

Temple University Health System

Consolidated Financial Statements as of and
for the Years Ended June 30, 2017 and 2016,
Supplemental Schedules as of and for the
Year Ended June 30, 2017, and
Independent Auditors' Report

TEMPLE UNIVERSITY HEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Temple University Health System, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying consolidated financial statements of Temple University Health System (a wholly owned subsidiary of Temple University—Of the Commonwealth System of Higher Education) and its subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of June 30, 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Temple University Health System and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Consolidating Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules on pages 49-57 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 19, 2017

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2017 AND 2016

(In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 150,537	\$ 151,324
Patient accounts receivable—net of allowance for doubtful accounts	217,425	195,220
Other receivables—net of allowance for doubtful accounts of \$746 and \$867 in 2017 and 2016, respectively	80,183	100,773
Inventories and other current assets	37,629	41,194
Current portion of assets limited as to use	37,558	42,213
Investments	150,813	127,223
Current portion of workers' compensation fund	7,546	6,723
Current portion of self-insurance program receivables	3,150	2,000
Expenditures reimbursable by research grants and awards	<u>2,535</u>	<u>2,842</u>
Total current assets	<u>687,376</u>	<u>669,512</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	11,915	11,927
Buildings	494,020	484,225
Fixed and movable equipment	497,936	443,924
Construction-in-progress	<u>10,781</u>	<u>43,295</u>
	1,014,652	983,371
Less accumulated depreciation	<u>674,587</u>	<u>630,211</u>
Net property, plant and equipment	<u>340,065</u>	<u>353,160</u>
ASSETS LIMITED AS TO USE	129,396	152,642
INVESTMENTS	50,496	43,087
WORKERS' COMPENSATION FUND	3,859	5,064
SELF-INSURANCE PROGRAM RECEIVABLES	20,495	16,451
GOODWILL AND OTHER INTANGIBLES	21,044	21,875
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	118,767	105,177
OTHER ASSETS	<u>36,961</u>	<u>26,224</u>
TOTAL ASSETS	<u>\$ 1,408,459</u>	<u>\$ 1,393,192</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2017 AND 2016

(In thousands)

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 18,397	\$ 17,427
Line of credit	15,000	-
Accounts payable	90,471	108,556
Accrued expenses	80,167	92,000
Current portion of estimated settlements with third-party payors	9,887	21,815
Current portion of self-insurance program liabilities	31,192	24,134
Unexpended research grants and awards	1,983	1,096
Other current liabilities	<u>50,461</u>	<u>59,052</u>
Total current liabilities	297,558	324,080
LONG-TERM DEBT	502,044	500,385
SELF-INSURANCE PROGRAM LIABILITIES	116,626	121,364
ACCRUED POSTRETIREMENT BENEFITS	57,068	93,956
OTHER LONG-TERM LIABILITIES	<u>50,697</u>	<u>32,519</u>
Total liabilities	<u>1,023,993</u>	<u>1,072,304</u>
NET ASSETS:		
Unrestricted	228,196	180,802
Temporarily restricted	24,108	24,229
Permanently restricted	<u>132,162</u>	<u>115,857</u>
Total net assets	<u>384,466</u>	<u>320,888</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,408,459</u>	<u>\$ 1,393,192</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(In thousands)

	2017	2016
UNRESTRICTED NET ASSETS:		
Unrestricted revenues and other support:		
Net patient service revenue before allowance for doubtful accounts	\$ 1,681,900	\$ 1,585,204
Allowance for doubtful accounts	<u>(26,233)</u>	<u>(26,341)</u>
Total net patient service revenue	1,655,667	1,558,863
Research revenue	35,189	32,036
Contribution revenue	11,251	5,628
Other revenue	42,483	39,844
Investment income	842	807
Net assets released from restrictions used for operations	<u>6,960</u>	<u>5,483</u>
Unrestricted revenues and other support	<u>1,752,392</u>	<u>1,642,661</u>
Expenses:		
Salaries	694,391	660,260
Employee benefits	197,073	189,443
Professional fees	174,960	137,817
Supplies and pharmaceuticals	353,092	323,615
Purchased services and other	170,008	163,119
Maintenance	17,945	17,837
Utilities	18,784	20,511
Leases	18,521	20,211
Insurance	26,949	21,416
Depreciation and amortization	51,131	50,514
Interest	28,595	27,024
Asset impairment	213	108
Loss on disposal of fixed assets	<u>261</u>	<u>221</u>
Expenses	<u>1,751,923</u>	<u>1,632,096</u>
Operating income	<u>469</u>	<u>10,565</u>
Other income—net:		
Investment income	<u>6,894</u>	<u>6,591</u>
Other income—net	<u>6,894</u>	<u>6,591</u>
Excess of revenues and other support over expenses	<u>7,363</u>	<u>17,156</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
Excess of revenues and other support over expenses	\$ 7,363	\$ 17,156
Other changes in unrestricted net assets:		
Net transfers to the University	(7,822)	(6,680)
Net assets released from restrictions used for purchase of property and equipment	1,728	7,452
Net change in fair value of investments	15,535	(5,526)
Adjustment to funded status of pension and postretirement liabilities	31,087	(33,964)
Adjustment to funded status of long-term disability liabilities	<u>(497)</u>	<u>363</u>
Increase (decrease) in unrestricted net assets	<u>47,394</u>	<u>(21,199)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution income	5,849	10,660
Net assets released from restrictions	(8,688)	(12,935)
Net change in fair value of investments	109	(51)
Investment income	<u>2,609</u>	<u>2,347</u>
(Decrease) increase in temporarily restricted net assets	<u>(121)</u>	<u>21</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contribution income	2,050	943
Net change in fair value of investments	948	(18)
Investment loss	(283)	(55)
Change in beneficial interest in assets held by others	<u>13,590</u>	<u>(7,685)</u>
Increase (decrease) in permanently restricted net assets	<u>16,305</u>	<u>(6,815)</u>
INCREASE (DECREASE) IN NET ASSETS	63,578	(27,993)
NET ASSETS—Beginning of year	<u>320,888</u>	<u>348,881</u>
NET ASSETS—End of year	<u>\$ 384,466</u>	<u>\$ 320,888</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 63,578	\$ (27,993)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(21,179)	4,952
Net realized and unrealized (gains) losses on beneficial interests in assets held by others	(13,590)	7,685
Depreciation, amortization and accretion	50,212	49,568
Intangible amortization	920	946
Impairment on intangibles	146	108
Amortization of bond premium, discount, debt issuance costs and underwriter's discount	60	12
Allowance for doubtful accounts	26,233	26,341
Adjustment to funded status of pension and postretirement liabilities	(31,087)	33,964
Adjustment to funded status of long-term disability liabilities	497	(363)
Capitalized interest	(164)	(1,888)
Gain on extinguishment of debt	-	(57)
Asset impairment	67	-
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(1,728)	(7,452)
Loss on disposal of fixed assets	261	221
Permanently restricted gifts and donations received	(2,050)	(943)
Net transfers to the University	7,822	6,680
Changes in operating assets and liabilities:		
Patient accounts receivable	(48,438)	(40,120)
Other receivables	20,303	(51,008)
Pledges receivable—net	(967)	960
Inventories and other current assets	3,565	(2,393)
Expenditures reimbursable by research grants and awards	307	(685)
Other assets	(9,718)	(5,843)
Accounts payable	(15,859)	23,269
Accrued expenses	(11,833)	8,429
Estimated settlements with third-party payors	(11,928)	(8,518)
Self-insurance program receivables and liabilities	(2,874)	(17,064)
Unexpended research grants and awards	887	(1,607)
Other liabilities	3,118	8,207
Net cash provided by operating activities	<u>6,561</u>	<u>5,408</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
INVESTING ACTIVITIES:		
Decrease in assets limited as to use	\$ 2,954	\$ 12,721
Purchases of property, plant and equipment	(34,202)	(47,902)
Purchases of investments	(276,366)	(148,719)
Proceeds from sales of investments	291,875	243,147
Proceeds from sale of fixed assets	<u>491</u>	<u>3,792</u>
Net cash (used in) provided by investing activities	<u>(15,248)</u>	<u>63,039</u>
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	1,728	7,452
Repayment of long-term debt	(16,072)	(15,161)
Repayment of capital lease obligations	(2,213)	(1,222)
Proceeds from issuance of long-term debt	15,229	<u>1,527</u>
Proceeds from line of credit	15,000	-
Permanently restricted gifts and donations received	2,050	943
Net transfers to the University	<u>(7,822)</u>	<u>(470)</u>
Net cash provided by (used in) financing activities	<u>7,900</u>	<u>(6,931)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(787)	61,516
CASH AND CASH EQUIVALENTS—Beginning of year	<u>151,324</u>	<u>89,808</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 150,537</u>	<u>\$ 151,324</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest		
	<u>\$ 28,395</u>	<u>\$ 28,778</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Amounts recorded for purchases of property and equipment in excess of amounts paid	<u>\$ 3,380</u>	<u>\$ 5,607</u>
Cost of assets acquired through capitalized leases	<u>\$ 5,625</u>	<u>\$ 6,639</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Temple University Health System, Inc. (“TUHS”) is a Pennsylvania nonprofit corporation of which Temple University—Of The Commonwealth System of Higher Education (the “University” or “TU”) is its sole member. TUHS was incorporated in August 1995 and serves principally to coordinate the activities and plans of its health care subsidiaries and affiliates in Philadelphia and the surrounding area. The subsidiaries and affiliates (herein referred to as “corporate members”) of TUHS (collectively, with TUHS, referred to as the “Health System”), all of which operate in Philadelphia and the surrounding area, include the following:

