary significantly from the estimated amounts included in the accompanying consolidated financial statements. These estimates are continually reviewed and are adjusted, as necessary. Estimated receivables for reinsurance recoveries recorded by RAC total \$2,155 and \$2,092 at December 31, 2017 and 2016, respectively, and are included within other current assets on the accompanying consolidated balance sheets.

In relation to claims insured through RAC, the Hospital recorded an estimated insurance recovery receivable and medical malpractice claim liability at December 31, 2017 and 2016, equal to RAC's liability estimates. Such amounts are recorded within other assets and other liabilities within the Hospital's balance sheets and eliminate in consolidation.

The System has estimated its liability for losses due to claims from medical incidents that have occurred subsequent to 2004 but have not yet been reported to be approximately \$1,815 and \$1,709 at December 31, 2017 and 2016, respectively, with such estimated liability discounted at a rate of 4% based on expected timing of future payments. These amounts are included within other liabilities on the accompanying consolidated balance sheets.

During 2017 and 2016, the Hospital received premium reduction credits from RAC totaling \$5,000 and \$4,000, respectively, that resulted from favorable loss experience. The premium reduction credits were recorded by the Hospital within other operating revenue on the Hospital's statements of operations and changes in net assets, and eliminate in consolidation.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Concentration of gross accounts receivable from patients and third-party payors are as follows:

| | December 31 | |
|--------------------------|--------------------|-------------|
| | 2017 | 2016 |
| Medicare and Medicaid | 14% | 16% |
| Blue Cross | 22 | 20 |
| Patients | 7 | 5 |
| Commercial | 3 | 4 |
| Managed care | 49 | 48 |
| Other third-party payors | 5 | 7 |
| | 100% | 100% |

12. Fair Value Measurements

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

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

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

The following table presents the financial instruments carried at fair value, excluding assets invested in the System's defined benefit plan, as of December 31, 2017 and 2016, by caption on the consolidated balance sheets based upon the fair value hierarchy defined above:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|-----------|-----------|---------|------------|
| December 31, 2017 | | | | |
| Cash and cash equivalents | \$ 15,824 | \$ — | \$ — | \$ 15,824 |
| Assets whose use is limited: | | | | |
| Cash and cash equivalents | 13,419 | — | — | 13,419 |
| Fixed income: | | | | |
| U.S. Treasury bills | 8,249 | — | — | 8,249 |
| Asset-backed securities | — | 28,762 | — | 28,762 |
| Corporate bonds | — | 12,958 | — | 12,958 |
| Mortgage-backed securities | 15,906 | 12,713 | — | 28,619 |
| Mutual funds: | | | | |
| Fixed Income | 2,667 | — | — | 2,667 |
| Domestic | 8,275 | — | — | 8,275 |
| International | 4,128 | — | — | 4,128 |
| Real estate | 631 | — | — | 631 |
| Commodities | 313 | — | — | 313 |
| Assets held by RAC: | | | | |
| Cash and cash equivalents | 1,819 | — | — | 1,819 |
| Fixed-asset fund | 5,885 | 3,489 | — | 9,374 |
| Domestic equities | 2,187 | 8,709 | — | 10,896 |
| Total assets whose use is limited | 63,479 | 66,631 | — | 130,110 |
| Total assets at fair value | \$ 79,303 | \$ 66,631 | \$ — | \$ 145,934 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|-----------|-----------|---------|------------|
| December 31, 2016 | | | | |
| Cash and cash equivalents | \$ 20,737 | \$ – | \$ – | \$ 20,737 |
| Assets whose use is limited: | | | | |
| Cash and cash equivalents | 11,892 | – | – | 11,892 |
| Fixed income: | | | | |
| U.S. Treasury bills | 9,285 | – | – | 9,285 |
| Asset-backed securities | – | 24,243 | – | 24,243 |
| Corporate bonds | 11,304 | 4,347 | – | 15,651 |
| Mortgage-backed securities | – | 32,528 | – | 32,528 |
| Mutual funds: | | | | |
| Domestic | 17,234 | – | – | 17,234 |
| International | 3,143 | – | – | 3,143 |
| Real estate | 585 | – | – | 585 |
| Commodities | 97 | – | – | 97 |
| Assets held by RAC: | | | | |
| Cash and cash equivalents | 1,239 | – | – | 1,239 |
| Fixed-asset fund | – | 13,356 | – | 13,356 |
| Domestic equities | – | 3,650 | – | 3,650 |
| Total assets whose use is limited | 54,779 | 78,124 | – | 132,903 |
| Total assets at fair value | \$ 75,516 | \$ 78,124 | \$ – | \$ 153,640 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments of the defined benefit plan (see Note 8) as of December 31, 2017 and 2016, by the valuation hierarchy defined above:

| | Level 1 | Level 2 | Level 3 | Total |
|--|-------------------|-------------|-------------|-------------------|
| December 31, 2017 | | | | |
| Cash and cash equivalents | \$ 1,064 | \$ – | \$ – | \$ 1,064 |
| Equity funds: | | | | |
| Domestic | 40,267 | – | – | 40,267 |
| International | 23,652 | – | – | 23,652 |
| Fixed-income mutual fund | 81,814 | – | – | 81,814 |
| Global allocation | <u>\$ 146,797</u> | <u>\$ –</u> | <u>\$ –</u> | <u>146,797</u> |
| Investments measured at net asset value: | | | | |
| Equity alternatives | | | | <u>56,855</u> |
| Total | | | | <u>\$ 203,652</u> |
| December 31, 2016 | | | | |
| Cash and cash equivalents | \$ 1,798 | \$ – | \$ – | \$ 1,798 |
| Equity funds: | | | | |
| Domestic | 37,132 | – | – | 37,132 |
| International | 24,379 | – | – | 24,379 |
| Fixed-income mutual fund | 79,078 | – | – | 79,078 |
| | <u>\$ 142,387</u> | <u>\$ –</u> | <u>\$ –</u> | <u>142,387</u> |
| Investments measured at net asset value: | | | | |
| Equity alternatives | | | | <u>27,947</u> |
| Total | | | | <u>\$ 170,334</u> |

Fair value for Level 1 assets is based upon quoted market prices.

Level 2 assets maintained in the System's portfolio consist of certain fixed-income securities for which the fair value at each year-end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

Equity alternative financial instruments maintained by the Plan represent the Plan's investment in funds of funds and are valued as described in Note 8. Financial information used to evaluate the alternative investments is provided by the investment manager or general partner and includes fair

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Fair Value Measurements (continued)

value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The alternative investments may indirectly expose the Plan to securities lending, short sales of securities, and trading in futures and forwards contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which capital may be divested only at specified times. At December 31, 2017 and 2016, there were no commitments or liquidity restrictions.

The System uses primarily quoted market prices and other valuation considerations in estimating fair value of its bonds payable. The fair value of other long-term debt is based upon discounted cash flow analyses. The fair value of the System's long-term debt, excluding capital lease obligations, at December 31, 2017 and 2016 is approximately \$162,207 and \$172,361, respectively. Fair value of long-term debt is classified as Level 2 of the valuation hierarchy.

13. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes:

| | December 31 | |
|-----------------------|--------------------|-----------------|
| | 2017 | 2016 |
| Health care programs | \$ 1,512 | \$ 993 |
| Children's fund | 987 | 2,351 |
| Health education | 2,005 | 2,193 |
| Chapel refurbishment | 2,757 | 1,567 |
| Purchase of equipment | 311 | 2,758 |
| | <u>\$ 7,572</u> | <u>\$ 9,862</u> |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

14. Functional Expenses

Operating expenses, including costs related to clinical system interruption, by function related to the provision of health care services are as follows:

| | Year Ended December 31 | |
|-------------------------------------|-------------------------------|-------------------|
| | 2017 | 2016 |
| Program expenses | \$ 327,950 | \$ 319,079 |
| General and administrative expenses | 156,892 | 158,923 |
| | \$ 484,842 | \$ 478,002 |

15. Other Operating Revenue

Other operating revenue consists of the following:

| | Year Ended December 31 | |
|---------------------------------|-------------------------------|------------------|
| | 2017 | 2016 |
| Grant revenue | \$ 2,499 | \$ 2,684 |
| Rental income | 2,077 | 2,039 |
| Electronic health records | 790 | 1,287 |
| Investment income (Note 4) | 3,434 | 713 |
| Child Protection Center revenue | 1,842 | 1,634 |
| Retail pharmacy cost sharing | 3,529 | 6,971 |
| Nursing services | 1,711 | 1,702 |
| Food services | 2,179 | 2,161 |
| Physician services | 4,751 | 4,237 |
| Ambulance services | 679 | 265 |
| Solar energy credits | 964 | 1,006 |
| Adult day care | 709 | 721 |
| Outreach laboratory fees | 337 | 387 |
| Research studies | 730 | 236 |
| Other | 4,396 | 4,201 |
| | \$ 30,627 | \$ 30,244 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Other Operating Revenue (continued)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The System uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the System is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling \$340 (Medicaid) and \$438 (Medicare) for year ended December 31, 2017, and \$425 (Medicaid) and \$862 (Medicare) for year ended December 31, 2016, is included in other operating revenue on the accompanying consolidated statements of operations and changes in net assets. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the System's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