- Temple University Hospital, Inc. (“TUH”), a nonprofit corporation, operating a 732-bed acute care teaching hospital at three inpatient campuses and additional outpatient locations in Philadelphia and Montgomery Counties, with TUHS as its sole member;
- Temple University Health System Foundation (“TUHSF”), a nonprofit corporation formed to support the health-care-related activities of TUHS, with TUH as its sole member;
- Jeanes Hospital (“JH”), a nonprofit corporation, operating a 146-bed acute care hospital located in the Fox Chase section of Philadelphia, with TUHS as its sole member;
- Episcopal Hospital (“Episcopal”), a nonprofit corporation, providing clinical outpatient health care services, with TUHS as its sole member;
- Temple Health System Transport Team, Inc. (“T3”), a nonprofit corporation, is a critical care air and ground ambulance company, with TUHS as its sole member;
- Temple Physicians, Inc. (“TPI”), a nonprofit corporation formed to develop and acquire community-based primary care practices located in the service area of TUHS, with TUHS as its sole member;
- TUHS Insurance Company, Ltd. (“TUHIC”), a captive insurance company established to reinsure the professional liability claims of certain subsidiaries of TUHS. TUHS is the beneficial owner of TUHIC which is domiciled in Bermuda;
- American Oncologic Hospital d/b/a The Hospital of Fox Chase Cancer Center (“AOH”), a nonprofit corporation, is a 100 licensed bed specialty hospital that provides advanced inpatient and outpatient care to cancer patients, with TUHS as its sole member;
- Institute for Cancer Research d/b/a the Research Institute of Fox Chase Cancer Center (“ICR”), a nonprofit corporation, is primarily engaged in basic research, including programs in cancer biology, developmental therapeutics, immune cell development and host disease, cancer epigenetics, and cancer prevention and control and is a National Cancer Institute designated Comprehensive Cancer Center, with AOH as its sole member;

- Fox Chase Cancer Center Medical Group, Inc. (“MGI”), a nonprofit corporation, employs and provides physician services to the Fox Chase family of organizations, with AOH as its sole member;
- Fox Chase Network, Inc. (“Network”), a nonprofit corporation, provides cancer related clinical and administrative services to cancer programs of community hospitals and physicians, with AOH as its sole member;
- Fox Chase, Ltd. (“Limited”), a business corporation that holds minority interests in joint ventures with area hospitals, with AOH as its sole stockholder; and
- Temple Center for Population Health, LLC (“TCPH”), a Pennsylvania limited liability company, participating in accountable care, coordinated care, shared savings, bundled payment programs and other similar programs or initiatives with or implemented by governmental payors, commercial payors and other parties, with TUHS as its sole member.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Health System. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents—Cash equivalents consist primarily of highly liquid investments, such as money market funds and debt instruments with original maturities of three months or less at the time of purchase. At June 30, 2017 and 2016, the Health System had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes that credit risks related to these deposits are minimal. Cash and cash equivalents are carried at cost, which approximates fair value.

Investments—Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investment income or loss (including realized gains and losses, interest, and dividends) is included in other income unless the income is restricted by donor or law, except for investment income on borrowed funds held by trustees as collateral on outstanding debt. This investment income is included in unrestricted revenue and other support. Unrealized gains and losses on equity securities with readily determinable fair values and all investments in debt securities are excluded from the excess of revenues over expenses unless the amount was recorded as part of the other-than-temporary impairment adjustment as disclosed in Note 6.

The Health System also invests in various limited partnerships which are private equity funds. Such investments are accounted for on the equity basis of accounting, which approximates fair value as determined by the fund managers and financial information provided by the limited partnership. This financial information includes assumptions and methods that were reviewed by the Health System. The Health System believes that the estimated fair value is reasonable as of June 30, 2017 and 2016. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. These investments vary as to their level of liquidity, with differing requirements for notice prior to redemption or withdrawal. Investment gains and losses on these funds are included in other income.

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

The Health System reviews its investments to identify those for which market value is below cost. The Health System then makes a determination as to whether investments are other-than-temporarily impaired based on guidelines established in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 320.

Assets Limited as to Use—Assets limited as to use primarily include assets held by trustees under indenture and insurance agreements, designated assets set aside by the Board primarily for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and donor restricted assets. Amounts required to meet current liabilities of the Health System have been classified as current assets in the consolidated balance sheets.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Depreciation expense was \$50,040,000 and \$49,453,000 for the years ended June 30, 2017 and 2016, respectively. Expenditures for maintenance and repairs necessary to maintain property, plant and equipment are charged to operations. Costs of renewals and betterments are capitalized. The amount of capitalized leases is \$18,620,000 and \$12,944,000 at June 30, 2017 and 2016, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2017 and 2016, the accumulated depreciation balance included \$8,434,000 and \$6,224,000, respectively, of accumulated amortization of capital leased assets. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of interest earned on the unexpended proceeds of tax-exempt borrowings specifically incurred for construction, are capitalized as a component of the cost of acquiring those assets. The remaining amounts of capitalized interest costs for the fiscal years ended June 30, 2017 and 2016 were \$0 and \$2,185,000, respectively.

Long-Lived Assets Review—The Health 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. If the carrying value of a long-lived asset is considered impaired, a loss is recognized by which the carrying value exceeds the fair value (less any costs related to disposal or abandonment, if applicable). The impairment amounts recognized on long-lived assets for the fiscal years ended June 30, 2017 and 2016 were \$67,000 and \$0, respectively.

Goodwill and Other Intangibles—Goodwill and other intangible assets are accounted for in accordance with the accounting guidance in FASB ASC Topic 350 for *Intangibles—Goodwill and Other*. Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or when indicators of a potential impairment are present. The Health System’s annual impairment date is June 30th. The annual evaluation for impairment of goodwill and indefinite-lived intangibles is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. Based on the results of the Health System’s reviews, no impairment loss was recognized in the results of operations for the fiscal years ended June 30, 2017 and 2016, respectively. Subsequent to the latest review, there have been no events or circumstances that indicate any potential additional impairment of the Health System’s goodwill and indefinite-lived intangible asset balance.

The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed on a straight-line basis over the estimated periods benefited. Patents, technology and other intangibles with contractual terms are generally amortized over their respective legal or contractual lives. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted and impairment charges recorded. Refer to Note 8 for impairment charges recorded during fiscal years 2017 and 2016.

Asset Retirement Obligations—The Health System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with FASB ASC Topic 410, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Health System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The value of the asset, when established in 2006, was \$1,144,000. Over time, the liability is accreted to its present value each period using a discount rate between 5% and 7%, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets. At June 30, 2017 and 2016, the recorded asset retirement obligation liability was \$5,051,000 and \$4,773,000, respectively. Accretion costs for 2017 and 2016 were \$330,000 and \$312,000, respectively.

Deferred Financing Costs—Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs were \$5,911,000 as of June 30, 2017 and 2016. Accumulated amortization of deferred financing costs was \$2,008,000 and \$1,685,000 as of June 30, 2017 and 2016, respectively. Deferred financing costs are presented on the balance sheet as a direct deduction from the carrying value of long-term debt.

Net Assets—Net assets are categorized according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets—are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily Restricted Net Assets—are those assets whose use by the Health System has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets—include gifts, trusts and pledges that require by donor restrictions that the corpus be invested in perpetuity, with only the income available for operations or in accordance with donor restrictions.

Beneficial Interest in Perpetual Trusts—The Health System is the irrevocable beneficiary of the income from certain perpetual trusts administered by third parties. The Health System's beneficial interest is reported at the fair value of the underlying trust assets. Because the trusts are perpetual and the original corpus cannot be used, these funds are reported as permanently restricted net assets.

Contracts, Grants and Awards—Income from contracts, grants and awards, including overhead allowances, is recorded as the related direct expenses are incurred. Indirect cost revenues on agency grants and contracts are subject to audit and possible adjustment by governmental payors. Appropriate allowances are made currently for estimated adjustments to governmental arrangements.

Contributions—The Health System records unconditional promises to give (pledges) as receivables and revenues, and distinguishes between contributions received for each net asset category in accordance

with donor-imposed restrictions. Upon expiration of donor restrictions, amounts are reclassified as unrestricted and reported as net assets released from restriction.

Performance Indicator—In the accompanying consolidated statements of operations and changes in net assets, the primary indicator of the Health System’s results is “Excess of revenues and other support over expenses”. Changes in unrestricted net assets which are excluded from the excess of revenues and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long lived assets and certain adjustments to pension, postretirement and long-term disability liabilities.

Net Patient Service Revenue and Estimated Settlements with Third-Party Payors—The Health System records gross patient service revenue in the period that the services are rendered. Net patient service revenue before allowance for doubtful accounts represents gross patient service revenue less provisions for contractual adjustments. Payments for services rendered to patients covered by Medicare, Medicaid and other government programs are generally less than billed charges and, therefore, provisions for contractual adjustments are made to reduce gross patient service revenue to the estimated cash receipts based on each program’s principles of payment/reimbursement. Estimates of contractual allowances for services rendered to patients covered by commercial insurance, including managed care health plans, are primarily based on the payment terms of contractual arrangements, such as predetermined rates per diagnosis, per diem rates or discounted fee for service rates. In addition, the Health System receives medical assistance payments for the reimbursement of services for charity and uncompensated care services. The federal funding of such costs is subject to an upper payment limit and retrospective settlement. Coinsurance and deductibles within the third-party payor agreements are the patient’s responsibility and the Health System considers these amounts in its determination of the allowance for doubtful accounts. For services associated with self-pay patients (which include patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Finally, the Health System engages in various contracts with insurance companies where the Health System is at risk for the total cost of care to an attributed patient population as well as contracts that provide for pay for performance incentives. The value of these agreements is estimated and included in 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, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered or when known by the Health System and adjusted in future periods as final settlements or changes in estimates are determined. 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 could change by a material amount in the near term (see Note 3).

Other Revenue—Other revenue includes amounts earned from cafeteria operations, parking garage operations, transport services provided by T3, and other non-patient care services.

Other revenue also includes “meaningful use” payments received from The Centers for Medicare and Medicaid Services (“CMS”) relating to certain provisions of the American Recovery and Reinvestment Act of 2009 (“ARRA”). The ARRA defines “meaningful use” of electronic health records (“EHR”)

technology and makes federal incentive payments to healthcare entities that qualify by demonstrating improved quality, safety and effectiveness of care. Under the Medicare EHR incentive program, providers can earn up to four annual payments that are earned by achieving and maintaining objectives established by CMS. Medicaid providers that are acute care that have at least 10% of patient volume to Medicaid patients may also be eligible for Medicaid EHR payments. Medicaid payment amounts are determined in the first year of participation and “meaningful use” status must be achieved and maintained in subsequent years in order to qualify for additional payments.

The Health System recognizes EHR incentive payments in accordance with the International Accounting Standard 20 (“IAS20”) Grant Accounting Model. Under the IAS20 Grant Accounting Model, EHR incentive payments are recognized ratably over a compliance period once management is reasonably assured of program compliance for the entire 90-day period (in the first payment year) or 365-day period (in the second through fourth payment years). During fiscal years 2017 and 2016, the Health System recognized \$196,000 and \$465,000, respectively, from Medicare EHR incentive payments and \$6,052,000 and \$517,000, respectively, from Medicaid EHR incentive payments.

Charity Care—The Health System provides care without charge or at a standard rate discounted for uninsured patients that is not related to published charges to patients who meet certain criteria under the Health System’s charity care policy. Some patients qualify for charity care based on federal poverty guidelines or their financial condition being such that requiring payment would impose a hardship on the patient. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Income Taxes—Substantially all of the individual members of the Health System are nonprofit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Limited, a wholly owned subsidiary, which is currently inactive, in which the Health System exercises control is a for-profit corporation that is subject to federal and state income tax. Such taxes are immaterial and have been reported with other expenses in the accompanying consolidated financial statements.

The Health System’s federal Exempt Organization Business Income Tax Returns for 2016, 2015, 2014, and 2013 remain subject to examination by the Internal Revenue Service (“IRS”).

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates comprise the allowances for doubtful accounts, contractual allowances, estimated settlements with third-party payors, self-insurance program assets and liabilities, accrued postretirement benefits, estimated asset retirement obligations and the valuation of alternative investments.

Recently Issued Accounting Pronouncements—In May 2014, the FASB issued ASU 2014-09 which clarifies the principles for recognizing revenue from contracts with customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The update states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. Entities are required to apply the following steps when recognizing revenue under the update: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity

satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. In May 2016, the FASB issued ASU 2016-12, which affects only the narrow aspects of Topic 606. This amendment addresses certain issues identified in the guidance from ASU 2014-09 on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. Application is required for the first annual period beginning after December 15, 2017. The update allows for a “full retrospective” adoption, meaning the update is applied to all periods presented, or a “modified retrospective” adoption, meaning the update is applied only to the most current period presented in the financial statements. The update allows for early adoption using one of three options and will be adopted no earlier than July 1, 2018. The Health System currently anticipates the most significant change will be how the estimate for the allowance for doubtful accounts will be recognized under the new standards. Under the current standards, the Health System’s estimate for certain patient amounts not expected to be collected based on our historical experience have been recorded to allowance for doubtful accounts. Under the new standards, the Health System’s estimate for these amounts not expected to be collected based on historical experience will be recognized as a reduction to revenue. Subsequent changes in estimates of collectability due to a change in the financial status of a payor, for example a bankruptcy, will continue to be recognized as allowance for doubtful accounts. Amounts previously written off to the allowance for doubtful accounts as a result of our inability to collect payment will be recognized as a reduction to revenue under the new standard.

In May 2015, the FASB issued ASU 2015-07, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (“NAV”), per share practical expedient. The update also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Application is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Health System adopted the new guidance on July 1, 2016 and modified the fair value disclosures as of June 30, 2016 to conform to the presentation as of June 30, 2017. The June 30, 2016 fair value hierarchy table of pension plan assets in Note 13 was modified to reclassify \$12,591,000 previously classified in Level 2 and \$16,356,000 previously classified in Level 3 to investments measured at NAV. The June 30, 2016 fair value hierarchy table of postretirement plan assets in Note 13 was modified to reclassify \$100,430,000 previously classified in Level 2 and \$42,517,000 previously classified in Level 3 to investments measured at NAV. The June 30, 2016 fair value hierarchy table in Note 18 was modified to reclassify \$28,318,000 previously classified in Level 2 and \$11,730,000 previously classified in Level 3 to investments measured at NAV.

In January 2016, the FASB issued ASU 2016-01, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). It also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value. In addition, the ASU eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public

business entities. Application is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the fiscal years beginning after December 15, 2017. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which created Topic 842 that establishes the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The FASB decided that, lessees should be required to recognize the assets and liabilities arising from leases on the balance sheet. The FASB concluded that the economics of leases can vary for a lessee and that those economics should be reflected in the financial statements; therefore, Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. Application is effective for fiscal years beginning after December 15, 2018. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements and bond covenants.

In August 2016, the FASB issued ASU 2016-14, which removes the requirement for a not-for-profit entity to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning a not-for-profit entity will present two classes of net assets instead of three. ASU 2016-14 also requires expenses to be presented by their natural and functional classification, investment returns to be presented net of external and direct internal investment expenses, and requires entities to provide more information about their available resources and liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, which affects some aspects of Topic 230. This amendment addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The section applicable to the Health System relates to debt prepayment and extinguishment costs. The amendment states that cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities. ASU 2016-15 is effective for not-for-profit entities for fiscal years beginning after December 15, 2018 and will be applied retrospectively. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which affects entities that have restricted cash or cash equivalents and are required to present a statement of cash flows under Topic 230. This amendment requires that a 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 cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period totals shown on the statement of cash flows. Application for not-for-profit entities is effective for fiscal years beginning after December 15, 2018. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, which modifies the presentation of net periodic pension costs and net periodic postretirement benefit cost. The amendments in this update require that an

employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This update is effective for annual periods beginning after December 15, 2018. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

3. NET PATIENT SERVICE REVENUE

Net patient accounts receivable includes the allowance for doubtful accounts of \$28,180,000 and \$22,312,000 at June 30, 2017 and 2016, respectively. The allowance for doubtful accounts is estimated based on the Health System's belief that a patient has the ability to pay for services but payment is not expected to be received.

Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and the Health System ceases collection efforts. Overall, the total of self-pay write-offs for the year ended June 30, 2017 has not changed significantly from the year ended June 30, 2016. The Health System has not experienced significant changes in write-off trends nor has the Health System changed its charity care policy.

Net patient service revenue before allowance for doubtful accounts from these major payor sources based on primary insurance designation is as follows for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Medicare and Medicaid	\$ 1,062,486	\$ 985,479
Self-pay	16,105	15,279
Other third-party payors	<u>603,309</u>	<u>584,446</u>
Total	<u>\$ 1,681,900</u>	<u>\$ 1,585,204</u>

Net patient service revenue also includes estimates of reimbursement from third-party payors. For the fiscal years ended June 30, 2017 and 2016, net patient service revenue increased by \$17,295,000 and \$3,003,000, respectively, as a result of settlements related to prior years or changes in estimates related thereto.

4. BUSINESS AND CREDIT CONCENTRATION

The Health System provides diversified health care services primarily to area residents through its inpatient and outpatient care facilities in the Greater Philadelphia Metropolitan Area. As a function of its mission and location, the Health System serves a disproportionately high number of poor or indigent patients; consequently, the Health System derives a substantial portion of its revenue from the Medicare (federal government) and the Medical Assistance (Commonwealth of Pennsylvania, Department of Human Services [DHS]) programs.

The distribution of inpatient services provided from continuing operations (TUH, JH and AOH) based upon patient discharges (excluding newborns) by class of payor for the years ended June 30, 2017 and 2016, is as follows (unaudited):

	<u>2017</u>		<u>2016</u>	
	<u>Discharges</u>	<u>%</u>	<u>Discharges</u>	<u>%</u>
Continuing operations:				
Medical assistance:				
Fee for service	2,493	6.6 %	3,352	8.6 %
Managed care	<u>11,624</u>	<u>30.8</u>	<u>11,848</u>	<u>30.5</u>
Total medical assistance	<u>14,117</u>	<u>37.4</u>	<u>15,200</u>	<u>39.1</u>
Medicare:				
Fee for service	8,838	23.4	8,257	21.3
Managed care	<u>7,781</u>	<u>20.6</u>	<u>7,909</u>	<u>20.4</u>
Total Medicare	<u>16,619</u>	<u>44.0</u>	<u>16,166</u>	<u>41.6</u>
Independence Blue Cross*	<u>4,601</u>	<u>12.2</u>	<u>5,010</u>	<u>12.9</u>
All other	<u>2,450</u>	<u>6.4</u>	<u>2,460</u>	<u>6.3</u>
	<u><u>37,787</u></u>	<u><u>100 %</u></u>	<u><u>38,836</u></u>	<u><u>100 %</u></u>

* Includes Traditional, Personal Choice and Keystone Health Plan East insurance plans.

Health Choices is a DHS program that requires all medical assistance recipients in the Philadelphia five-county area to join a Medicaid Health Maintenance Organization (“HMO”). Under Health Choices, DHS has entered into capitation arrangements with five Medicaid HMOs, four of which the Health System contracts with, which in turn negotiate separate payment rates with health care providers. The medical assistance-managed care category above includes the four Medicaid HMOs under the Health Choices program with which the Health System contracts. The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from third-party payors and patients at June 30, 2017 and 2016, is as follows:

	2017	2016
Medical assistance:		
Fee for service (FFS)	2.8 %	4.5 %
Managed care	18.0	16.8
Medicare (FFS only)	17.5	13.6
Independence Blue Cross	20.4	23.5
Aetna U.S. Healthcare	7.7	6.0
Commercial	6.6	8.7
Managed care/HMOs (including Medicare)	20.5	19.4
Other	<u>6.5</u>	<u>7.5</u>
	<u>100 %</u>	<u>100 %</u>

5. CHARITY CARE

The Health System maintains detailed records to identify and monitor the level of charity care it provides to its patients. Charity care costs are estimated by applying an overall cost to charge ratio to charity care charges. The cost to charge ratio is calculated by dividing total expenses by total gross patient service revenue before allowance for doubtful accounts. The estimated costs and expenses incurred to provide charity care, including the estimated unreimbursed cost of services in excess of specific payments for services rendered to Medical Assistance recipients, were \$206,913,000 and \$183,413,000 for the fiscal years ended June 30, 2017 and 2016, respectively (see Note 17).