16. Subsequent Events

Subsequent events have been evaluated through May 11, 2018 which is the date the accompanying consolidated financial statements were issued. The System terminated its participation in the Sovereign Oncology of New Brunswick, LLC joint venture effective January 31, 2018. No subsequent other events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet
(In Thousands)

December 31, 2017

| | Saint Peter's University Hospital & Subsidiaries | | | | Saint Peter's Health & Management Services | | | | | | | Saint Peter's Healthcare System, Inc. | | | | | | Total Saint Peter's Healthcare System | |
|---|---|-----------|---------------------------------------|--|--|------------|---------------------------|---------------------------|-------------------------|---------------------------------------|--|---------------------------------------|--------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|---------------------------------------|---------------------------------------|
| | (Obligated Group) Saint Peter's University Hospital | RAC | Consolidating and Eliminating Entries | Total Saint Peter's University Hospital & Subs | Care Center | Properties | SP Solar Energy Solutions | SP Health & Mgmt Services | Gianna Phys Practice NY | Consolidating and Eliminating Entries | Total Saint Peter's Health & Management Services | Saint Peter's Healthcare System, Inc. | Saint Peter's Foundation | National Gianna | SPHCS Physician Associates | Saint Peter's Advanced Care | Saint Peter's Specialty Physicians | | Consolidating and Eliminating Entries |
| Assets | | | | | | | | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 13,391 | \$ - | \$ - | \$ 13,391 | \$ 41 | \$ 232 | \$ 33 | \$ - | \$ 26 | \$ - | \$ 332 | \$ 840 | \$ 423 | \$ 578 | \$ 236 | \$ 2 | \$ 22 | \$ - | \$ 15,824 |
| Patient accounts receivable, less allowance for doubtful accounts | 54,759 | - | - | 54,759 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 54,759 |
| Assets whose use is limited, current portion | 96,491 | - | - | 96,491 | - | - | - | - | - | - | - | - | 5,165 | 293 | - | - | - | - | 101,949 |
| Supplies | 6,060 | - | - | 6,060 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 6,060 |
| Estimated third-party payer settlements, current portion | 1,150 | - | - | 1,150 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,150 |
| Due from related parties, current portion | 2,185 | 15 | (15) | 2,185 | - | - | - | - | 369 | - | 369 | 66,366 | - | 5 | 6,250 | 2,257 | 3,162 | (80,594) | - |
| Other current assets | 7,749 | 2,155 | - | 9,904 | - | 5 | 5 | 145 | 38 | - | 193 | 1,147 | 996 | 14 | 807 | 177 | 786 | - | 14,024 |
| Total current assets | 181,785 | 2,170 | (15) | 183,940 | 41 | 237 | 38 | 145 | 433 | - | 894 | 68,353 | 6,584 | 890 | 7,293 | 2,436 | 3,970 | (80,594) | 193,766 |
| Assets whose use is limited, less current portion | 15,396 | 22,089 | - | 37,485 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 37,485 |
| Property, plant, equipment and construction, net | 187,426 | - | - | 187,426 | - | 2,612 | 7,915 | - | - | - | 10,527 | - | 2 | - | 2,186 | 10 | - | - | 200,151 |
| Estimated third-party payer settlements less current portion | 44 | - | - | 44 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 44 |
| Beneficial interest in Foundation | 7,410 | - | - | 7,410 | - | - | - | - | - | - | - | - | - | - | - | - | - | (7,410) | - |
| Due from related parties, noncurrent | 2,143 | - | - | 2,143 | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,143) | - |
| Investments in joint ventures and other assets | 18,168 | - | (15,331) | 2,837 | - | - | - | 2,223 | - | - | 2,223 | - | 1,148 | - | - | - | - | (500) | 5,708 |
| | \$ 412,372 | \$ 24,259 | \$ (15,346) | \$ 421,285 | \$ 41 | \$ 2,849 | \$ 7,953 | \$ 2,368 | \$ 433 | \$ - | \$ 13,644 | \$ 68,353 | \$ 7,734 | \$ 890 | \$ 9,479 | \$ 2,446 | \$ 3,970 | \$ (90,647) | \$ 437,154 |