6. INVESTMENTS

Assets Limited as to Use—The composition of assets limited as to use at June 30, 2017 and 2016, is set forth in the following table (in thousands):

	2017	2016
Under indenture agreements-held by trustee:		
Debt service funds	\$ 25,019	\$ 24,951
Debt service reserve funds	51,034	50,909
Construction fund	<u>201</u>	<u>20,933</u>
	76,254	96,793
Under debt agreements	225	225
Under insurance arrangements (TUHIC)	49,270	55,061
Board designated	11,477	14,420
Donor restricted	28,975	27,514
Workers' and unemployment compensation	<u>753</u>	<u>842</u>
	166,954	194,855
Less amounts required for current liabilities	<u>37,558</u>	<u>42,213</u>
	<u>\$ 129,396</u>	<u>\$ 152,642</u>

By security classification (in thousands):

	2017	2016
U.S. government securities	\$ 58,045	\$ 92,868
Fixed income mutual funds	2,013	2,083
Corporate bonds, notes, and other debt securities	15,227	12,672
Cash, money market funds, and certificates of deposit	82,870	79,910
Equity securities and mutual funds	8,167	6,971
Alternative funds	<u>632</u>	<u>351</u>
	<u>\$ 166,954</u>	<u>\$ 194,855</u>

Workers' Compensation Fund—Workers' compensation fund at June 30, 2017 and 2016, consisted of (in thousands):

	2017	2016
U.S. government securities	\$ 6,977	\$ 8,198
Corporate bonds, notes, and other debt securities	3,003	2,919
Cash, money market funds, and certificates of deposit	<u>1,155</u>	<u>306</u>
	<u>\$ 11,135</u>	<u>\$ 11,423</u>

Investments—Investments at June 30, 2017 and 2016, consisted of (in thousands):

	2017	2016
U.S. government securities	\$ 26,752	\$ -
Corporate bonds, notes, and other debt securities	19,391	-
Fixed income mutual funds	10,349	55,273
Equity securities and mutual funds	94,321	71,949
Real estate	345	365
Alternative funds	29,900	21,574
Limited liability partnerships	17,843	19,244
Limited liability corporations and joint ventures	2,313	1,099
Other	<u>95</u>	<u>806</u>
	<u>\$ 201,309</u>	<u>\$ 170,310</u>

Investment Income—Investment income and gains (losses) from investments, including assets limited as to use and cash and cash equivalents, are comprised of the following for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Interest and dividend income	\$ 11,746	\$ 11,343
Net realized losses on sales of investments	(445)	(1,154)
Recognition of other-than-temporary impairment	(1,239)	(499)
Net unrealized gains (losses)	<u>16,592</u>	<u>(5,595)</u>
	<u>\$ 26,654</u>	<u>\$ 4,095</u>

Interest, dividends, realized and unrealized gains (losses) are reported as follows (in thousands):

	2017	2016
Consolidated statements of operations and changes in net assets:		
Unrestricted revenues—investment income	\$ 842	\$ 807
Unrestricted other income—investment income	6,894	6,591
Other changes in unrestricted net assets—net change in fair value	15,535	(5,526)
Temporarily restricted net assets—net unrealized gains (losses)	109	(51)
Temporarily restricted net assets—investment income	2,609	2,347
Permanently restricted net assets—net unrealized gains (losses)	948	(18)
Permanently restricted net assets—investment loss	<u>(283)</u>	<u>(55)</u>
	<u>\$ 26,654</u>	<u>\$ 4,095</u>

Unrealized gains (losses) are reported as a component of other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets unless their use is restricted by donor.

The following tables provide information on the gross unrealized losses and fair market value of the Health System's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017 and 2016 (in thousands):

	At June 30, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	\$ 24,784	\$ (58)	\$ -	\$ -	\$ 24,784	\$ (58)
Fixed income mutual funds	-	-	8,079	(202)	8,079	(202)
Corporate bonds, notes, and other debt securities	10,925	(38)	-	-	10,925	(38)
Equity securities and mutual funds	-	-	543	(3)	543	(3)
Total temporarily impaired securities	<u>\$ 35,709</u>	<u>\$ (96)</u>	<u>\$ 8,622</u>	<u>\$ (205)</u>	<u>\$ 44,331</u>	<u>\$ (301)</u>

	At June 30, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income mutual funds	\$ -	\$ -	\$ 32,000	\$ (1,848)	\$ 32,000	\$ (1,848)
Equity securities and mutual funds	24,400	(943)	18,812	(5,058)	43,212	(6,001)
Total temporarily impaired securities	<u>\$ 24,400</u>	<u>\$ (943)</u>	<u>\$ 50,812</u>	<u>\$ (6,906)</u>	<u>\$ 75,212</u>	<u>\$ (7,849)</u>

With respect to the debt and equity securities in an unrealized loss position as of June 30, 2017 and 2016, the Health System has determined it is not more likely than not that the Health System may be required to sell its available-for-sale securities before their anticipated recoveries. In assessing the likelihood that the Health System will be required to sell a security before its anticipated recovery, the Health System considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short-term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors.

In evaluating credit losses, the Health System considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost;

(2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

During fiscal years 2017 and 2016, the Health System recorded other-than-temporary impairment charges of \$1,239,000 and \$499,000, respectively, on certain investments in debt and equity securities.

TUHC Debt Securities—At June 30, 2017 and 2016, TUHC held investments in debt securities which are included as assets limited as to use in the Health System’s consolidated balance sheets. The amortized cost and estimated fair value of debt securities at June 30, 2017 and 2016, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Gross unrealized holding gains on these securities aggregated \$144,000 and \$1,078,000 at June 30, 2017 and 2016, respectively. Gross unrealized holding losses on these securities aggregated \$287,000 and \$6,000 at June 30, 2017 and 2016, respectively.

	2017		2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	\$ 216	\$ 217	\$ 1,014	\$ 1,018
Due after one year through five years	30,208	30,207	30,709	31,160
Due after five years through ten years	18,714	18,572	21,177	21,793
Due after ten years	<u>79</u>	<u>78</u>	<u>-</u>	<u>-</u>
	49,217	49,074	52,900	53,971
Mortgage and asset-backed securities	<u>-</u>	<u>-</u>	<u>920</u>	<u>922</u>
	<u>\$ 49,217</u>	<u>\$ 49,074</u>	<u>\$ 53,820</u>	<u>\$ 54,893</u>

7. PLEDGES

As of June 30, 2017 and 2016, pledges are included in the consolidated financial statements at their net present value, less estimated uncollectible amounts, as follows (in thousands):

	2017	2016
Total value of pledges	\$ 4,992	\$ 4,024
Unamortized discount for gross pledges	<u>(57)</u>	<u>(58)</u>
Reported value for pledges	<u>\$ 4,935</u>	<u>\$ 3,966</u>

The discount rates applied to pledges were between 1.24% to 1.89% for 2017 and 0.45% to 1.29% for 2016.

Based upon payment schedules that are either specified by donors or estimated by the Health System, payments on pledges are due as follows (in thousands):

	2017	2016
Amounts due within one year	\$ 1,391	\$ 1,677
Amounts due in two to five years	3,544	2,195
Amounts due thereafter	<u>-</u>	<u>94</u>
Reported value for pledges	<u>\$ 4,935</u>	<u>\$ 3,966</u>

The current and long-term portion of pledges receivable are presented within other receivables and other assets, respectively, on the consolidated balance sheets.

8. GOODWILL AND OTHER INTANGIBLES

At June 30, 2016 the Health System had \$21,875,000 of goodwill and other intangibles related to our affiliation with AOH and acquisitions of community-based primary care practices by TPI. Intangible assets acquired during 2017 relate to additional acquisitions by TPI of \$235,000.

Goodwill and other intangibles at June 30, 2017 and 2016 are summarized as follows (in thousands):

	Goodwill	Other Intangible Assets	Total
Balance at June 30, 2016	\$ 524	\$ 21,351	\$ 21,875
Adjustments:			
Intangible assets acquired	-	235	235
Impairment	-	(146)	(146)
Amortization	<u>-</u>	<u>(920)</u>	<u>(920)</u>
Balance at June 30, 2017	<u>\$ 524</u>	<u>\$ 20,520</u>	<u>\$ 21,044</u>
	Goodwill	Other Intangible Assets	Total
Balance at June 30, 2015	\$ 524	\$ 21,891	\$ 22,415
Adjustments:			
Intangible assets acquired	-	514	514
Impairment	-	(108)	(108)
Amortization	<u>-</u>	<u>(946)</u>	<u>(946)</u>
Balance at June 30, 2016	<u>\$ 524</u>	<u>\$ 21,351</u>	<u>\$ 21,875</u>

The intangible assets with indefinite lives were \$14,984,000 at June 30, 2017 and 2016. The following table summarizes intangible assets with indefinite lives at June 30, 2017 and 2016 (in thousands):

	2017		
	Gross	Impairment	Net
AOH trade name	\$ 13,000	\$ -	\$ 13,000
Research and development of intellectual property	<u>1,984</u>	<u>-</u>	<u>1,984</u>
Total intangibles with indefinite lives	<u>\$ 14,984</u>	<u>\$ -</u>	<u>\$ 14,984</u>
	2016		
	Gross	Impairment	Net
AOH trade name	\$ 13,000	\$ -	\$ 13,000
Research and development of intellectual property	<u>1,984</u>	<u>-</u>	<u>1,984</u>
Total intangibles with indefinite lives	<u>\$ 14,984</u>	<u>\$ -</u>	<u>\$ 14,984</u>

At June 30, 2017 and 2016, amortizing intangible assets were \$5,536,000 and \$6,367,000, respectively. The following table summarizes amortizing intangible assets at June 30, 2017 and 2016 (in thousands):

	2017			
	Gross	Accumulated Amortization	Impairment	Net
Intellectual property	\$ 5,615	\$ (2,059)	\$ -	\$ 3,556
Contracts and agreements	1,860	(725)	-	1,135
Physician contracts	2,410	(1,681)	(146)	583
Other	<u>619</u>	<u>(357)</u>	<u>-</u>	<u>262</u>
Total amortizing intangibles	<u>\$ 10,504</u>	<u>\$ (4,822)</u>	<u>\$ (146)</u>	<u>\$ 5,536</u>
	2016			
	Gross	Accumulated Amortization	Impairment	Net
Intellectual property	\$ 5,615	\$ (1,648)	\$ -	\$ 3,967
Contracts and agreements	1,860	(580)	-	1,280
Physician contracts	2,283	(1,364)	(108)	811
Other	<u>619</u>	<u>(310)</u>	<u>-</u>	<u>309</u>
Total amortizing intangibles	<u>\$ 10,377</u>	<u>\$ (3,902)</u>	<u>\$ (108)</u>	<u>\$ 6,367</u>

During fiscal year 2017, newly acquired intangible assets relate to community-based primary care practices of \$235,000. The weighted average life of this newly acquired intangible asset is 3.9 years.

Aggregate amortization expense was \$920,000 and \$946,000 for the years ended June 30, 2017 and 2016, respectively. Amortization expense for the next five years and thereafter is expected to be as follows (in thousands):

2018	\$ 874
2019	820
2020	647
2021	548
2022	536
Thereafter	<u>2,111</u>
 Total	 <u>\$ 5,536</u>

9. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at June 30, 2017 and 2016, was as follows (in thousands):

	2017	2016
2012 TUHS Series A and B Hospital Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia (the "Authority") at fixed interest rates of 5.0%, 5.625%, and 6.25% due in installments through 2043		
Principal amount	\$ 294,310	\$ 302,905
Less unamortized discount, premium, debt issuance costs, and underwriter's discount	<u>(7,189)</u>	<u>(7,154)</u>
Long-term debt less unamortized discount, premium, and debt issuance costs	287,121	295,751
2007 TUHS Series A and B Hospital Revenue Bonds, issued by the Authority at fixed interest rates of 5.0% and 5.5%, due in installments through 2035		
Principal amount	201,610	203,985
Less unamortized discount, premium, and debt issuance costs	<u>(1,182)</u>	<u>(1,278)</u>
Long-term debt less unamortized discount, premium, and debt issuance costs	200,428	202,707
Loan payable to Episcopal Healthcare Foundation due in December 2020 at a fixed interest rate of 4.0%	2,180	2,748
Various capital lease obligations due in installments through 2022 at varied fixed interest rates ranging from 5.79% to 6.00%	11,107	7,696
Equipment financing arrangements due in installments through 2020 at varied fixed interest rates ranging from 1.34% to 3.80%	10,605	8,910
Mortgage obligation due in installments through December 2031 at a fixed interest rate of 4.18%	<u>9,000</u>	<u>-</u>
	520,441	517,812
Less current portion of long-term debt	<u>18,397</u>	<u>17,427</u>
	<u>\$ 502,044</u>	<u>\$ 500,385</u>

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group and are subject to various financial covenants. The TUHS Obligated Group includes TUHS, TUH, JH, TPI, T3, AOH, ICR, MGI and Network. The Health System is in compliance with its debt covenants for 2017 and 2016.

At June 30, 2017, total aggregate principal payments under long-term debt and capital lease obligations for the next five years and thereafter are (in thousands):

	Long-Term Debt	Capital Leases
2018	\$ 15,597	\$ 2,800
2019	15,086	2,892
2020	14,743	2,819
2021	13,772	1,902
2022	13,398	632
Thereafter	<u>445,109</u>	<u>62</u>
Total	<u>\$ 517,705</u>	<u>\$ 11,107</u>

During fiscal year 2017, the Health System entered into a revolving line of credit arrangement with a financial institution allowing for outstanding borrowings not to exceed \$25,000,000 and expiring in June 2018. Interest is calculated at one month fully absorbed LIBOR plus 1.4%. Borrowings at June 30, 2017 were \$15,000,000 due upon expiration.

10. LEASE COMMITMENTS

The Health System leases certain property and equipment under operating lease agreements with remaining terms expiring at various dates through 2046. Lease expenses for 2017 and 2016 were \$18,521,000 and \$20,211,000, respectively.

At June 30, 2017, future minimum payments by year and in the aggregate under non-cancelable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

2018	\$ 10,420
2019	8,458
2020	8,241
2021	6,516
2022	4,336
Thereafter	<u>6,132</u>
Total	<u>\$ 44,103</u>

11. RELATED PARTY TRANSACTIONS

Temple University—The Health System has made various transfers of unrestricted net assets to the University to be used for health-related programs and initiatives. In fiscal years 2017 and 2016, \$7,822,000 and \$7,680,000, respectively, in net asset transfers were recognized. In addition, the University has made transfers of unrestricted net assets to the Health System to be used for research initiatives. In fiscal years 2017 and 2016, \$0 and \$1,000,000, respectively, in net asset transfers were recognized. All of the 2017 and 2016 transfers were disbursed by June 30, 2017 and 2016, respectively.

The Health System and University allocate certain costs for services provided to each other. Costs billed to the Health System by the University in 2017 and 2016 include (in thousands):

	Health System Expense	
	2017	2016
Medical school clinical physicians	\$ 122,953	\$ 89,814
Maintenance	8,562	8,066
Telecommunications	4,254	6,449
Institutional support	6,163	5,369
Security	2,365	2,394
Employee tuition	1,975	1,662
Other administrative support	<u>21,142</u>	<u>13,527</u>
 Total expenses billed	 <u>\$ 167,414</u>	 <u>\$ 127,281</u>

The University also billed the Health System for capital projects in the amount of \$205,000 and \$191,000 for the years ended June 30, 2017 and 2016, respectively.

TUH is the teaching hospital for Temple University School of Medicine and its clinical practice plan physicians (TUP). TUH purchases administrative, supervisory and teaching physician services from TUP. TUH also provides other support to TUP to further the missions of TUH and the medical school. These charges are recorded on the consolidated statements of operations and changes in net assets as a professional fee expense.

The Health System charges the University for the cost of services provided to the University. Amounts billed to the University in 2017 and 2016 include (in thousands):

	2017	2016
Salaries and fringe benefits, primarily for residents	\$ 18,543	\$ 12,029
Rent	7,204	6,058
Other	<u>4,449</u>	<u>3,743</u>
 Total expenses billed to the University	 <u>\$ 30,196</u>	 <u>\$ 21,830</u>

Such amounts are included as other revenue or a reduction of expenses reported in the consolidated financial statements.

At June 30, 2017 and 2016, \$39,779,000 and \$52,497,000, respectively, are due to the University for transactions during those years and are included in accounts payable. At June 30, 2017 and 2016, \$2,691,000 and \$3,674,000, respectively, are due from the University for transactions during those years and are included in other receivables.

Health Partners Plans—TUH and Episcopal are participants and governing members in a Medicaid, Medicare, and Children’s Health Insurance Program (“CHIP”) HMO known as Health Partners Plans (“HPP”).

Under certain of its contracts with HPP, the Health System is the beneficiary of, or is responsible for, allocated HPP gains and losses that are based primarily on the number of HPP members enrolled in the Health System's primary care physicians' network and other factors as approved by the HPP board.

HPP's annual premium revenues for Medicaid were \$1,452,687,000 and \$1,317,899,000 for fiscal years 2017 and 2016. For fiscal years 2017 and 2016, the Health System recognized a gain of \$37,067,000 and \$16,300,000, respectively, for Medicaid in net patient service revenue from HPP members.

HPP's annual premium revenues for Medicare were \$299,736,000 and \$257,082,000 for fiscal years 2017 and 2016. For fiscal years 2017 and 2016, the Health System recognized a loss of (\$8,720,000) and (\$7,583,000), respectively, for Medicare in net patient service revenue from HPP members.

HPP's annual premium revenues for CHIP were \$17,477,000 and \$16,451,000 for fiscal years 2017 and 2016. For fiscal years 2017 and 2016, the Health System recognized a loss of (\$79,000) and (\$6,000), respectively, for CHIP in net patient service revenue from HPP members.

The Health System's estimated gains and losses are included in the accompanying consolidated statements of operations and changes in net assets as a component of net patient service revenue. The net gain recorded in 2017 and 2016 was \$28,268,000 and \$8,711,000, respectively.

In fiscal year 2016, the Health System obtained a letter of credit in the amount of \$20,000,000, of which HPP is the beneficiary. The letter of credit was used to support the statutory capital needs of HPP. No amounts were drawn on the letter of credit during fiscal years 2017 and 2016. As directed by HPP, the letter of credit was terminated on March 1, 2017.

12. MEDICAL PROFESSIONAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

The Health System members participate in the Health System's insurance programs for medical professional liability claims. Primary coverage is provided by an insurance company and reinsured to TUHIC.

Because primary losses are reinsured through TUHIC, primary losses are essentially self-insured up to certain limits, which are coordinated with statutory excess coverage provided through the Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCare Fund"). Also, additional excess liability coverage has been obtained through a commercial insurance carrier.

The Health System accrues liabilities for the estimated losses on asserted and unasserted claims. The discount rate used in determining the liability at June 30, 2017 and 2016, was 1.75% and 1.25%, respectively. The liabilities are comprised of asserted claims for self-insured components of the program and accruals for unasserted claims. Asserted claims are specifically identified, with actuarial determination of the ultimate liability on asserted and unasserted claims based on claims settlement history. The estimated discounted liability accrued for asserted and unasserted claims for the Health System was \$125,022,000 and \$120,197,000 at June 30, 2017 and 2016, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was \$30,539,000 and \$31,341,000 at June 30, 2017 and 2016, respectively. The Health System incurred net medical professional liability insurance expense of \$24,837,000 and \$18,681,000 in 2017 and 2016, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as insurance expense.

The activity in the liability for claims reported and claims incurred but not reported for TUHIC for the years ended June 30, 2017 and 2016, is summarized as follows (in thousands):

	2017	2016
Outstanding	\$ 11,290	\$ 14,660
Incurred but not reported	<u>14,249</u>	<u>16,681</u>
	<u>\$ 25,539</u>	<u>\$ 31,341</u>
Balance—July 1	\$ 31,341	\$ 37,595
Incurred related to current year	10,969	14,313
Incurred related to prior year	<u>(5,730)</u>	<u>(10,852)</u>
	<u>5,239</u>	<u>3,461</u>
Paid related to current year	242	249
Paid related to prior year	<u>10,799</u>	<u>9,466</u>
	<u>11,041</u>	<u>9,715</u>
Net balance—June 30	<u>\$ 25,539</u>	<u>\$ 31,341</u>

As a result of changes in estimates of insured events in prior years, loss and loss adjustment expenses relating to prior years decreased by (\$5,730,000) for the year ended June 30, 2017 and decreased by (\$10,852,000) for the year ended June 30, 2016.

TUHIC is registered under the Bermuda Insurance Act of 1978, amendments thereto and the Related Regulations (the “Insurance Act”) and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum required statutory capital and surplus at June 30, 2017 and 2016, was \$2,554,000 and \$3,134,000, respectively, and the actual statutory capital and surplus was \$24,970,000 and \$25,272,000, respectively. The minimum required level of liquid assets was \$22,989,000 and \$26,459,000 and actual liquid assets were \$55,721,000 and \$60,551,000 at June 30, 2017 and 2016, respectively.

The Health System is primarily self-insured for workers’ compensation. Program assets at June 30, 2017 and 2016, were \$11,405,000 and \$11,788,000, respectively. Program liabilities were determined using a discount rate of 2.25% and 1.50% for fiscal years 2017 and 2016, respectively. The estimated discounted liability accrued at June 30, 2017 and 2016, was \$22,796,000 and \$25,301,000, respectively. Workers’ compensation expense was \$6,301,000 and \$6,440,000 for fiscal years 2017 and 2016, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as employee benefit expense.