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

December 31, 2017

| | Saint Peter's University Hospital & Subsidiaries | | | | Saint Peter's Health & Management Services | | | | | | | Saint Peter's Healthcare System, Inc. | | | | | | | Total Saint Peter's Healthcare System |
|---|---|-----------|---------------------------------------|--|--|------------|---------------------------|---------------------------|-------------------------|---------------------------------------|--|---------------------------------------|--------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|---------------------------------------|---------------------------------------|
| | (Obligated Group) Saint Peter's University Hospital | RAC | Consolidating and Eliminating Entries | Total Saint Peter's University Hospital & Subs | Care Center | Properties | SP Solar Energy Solutions | SP Health & Mgmt Services | Gianna Phys Practice NY | Consolidating and Eliminating Entries | Total Saint Peter's Health & Management Services | Saint Peter's Healthcare System, Inc. | Saint Peter's Foundation | National Gianna | SPHCS Physician Associates | Saint Peter's Advanced Care | Saint Peter's Specialty Physicians | Consolidating and Eliminating Entries | |
| Liabilities and net assets | | | | | | | | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | | | | | | | | |
| Current portion of long-term debt and line of credit | \$ 17,985 | \$ - | \$ - | \$ 17,985 | \$ - | \$ - | \$ 307 | \$ - | \$ - | \$ - | \$ 307 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 18,292 |
| Accounts payable | 26,240 | 106 | - | 26,346 | - | - | - | - | - | - | - | 2,940 | - | - | 1,009 | - | - | - | 30,295 |
| Accrued expenses and other liabilities | 29,567 | - | (15) | 29,552 | 42 | 8 | 9 | - | 82 | - | 141 | 5,202 | 271 | - | 1,507 | 18 | 656 | - | 37,347 |
| Accrued interest | 4,183 | - | - | 4,183 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 4,183 |
| Estimated third-party payer settlements, current portion | 2,778 | - | - | 2,778 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,778 |
| Due to related parties | 9,060 | - | - | 9,060 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total current liabilities | 89,813 | 106 | (15) | 89,904 | 42 | 1,458 | 2,777 | 629 | 3,281 | - | 8,187 | 63,937 | 324 | 257 | 56,881 | 4,743 | 7,194 | (138,532) | 92,895 |
| Long-term debt, less current portion | 144,698 | - | - | 144,698 | - | - | 3,684 | - | - | - | 3,684 | - | - | - | - | - | - | - | 148,382 |
| Estimated third-party payer settlements, less current portion | 2,251 | - | - | 2,251 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,251 |
| Accrued pension liability | 131,033 | - | - | 131,033 | - | - | - | - | - | - | - | 4,416 | - | - | - | - | - | - | 135,449 |
| Other liabilities | 22,574 | 9,702 | (9,431) | 22,845 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 22,845 |
| Total liabilities | 390,369 | 9,808 | (9,446) | 390,731 | 42 | 1,458 | 6,461 | 629 | 3,281 | - | 11,871 | 68,353 | 324 | 257 | 56,881 | 4,743 | 7,194 | (138,532) | 401,822 |
| Net assets: | | | | | | | | | | | | | | | | | | | |
| Unrestricted | 13,841 | 14,451 | (5,900) | 22,392 | (1) | 1,391 | 1,492 | 1,739 | (2,848) | - | 1,773 | - | 1,427 | (204) | (47,402) | (2,297) | (3,224) | 55,295 | 27,760 |
| Temporarily restricted | 8,062 | - | - | 8,062 | - | - | - | - | - | - | - | - | 5,883 | 587 | - | - | - | (7,310) | 7,222 |
| Permanently restricted | 100 | - | - | 100 | - | - | - | - | - | - | - | - | 100 | 250 | - | - | - | (100) | 350 |
| Total net assets | 22,003 | 14,451 | (5,900) | 30,554 | (1) | 1,391 | 1,492 | 1,739 | (2,848) | - | 1,773 | - | 7,410 | 633 | (47,402) | (2,297) | (3,224) | 47,885 | 35,332 |
| | \$ 412,372 | \$ 24,259 | \$ (15,346) | \$ 421,285 | \$ 41 | \$ 2,849 | \$ 7,953 | \$ 2,368 | \$ 433 | \$ - | \$ 13,644 | \$ 68,353 | \$ 7,734 | \$ 890 | \$ 9,479 | \$ 2,446 | \$ 3,970 | \$ (90,647) | \$ 437,154 |