The Health System follows ASU 2010-24, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The ASU requires that the ultimate costs of claims or similar contingent liabilities shall be accrued when the incidents that give rise to the claims occur. This guidance also requires recognition of additional offsetting assets and liabilities on the balance sheet relating to workers’ compensation and medical professional liability recoveries and claims. The current

and long-term asset balances recorded due to this guidance are reflected on the consolidated balance sheets as current portion of self-insurance program receivables and self-insurance program receivables, while the offsetting liabilities are reflected within current portion of self-insurance liabilities and self-insurance liabilities. The amounts below are also included in the disclosure of liabilities within this footnote above. The balances recorded for the years ended June 30, 2017 and 2016 are summarized as follows (in thousands):

	2017			2016		
	Current	Long-Term	Total	Current	Long-Term	Total
Workers' compensation:						
Open reserves in excess of retention	\$ -	\$ 1,122	\$ 1,122	\$ -	\$ 1,987	\$ 1,987
Incurred but not recorded reserves in excess of retention	-	527	527	-	1,088	1,088
Professional liability:						
Claims settled within the MCare Layer	3,150	-	3,150	2,000	-	2,000
Open reserves within the MCare Layer	-	6,100	6,100	-	6,283	6,283
Incurred but not recorded reserves in excess of the MCare Layer	-	5,647	5,647	-	6,326	6,326
Incurred but not recorded reserves in excess of the Buffer Layer	-	2,098	2,098	-	767	767
	<u>\$ 3,150</u>	<u>\$ 15,494</u>	<u>\$ 18,644</u>	<u>\$ 2,000</u>	<u>\$ 16,451</u>	<u>\$ 18,451</u>

13. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Health System sponsors various defined benefit plans at the individual affiliate level based on prescribed eligibility requirements and certain Health System employees participate in the University's defined benefit plan. In addition, certain Health System members participate in the defined contribution retirement plans and defined benefit retirement plans for eligible employees that provide benefits through contributions made by the Health System and its employees. Beginning January 1, 2007, the Health System established new defined contribution plans for its employees and no longer actively participated in the University's defined contribution plans. Also, on November 1, 2007, the last of the TUHS defined benefit retirement plans was closed to new participants; only certain grandfathered employees are eligible to participate in the defined benefit pension plans. These employees are not eligible to participate in the Health System's defined contribution plans.

The Health System makes contributions to participants' accounts under the Health System's defined contribution plans based on a defined percentage of the employee's base wages and length of service. The Health System contributions to the plans for fiscal years 2017 and 2016 were \$28,496,000 and \$25,807,000, respectively. Contributions to the plans for fiscal year 2018 are expected to be \$29,839,000.

Multiemployer Plans—Also, certain Health System employees participate in multiemployer pension plans based on collective-bargaining agreements. The Health System contributes to two multiemployer pension plans under the terms of collective-bargaining agreements that cover these union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- c. If the Health System chooses to stop participating in one or both of its multiemployer plans, the Company may be required to pay that plan(s) an amount based on the underfunded status of the plan(s), referred to as a withdrawal liability.

The Health System’s participation in these plans for the annual period ended June 30, 2017, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is also noted below. The zone status is based on information that the Health System received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of TUHS		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2017	2016		2017	2016		
The Pension Fund for Hospital and Health Care Employees Philadelphia and Vicinity (1)	23-2627428/001	Red	Red	Yes	\$ 7,493,000	\$ 5,819,000	Yes	Various up to 2018
Central Pension Fund of the International Union of Operating Engineers and Participating Employers (2)	36-6052390/001	Green	Green	No	96,000	94,000	No	November 2018
Total contributions					<u>\$ 7,589,000</u>	<u>\$ 5,913,000</u>		

(1) Plan years began 1/1/17 and 1/1/16
(2) Plan years began 2/1/17 and 2/1/16

The Health System was listed in its plan’s Form 5500 as providing more than 5% of the total contributions for the following plan and plan year:

<u>Pension Fund</u>	Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan’s Year End)
The Pension Fund for Hospital and Health Care Employees — Philadelphia and Vicinity	2016

At the date these consolidated financial statements were issued, Forms 5500 were not available for the plan year ending in 2017.

Certain Health System employees participate in the University’s postretirement health and life insurance plan. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years’ service.

Postretirement Health Care Plan Trends—For measurement purposes, 6.6% and 9.4% annual rates of increase in the per-capita cost of postretirement benefits were assumed for 2017 for the shared plan of the Health System and University and the AOH and Affiliates plan, respectively, compared to the rates of 6.6% and 11.0% for 2016. For 2017, these rates are assumed to decrease gradually to 4.5% in 2025 and 4.5% in 2026, respectively, and to remain at those levels thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the year ended June 30, 2017 (in thousands) for all Health System and University participants:

		1%	1%
		Increase	(Decrease)
Incremental effect on total of service and interest cost components	\$ 4,086		\$ (3,428)
Incremental effect on postretirement benefit obligation		54,584	(42,485)

Defined Benefit Pension, Defined Contribution and Postretirement Benefit Plans—Total defined benefit pension, defined contribution, and other postretirement benefit plans expense under all Health System programs amounted to \$40,687,000 and \$37,784,000 for the fiscal years ended June 30, 2017 and 2016, respectively.

The following table sets forth the activity of the pension and other postretirement benefit plans (which includes the joint Health System and University plans) as of and for the years ended June 30, 2017 and 2016 (dollars in thousands). A measurement date of June 30 is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 213,387	\$ 191,079	\$ 454,611	\$ 418,619
Affiliation impact	-	-	-	-
Service cost	2,019	2,203	15,505	15,378
Interest cost	6,555	8,728	13,012	18,376
Plan participant contributions	174	205	2,016	2,274
Actuarial (gain) loss	(4,231)	20,238	(61,014)	17,127
Benefits paid	(8,416)	(7,864)	(15,157)	(17,163)
Administrative expenses paid	(1,176)	(1,178)	-	-
Settlement	(38)	(24)	-	-
	<u>208,274</u>	<u>213,387</u>	<u>408,973</u>	<u>454,611</u>
Benefit obligation—end of year				
Change in plan assets:				
Fair value of plan assets—beginning of year	152,147	158,383	283,806	290,465
Actual return on plan assets	17,118	303	26,978	(5,170)
Employer contributions	13,488	2,298	12,503	13,400
Plan participant contributions	174	205	2,016	2,274
Plan expenses	(1,176)	(1,178)	-	-
Benefits paid	(8,416)	(7,864)	(15,157)	(17,163)
	<u>173,335</u>	<u>152,147</u>	<u>310,146</u>	<u>283,806</u>
Fair value of plan assets—end of year				
Funded status	(34,939)	(61,240)	(98,827)	(170,805)
Less University prepaid (accrued) cost	(584)	(6,325)	(75,614)	(131,229)
Net amount recognized—TUHS Only	<u>\$ (34,355)</u>	<u>\$ (54,915)</u>	<u>\$ (23,213)</u>	<u>\$ (39,576)</u>
Amount recognized in the balance sheets, include:				
Other noncurrent assets	\$ -	\$ -	\$ -	\$ -
Other current liabilities	-	-	(500)	(535)
Accrued postretirement benefits—noncurrent	<u>(34,355)</u>	<u>(54,915)</u>	<u>(22,713)</u>	<u>(39,041)</u>
Net amount recognized—TUHS Only	<u>\$ (34,355)</u>	<u>\$ (54,915)</u>	<u>\$ (23,213)</u>	<u>\$ (39,576)</u>

	Pensions		Other Postretirement Benefit Plan	
	2017	2016	2017	2016
Amounts recognized in unrestricted net assets:				
Prior service cost (credit)	\$ -	\$ -	\$ (249)	\$ (2,740)
Net actuarial loss	<u>87,274</u>	<u>103,278</u>	<u>10,055</u>	<u>27,633</u>
Net amount recognized in unrestricted net assets	<u>\$ 87,274</u>	<u>\$ 103,278</u>	<u>\$ 9,806</u>	<u>\$ 24,893</u>
Weighted-average assumptions to determine benefit obligation:				
Discount rate	3.67%-4.07%	3.36%-4.02%	2.82%-3.95%	2.34%-3.83%
Rate of compensation increase	2.50%-3.00%	2.50%-3.00%	N/A	N/A
Weighted-average assumptions to determine net periodic cost:				
Discount rate	3.36%-4.03%	4.45%-4.65%	2.34%-3.83%	2.95%-4.50%
Rate of compensation increase	2.50%-3.00%	3.00%-4.00%	N/A	N/A
Expected return on plan assets	6.50%-7.00%	6.50%-7.00%	7.50%	7.50%
Components of net periodic cost (benefit):				
Service cost	\$ 2,019	\$ 2,203	\$ 15,505	\$ 15,378
Interest cost	6,555	8,727	13,012	18,376
Expected return on plan assets	(11,212)	(10,731)	(21,167)	(21,617)
Amortization	-	-	(2,491)	(6,916)
Recognized net actuarial loss	6,823	5,759	5,822	4,403
Settlement	<u>197</u>	<u>256</u>	<u>-</u>	<u>-</u>
Net periodic cost	4,382	6,214	10,681	9,624
Less: University net periodic cost	<u>(648)</u>	<u>(906)</u>	<u>(9,812)</u>	<u>-</u>
TUHS net periodic cost	<u>\$ 3,734</u>	<u>\$ 5,308</u>	<u>\$ 869</u>	<u>\$ 9,624</u>

The estimated net actuarial loss for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2018 is \$5,951,000. The estimated net actuarial loss and net prior service credit for the postretirement health and life insurance plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2018 is \$209,000 and \$249,000, respectively.

Effective July 1, 2016, the Health System changed the method used to estimate the service and interest costs for pension and postretirement benefits. The new method utilizes a full yield curve approach to estimate service and interest costs by applying specific spot rates along the yield curve used to determine the benefit obligation of relevant projected cash outflows. The Health System made the change to provide a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rate on the yield curve. The change does not impact the measurement of the plan's obligations.

Assets Allocations—The following details the Health System's defined benefit plans asset allocations:

Pension Plans Assets	Target Allocation	Percentage of Plan Assets at	
	Fiscal Year Ending June 30, 2018	June 30, 2017	June 30, 2016
Equity funds and alternative funds	68-95%	77 %	70 %
Cash and fixed income	5-32%	<u>23</u>	<u>30</u>
Total		<u>100 %</u>	<u>100 %</u>

The following details the University-sponsored pension and other postretirement defined benefit plan asset allocations:

Pension and Other Postretirement Benefit Plan Assets	Target Allocation	Percentage of Plan Assets at	
	Fiscal Year Ending June 30, 2018	June 30, 2017	June 30, 2016
Equity funds and securities	20-75%	69 %	67 %
Cash and fixed income	25-80%	<u>31</u>	<u>33</u>
Total		<u>100 %</u>	<u>100 %</u>

Investment Strategy—The long-term investment strategy for pension and other postretirement benefit plans assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

The pension plans assets of the joint Health System and Temple University plans were \$173,335,000 and \$152,147,000 at June 30, 2017 and 2016, respectively. The fair values of the pension plan assets at June 30, 2017, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at	Total
				NAV	
Cash and cash equivalents	\$ 4,956	\$ -	\$ -	\$ -	\$ 4,956
Equity funds and securities	75,784	-	-	10,539	86,323
Alternative funds	-	-	-	5,190	5,190
Fixed income mutual funds	36,823	24,033	-	-	60,856
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,010</u>	<u>16,010</u>
Total market value	<u>\$ 117,563</u>	<u>\$ 24,033</u>	<u>\$ -</u>	<u>\$ 31,739</u>	<u>\$ 173,335</u>

The fair values of the pension plan assets at June 30, 2016, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at	Total
				NAV	
Cash and cash equivalents	\$ 3,936	\$ -	\$ -	\$ -	\$ 3,936
Equity funds and securities	59,157	-	-	10,103	69,260
Alternative funds	-	-	-	4,855	4,855
Fixed income mutual funds	60,107	-	-	-	60,107
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,989</u>	<u>13,989</u>
Total market value	<u>\$ 123,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,947</u>	<u>\$ 152,147</u>

Transfers between Levels 1 and 2—During the years ended June 30, 2017 and 2016, there were no transfers between Levels 1 and 2.

Transfers into or out of Level 3—Transfers into or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable/unobservable.

The fair values of the following investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2017 and 2016.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2017:				
Cash*	\$ 187	\$ -	Quarterly	90 days
Multi-Strategy Hedge Funds (a)	17,313	-	Daily, Quarterly	0–95 days
Distressed Debt Hedge Funds (b)	438	-	Quarterly	65–90 days
Private Equity Funds (c)	93	-	Quarterly	90 days
Global/Macro Hedge Funds (d)	840	-	Quarterly	90 days
Real Estate Funds (e)	7,288	-	Quarterly	45–90 days
Equity Funds (f)	<u>5,580</u>	<u>-</u>	Daily, Monthly	0-60 days
	<u>\$ 31,739</u>	<u>\$ -</u>		

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2016:				
Cash*	\$ 140	\$ -	Quarterly	90 days
Multi-Strategy Hedge Funds (a)	14,138	-	Daily, Quarterly	0–95 days
Distressed Debt Hedge Funds (b)	364	-	Quarterly	65–90 days
Private Equity Funds (c)	23	-	Quarterly	90 days
Global/Macro Hedge Funds (d)	749	-	Quarterly	90 days
Real Estate Funds (e)	7,343	-	Monthly, Quarterly	30–45 days
Equity Funds (f)	<u>6,190</u>	<u>-</u>	Daily	0 days
	<u>\$ 28,947</u>	<u>\$ -</u>		

* Cash holdings of underlying managers

- (a) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.
- (b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies.
- (c) This category includes real estate loans and non-public company equity and debt securities.
- (d) This category includes investments in a broad diversity of asset classes and geographic markets. They may invest in the equity, global fixed income, currency and commodity sectors.

- (e) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.
- (f) This category includes investments in U.S., International Developed Markets and Emerging Markets equities via commingled funds and index funds. The funds seek to balance the long term growth of capital with income and high total return.

The postretirement plan assets of the joint Health System and Temple University were \$310,146,000 and \$283,806,000 at June 30, 2017 and 2016, respectively, of which only a portion of this pool of assets belongs to the Health System. The fair values of the postretirement plan assets at June 30, 2017, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 7,114	\$ -	\$ -	\$ -	\$ 7,114
Equity funds and securities	155,533	-	-	10,539	166,072
Fixed income index funds	-	-	-	67,169	67,169
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,791</u>	<u>69,791</u>
Total market value	<u>\$ 162,647</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,499</u>	<u>\$ 310,146</u>

The fair values of the postretirement plan assets at June 30, 2016, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 6,974	\$ -	\$ -	\$ -	\$ 6,974
Equity funds and securities	133,885	-	-	24,581	158,466
Fixed income index funds	-	-	-	67,457	67,457
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,909</u>	<u>50,909</u>
Total market value	<u>\$ 140,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,947</u>	<u>\$ 283,806</u>

The fair values of the following investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2017 and 2016.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2017:				
Cash*	\$ 1,805	\$ -	Quarterly	90 days
Multi-Strategy Hedge Funds (a)	31,020	-	Quarterly	65–90 days
Distressed Debt Hedge Funds (b)	4,214	-	Quarterly	65–90 days
Private Equity Funds (c)	903	-	Quarterly	90 days
Global/Macro Hedge Funds (d)	8,086	-	Quarterly	90 days
Real Estate Funds (e)	8,550	-	Monthly	30 days
Fixed Income Funds (f)	67,169	-	Daily	2–6 days
Equity Funds (g)	<u>25,752</u>	<u>-</u>	Daily, Monthly	0-60 days
	<u>\$ 147,499</u>	<u>\$ -</u>		

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2016:				
Cash*	\$ 1,385	\$ -	Quarterly	90 days
Multi-Strategy Hedge Funds (a)	29,996	-	Quarterly	65–90 days
Distressed Debt Hedge Funds (b)	3,563	-	Quarterly	65–90 days
Private Equity Funds (c)	227	-	Quarterly	90 days
Global/Macro Hedge Funds (d)	7,346	-	Quarterly	90 days
Real Estate Funds (e)	8,392	-	Monthly	30 days
Fixed Income Funds (f)	67,457	-	Daily	2–6 days
Equity Funds (g)	<u>24,581</u>	<u>-</u>	Daily	0 days
	<u>\$ 142,947</u>	<u>\$ -</u>		

* Cash holdings of underlying managers

- (a) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.
- (b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies.
- (c) This category includes real estate loans and non-public company equity and debt securities.
- (d) This category includes investments in a broad diversity of asset classes and geographic markets. They may invest in the equity, global fixed income, currency and commodity sectors.
- (e) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.

- (f) This category includes investments in intermediate and long term U.S. government securities and credit securities and U.S. fixed income index funds and commingled funds.
- (g) This category includes investments in U.S., International Developed Markets and Emerging Markets equities via commingled funds and index funds. The funds seek to balance the long term growth of capital with income and high total return.

Expected Return on Plan Assets—The expected long-term rate of return for the plans’ total assets is based on the expected return of each of the above investment categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 5.25% to 10.75% over the long-term, while fixed income is expected to return between 2.25% and 6.75%.

Expected Cash Flows—The following table shows expected cash flows related to the defined benefit pension and other postretirement benefit plans (in thousands):

	Pension Plans TU/ Health System	Postretirement Benefit Plan TU/ Health System
Expected Health System contributions for fiscal year ending June 30, 2018:		
Expected employer contributions	\$ 6,009	\$ 5,497
Expected employee contributions	-	2,003
Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending June 30:		
2018	9,459	18,633
2019	9,737	19,443
2020	10,150	20,146
2021	10,537	21,163
2022	10,990	22,014
2023 to 2027	60,402	118,336

14. ENDOWMENT

The Health System’s endowment consists of several funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law—The Health System classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund comprised of accumulated investment earnings not required to be maintained in perpetuity is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Health System in a manner consistent with the donor’s stipulations. The Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Health System, and the investment policies of the Health System.

Endowment net asset composition by type of fund as of June 30, 2017 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 6,946</u>	<u>\$ 13,395</u>	<u>\$ 20,341</u>

Endowment net asset composition by type of fund as of June 30, 2016 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 8,985</u>	<u>\$ 10,680</u>	<u>\$ 19,665</u>

Changes in endowment net assets for the fiscal years ended June 30, 2017 and 2016 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—June 30, 2015	\$ 9,090	\$ 9,810	\$ 18,900
Contributions	-	943	943
Investment return—investment income (loss)	2,295	(73)	2,222
Appropriations of endowment assets for expenditure	<u>(2,400)</u>	<u>-</u>	<u>(2,400)</u>
Endowment net assets—June 30, 2016	8,985	10,680	19,665
Contributions	-	2,050	2,050
Investment return—investment income	2,720	665	3,385
Appropriations of endowment assets for expenditure	<u>(4,759)</u>	<u>-</u>	<u>(4,759)</u>
Endowment net assets—June 30, 2017	<u>\$ 6,946</u>	<u>\$ 13,395</u>	<u>\$ 20,341</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2017 and 2016.

Investment Return Objectives and Spending Policy—The Health System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index plus 4.5%. To satisfy its long-term rate-of-return objectives, the Health System targets a diversified asset allocation that places a greater emphasis on equity based investments within prudent risk constraints.

The Health System has a policy of appropriating for distribution each year 2% to 7% of its endowment fund's average fair value over the prior three years. The Board of Directors approved an appropriation of 4.5% for each of the years ended June 30, 2017 and 2016, respectively.

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2017 and 2016 (in thousands):

	2017	2016
Property and equipment additions	\$ 681	\$ 850
Specific health care programs	<u>23,427</u>	<u>23,379</u>
	<u>\$ 24,108</u>	<u>\$ 24,229</u>

Permanently restricted net assets consist of the following at June 30, 2017 and 2016 (in thousands):

	2017	2016
Beneficial interest in perpetual trusts, income from which is expendable to support health care services (income reported as unrestricted)	\$ 40,042	\$ 37,572
Beneficial interest in assets held by Episcopal Foundation	27,348	22,836
Beneficial interest in assets held by Fox Chase Cancer Center Foundation	<u>51,377</u>	<u>44,769</u>
	118,767	105,177
Endowment funds, income from which is expendable for specific health care programs (income is temporarily restricted)	<u>13,395</u>	<u>10,680</u>
	<u>\$ 132,162</u>	<u>\$ 115,857</u>

The Episcopal Healthcare Foundation (the "EH Foundation") controls certain investments that, according to its organizational structure, are held for the benefit of TUH's Episcopal campus operations. TUH has recognized the fair market value of investments held by the EH Foundation as an asset (beneficial interest in the assets held by Episcopal Foundation) and permanently restricted net assets of \$27,348,000 and \$22,836,000 at June 30, 2017 and 2016, respectively.