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2017

| | Saint Peter's University Hospital & Subsidiaries | | | | Saint Peter's Health & Management Services | | | | | | Saint Peter's Healthcare System, Inc. | | | | | | Total Saint Peter's Healthcare System | | |
|---|---|-----------|---------------------------------------|--|--|------------|---------------------------|---------------------------|-------------------------|---------------------------------------|--|---------------------------------------|--------------------------|-----------------|----------------------------|-----------------------------|---------------------------------------|------------------------------------|---------------------------------------|
| | (Obligated Group) Saint Peter's University Hospital | RAC | Consolidating and Eliminating Entries | Total Saint Peter's University Hospital & Subs | Care Center | Properties | SP Solar Energy Solutions | SP Health & Mgmt Services | Gianna Phys Practice NY | Consolidating and Eliminating Entries | Total Saint Peter's Health & Management Services | Saint Peter's Healthcare System, Inc. | Saint Peter's Foundation | National Gianna | SPHCS Physician Associates | Saint Peter's Advanced Care | | Saint Peter's Specialty Physicians | Consolidating and Eliminating Entries |
| Revenue, gains and other support: | | | | | | | | | | | | | | | | | | | |
| Net patient service revenue | \$ 440,795 | \$ - | \$ - | \$ 440,795 | \$ - | \$ - | \$ - | \$ - | \$ 220 (9) | \$ - | \$ 220 (9) | \$ - | \$ - | \$ - | \$ 14,146 (641) | \$ 587 (143) | \$ 4,353 (300) | \$ - | \$ 460,101 (15,327) |
| Provision for bad debts | (14,234) | - | - | (14,234) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net patient service revenue less provision for bad debts | 426,561 | - | - | 426,561 | - | - | - | - | 211 | - | 211 | - | - | - | 13,505 | 444 | 4,053 | - | 444,774 |
| Other operating revenue | 30,566 | 4,345 | (8,474) | 26,437 | - | 41 | 965 | 8 | 365 | - | 1,379 | 50,509 | 968 | - | 1,016 | 970 | - | (50,652) | 30,627 |
| Net assets released from restriction | 163 | - | - | 163 | - | - | - | - | - | - | - | - | 2,905 | 97 | - | - | - | - | 3,165 |
| Total revenue, gains and other support | 457,290 | 4,345 | (8,474) | 453,161 | - | 41 | 965 | 8 | 576 | - | 1,590 | 50,509 | 3,873 | 97 | 14,521 | 1,414 | 4,053 | (50,652) | 478,566 |
| Expenses: | | | | | | | | | | | | | | | | | | | |
| Salaries and wages | 220,263 | - | - | 220,263 | - | 4 | 55 | - | 600 | - | 659 | 21,758 | 38 | - | 12,584 | 102 | 236 | (21,757) | 233,883 |
| Resident and physician fees | 10,292 | - | - | 10,292 | - | - | - | - | 13 | - | 13 | 48 | - | - | 2,249 | 900 | 2,949 | - | 16,451 |
| Employee benefits | 50,983 | - | - | 50,983 | - | 1 | 13 | - | 107 | - | 121 | 5,260 | 9 | - | 2,595 | 25 | 58 | (5,260) | 53,791 |
| Supplies and other | 146,906 | 3,052 | (3,474) | 146,484 | - | 41 | 176 | - | 191 | - | 408 | 19,090 | 3,817 | 423 | 7,605 | 1,198 | 2,322 | (32,695) | 148,652 |
| Interest | 9,101 | - | - | 9,101 | - | - | 526 | - | - | - | 526 | - | - | - | - | - | - | - | 9,627 |
| Depreciation and amortization | 21,732 | - | - | 21,732 | - | 44 | 408 | - | - | - | 452 | - | 1 | - | 218 | 35 | - | - | 22,438 |
| Total expenses | 459,277 | 3,052 | (3,474) | 458,855 | - | 90 | 1,178 | - | 911 | - | 2,179 | 46,156 | 3,865 | 423 | 25,251 | 2,260 | 5,565 | (59,712) | 484,842 |
| (Loss) income from operations | (1,987) | 1,293 | (5,000) | (5,694) | - | (49) | (213) | 8 | (335) | - | (589) | 4,353 | 8 | (326) | (10,730) | (846) | (1,512) | 9,060 | (6,276) |
| Severance | (5,366) | - | - | (5,366) | - | (1) | (12) | - | (7) | - | (20) | (4,353) | (7) | - | (227) | (20) | (47) | 4,663 | (5,377) |
| Abandonment of equipment | (6,981) | - | - | (6,981) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (6,981) |
| Information technology settlement | 7,300 | - | - | 7,300 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 7,300 |
| RAC premium reduction credit | - | (5,000) | 5,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity in net earnings of joint ventures | 1,228 | - | - | 1,228 | - | - | - | 1,060 | - | - | 1,060 | - | - | - | - | - | - | (1,227) | 1,061 |
| (Deficiency) excess of revenue over expenses | (5,806) | (3,707) | - | (9,513) | - | (50) | (225) | 1,068 | (342) | - | 451 | - | 1 | (326) | (10,957) | (866) | (1,559) | 12,496 | (10,273) |
| Net change in unrealized gains and losses on investments | 1,702 | 1,350 | - | 3,052 | - | - | - | - | - | - | - | - | 211 | - | - | - | - | - | 3,263 |
| Change in pension liability to be recognized in future periods | (10,602) | - | - | (10,602) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (10,602) |
| Donated equipment and other | 6,201 | - | - | 6,201 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 6,201 |
| (Decrease) increase in unrestricted net assets before discontinued operations | (8,505) | (2,357) | - | (10,862) | - | (50) | (225) | 1,068 | (342) | - | 451 | - | 212 | (326) | (10,957) | (866) | (1,559) | 12,496 | (11,411) |
| Loss of discontinued skilled nursing facility | - | - | - | - | (606) | - | - | - | - | - | (606) | - | - | - | - | - | - | - | (606) |
| Equity transfer to affiliate | 1,355 | - | - | 1,355 | (790) | (563) | - | (1,229) | - | - | (2,582) | - | - | - | - | - | - | 1,227 | - |
| (Decrease) increase in unrestricted net assets | (7,150) | (2,357) | - | (9,507) | (1,396) | (613) | (225) | (161) | (342) | - | (2,737) | - | 212 | (326) | (10,957) | (866) | (1,559) | 13,723 | (12,017) |
| Temporarily restricted: | | | | | | | | | | | | | | | | | | | |
| Restricted gifts and contributions | 57 | - | - | 57 | - | - | - | - | - | - | - | - | 318 | 500 | - | - | - | - | 875 |
| Net change in beneficial interest in Foundation | (2,375) | - | - | (2,375) | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,375 | - |
| Net assets released from restriction | (163) | - | - | (163) | - | - | - | - | - | - | - | - | (2,905) | (97) | - | - | - | - | (3,165) |
| (Decrease) increase in temporarily restricted net assets | (2,481) | - | - | (2,481) | - | - | - | - | - | - | - | - | (2,587) | 403 | - | - | - | 2,375 | (2,290) |
| (Decrease) increase in net assets | (9,631) | (2,357) | - | (11,988) | (1,396) | (613) | (225) | (161) | (342) | - | (2,737) | - | (2,375) | 77 | (10,957) | (866) | (1,559) | 16,098 | (14,307) |
| Net assets at beginning of year | 31,634 | 16,808 | (5,900) | 42,542 | 1,395 | 2,004 | 1,717 | 1,900 | (2,506) | - | 4,510 | - | 9,785 | 556 | (36,445) | (1,431) | (1,665) | 31,787 | 49,639 |
| Net assets at end of year | \$ 22,003 | \$ 14,451 | \$ (5,900) | \$ 30,554 | \$ (1) | \$ 1,391 | \$ 1,492 | \$ 1,739 | \$ (2,848) | \$ - | \$ 1,773 | \$ - | \$ 7,410 | \$ 633 | \$ (47,402) | \$ (2,297) | \$ (3,224) | \$ 47,885 | \$ 35,332 |

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 Ernst & Young LLP.
All Rights Reserved.

ey.com