The Fox Chase Cancer Center Foundation (the "FCCC Foundation") controls certain investments that, according to its organizational structure, are held for the benefit of ICR's research operations and AOH's clinical operations. ICR and AOH have recognized the fair market value of investments held by the FCCC Foundation as an asset (beneficial interest in the assets held by Fox Chase Cancer Center Foundation) and permanently restricted net assets of \$51,377,000 and \$44,769,000 at June 30, 2017 and 2016, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 70% and 68% marketable equity securities and 30% and 32% fixed income securities at June 30, 2017 and 2016, respectively.

16. COMMITMENTS AND CONTINGENCIES

The Commonwealth of Pennsylvania owns the land upon which certain TUH facilities are located. The land is leased to the University for a term ending December 31, 2043, for a nominal rent. The University subleases these facilities to TUH.

The Friends Fiduciary Corporation owns the land upon which the JH facilities are located. The land is leased to JH for a term ending June 30, 2046, for a nominal rent.

There are reversionary rights held by the land grantor, Friends Fiduciary Corporation, in certain deeds to the properties that make up the main campus of Fox Chase Cancer Center. The grantor may exercise its reversionary rights if ICR or AOH, respectively, no longer manages, operates and controls the premises or if the premises are no longer used for permitted purposes.

As of June 30, 2017, JH has committed to making investments of \$201,000 at into partnerships (a private equity fund and a real estate fund), which may be requested through capital calls from the partnerships. Detail regarding the unfunded commitments is disclosed in Notes 13 and 18.

TUHC holds cash and investments in debt securities in the amount of \$49,270,000 and \$55,061,000 as of June 30, 2017 and 2016, respectively, which are being held in trust in order to secure TUHC's liabilities under certain reinsurance contracts.

In addition, the Health System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's financial position, results of operations, or cash flows.

17. COMMONWEALTH OF PENNSYLVANIA, DEPARTMENT OF HUMAN SERVICES SUPPORT

The Health System receives support primarily related to providing access to health care services, including care for the uninsured and indigent population (see Note 5). These support payments are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. To the extent that these support payments are dependent on a provider tax from the hospitals, those expenses are included in purchased services and other in the accompanying consolidated statements of operations and changes in net assets. There is no guarantee that this funding will continue in future years. Under certain circumstances, the Health System could be required to repay certain support payments received from the Commonwealth.

Support received from the Commonwealth for the fiscal years ended June 30, 2017 and 2016, including any provider tax expenses, are as follows:

	2017	2016
Base supplemental revenues	<u>\$ 102,322,000</u>	<u>\$ 80,562,182</u>
State and local hospital assessment revenues	94,311,000	87,900,254
State and local hospital assessment expenses	<u>(46,787,000)</u>	<u>(48,160,121)</u>
Net state and local hospital assessment program	<u>47,524,000</u>	<u>39,740,133</u>
Academic Health Center	<u>6,229,000</u>	<u>6,209,772</u>
Subtotal supplemental funding, net of taxes	156,075,000	126,512,087
Other net supplemental funding	<u>6,810,000</u>	<u>27,543,000</u>
Total net supplemental funding	<u>\$ 162,885,000</u>	<u>\$ 154,055,087</u>

The Academic Health Center support of \$6,229,000 and \$6,209,772 for the years ended June 30, 2017 and 2016, respectively, was passed through to the University as an equity transfer.

For the years ended June 30, 2017 and 2016, other net supplemental funding of \$6,810,000 and \$27,543,000, respectively, was received and provided as support to TUP to further the mission of TUH and the Medical School.

18. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements.

FASB ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

FASB ASC Topic 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1—Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2017 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Assets limited as to use:					
U.S. government securities	\$ 47,734	\$ 10,311	\$ -	\$ -	\$ 58,045
Fixed income mutual funds	2,013	-	-	-	2,013
Corporate bonds, notes, and other debt securities	-	15,227	-	-	15,227
Cash, money market funds, and certificates of deposit	82,117	753	-	-	82,870
Equity securities and mutual funds	8,167	-	-	-	8,167
Alternative funds	-	-	-	632	632
	<u>140,031</u>	<u>26,291</u>	<u>-</u>	<u>632</u>	<u>166,954</u>
Workers' Compensation Fund:					
U.S. government securities	6,802	175	-	-	6,977
Corporate bonds, notes, and other debt securities	-	3,003	-	-	3,003
Cash, money market funds, and certificates of deposit	1,155	-	-	-	1,155
	<u>7,957</u>	<u>3,178</u>	<u>-</u>	<u>-</u>	<u>11,135</u>
Investments:					
U.S. government securities	12,798	13,954	-	-	26,752
Fixed income mutual funds	10,349	-	-	-	10,349
Corporate bonds, notes, and other debt securities	-	19,391	-	-	19,391
Equity securities and mutual funds	94,321	-	-	-	94,321
Real estate	-	345	-	-	345
Alternative funds	-	-	-	29,900	29,900
Limited liability partnerships	-	-	-	16,697	16,697
	<u>117,468</u>	<u>33,690</u>	<u>-</u>	<u>46,597</u>	<u>197,755</u>
Beneficial interest in perpetual trusts	-	-	40,042	-	40,042
Beneficial interest in the assets held by Episcopal Foundation	-	-	27,348	-	27,348
Beneficial interest in the Fox Chase Cancer Center Foundation	-	-	51,377	-	51,377
Total	<u>\$ 265,456</u>	<u>\$ 63,159</u>	<u>\$ 118,767</u>	<u>\$ 47,229</u>	<u>\$ 494,611</u>

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis as of June 30, 2016 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Assets limited as to use:					
U.S. government securities	\$ 82,104	\$ 10,764	\$ -	\$ -	\$ 92,868
Fixed income mutual funds	2,083	-	-	-	2,083
Corporate bonds, notes, and other debt securities	-	12,672	-	-	12,672
Cash, money market funds, and certificates of deposit	79,203	707	-	-	79,910
Equity securities and mutual funds	6,971	-	-	-	6,971
Alternative funds	-	-	-	351	351
	<u>170,361</u>	<u>24,143</u>	<u>-</u>	<u>351</u>	<u>194,855</u>
Workers' Compensation Fund:					
U.S. government securities	7,981	217	-	-	8,198
Corporate bonds, notes, and other debt securities	-	2,919	-	-	2,919
Cash, money market funds, and certificates of deposit	306	-	-	-	306
	<u>8,287</u>	<u>3,136</u>	<u>-</u>	<u>-</u>	<u>11,423</u>
Investments:					
Fixed income mutual funds	55,273	-	-	-	55,273
Equity securities and mutual funds	71,949	-	-	-	71,949
Real estate	-	365	-	-	365
Alternative funds	-	-	-	21,574	21,574
Limited liability partnerships	-	-	-	18,123	18,123
	<u>127,222</u>	<u>365</u>	<u>-</u>	<u>39,697</u>	<u>167,284</u>
Beneficial interest in perpetual trusts	-	-	37,572	-	37,572
Beneficial interest in the assets held by Episcopal Foundation	-	-	22,836	-	22,836
Beneficial interest in the Fox Chase Cancer Center Foundation	-	-	44,769	-	44,769
Total	<u>\$ 305,870</u>	<u>\$ 27,644</u>	<u>\$ 105,177</u>	<u>\$ 40,048</u>	<u>\$ 478,739</u>

Transfers between Levels 1 and 2—During the years ended June 30, 2017 and 2016, there were no transfers between Levels 1 and 2.

Transfers into or out of Level 3—Transfers in and/or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable/unobservable.

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2017:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
July 1, 2016	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Sales	Transfer Into Level 3	Transfer Out of Level 3	June 30, 2017
	Net Income (Loss)	Net Asset					
Year ended June 30, 2017:							
Beneficial interest in perpetual trusts	\$ 37,572	\$ -	\$ 2,470	\$ -	\$ -	\$ -	\$ 40,042
Beneficial interest in the assets held by Episcopal Foundation	\$ 22,836	\$ -	\$ 4,512	\$ -	\$ -	\$ -	\$ 27,348
Beneficial interest in Fox Chase Cancer Center Foundation	\$ 44,769	\$ -	\$ 6,608	\$ -	\$ -	\$ -	\$ 51,377

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2016:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
July 1, 2015	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Sales	Transfer Into Level 3	Transfer Out of Level 3	June 30, 2016
	Net Income (Loss)	Net Asset					
Year ended June 30, 2016:							
Beneficial interest in perpetual trusts	\$ 39,900	\$ -	\$ (2,328)	\$ -	\$ -	\$ -	\$ 37,572
Beneficial interest in the assets held by Episcopal Foundation	\$ 23,773	\$ -	\$ (937)	\$ -	\$ -	\$ -	\$ 22,836
Beneficial interest in Fox Chase Cancer Center Foundation	\$ 49,189	\$ -	\$ (4,420)	\$ -	\$ -	\$ -	\$ 44,769

U.S. government securities, money market funds, equity securities and mutual funds classified as Level 1 are measured using quoted market prices.

Marketable debt securities classified as Level 1 were classified as such due to the usage of observable market prices for identical securities that are traded in active markets. These debt securities primarily include US Treasury Bonds.

The marketable debt securities classified as Level 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available, marketable debt instruments are priced using: non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These debt securities primarily include government bonds, corporate bonds, notes and other debt securities.

The estimated fair values of the Health System's beneficial interest in perpetual trusts, in the assets held by Episcopal Foundation, and in the assets held by Fox Chase Cancer Center Foundation are classified as Level 3 due to lack of observable market data. Currently there is no market in which beneficial interest in trusts are traded and as such, no observable exit price exists for these assets. The fair values are determined based on information provided by the trustees.

The fair values of the following investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2017 and 2016.

	Fair Value (In thousands)	Unfunded Commitments (In thousands)	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Applicable)
As of June 30, 2017:				
Multi-Strategy Hedge Funds (a)	\$ 30,756	\$ -	Annual, Quarterly	45-95 days
Private Equity Funds (c)	342	149		
Stock Funds (d)	116			
Real Estate Funds (e)	<u>16,015</u>	<u>52</u>	Quarterly	90 days
	<u>\$ 47,229</u>	<u>\$ 201</u>		
As of June 30, 2016:				
Multi-Strategy Hedge Funds (a)	\$ 22,201	\$ -	Annual, Quarterly	45-95 days
Distressed Debt Hedge Funds (b)	25	-		
Private Equity Funds (c)	571	156		
Stock Funds (d)	103	-		
Real Estate Funds (e)	<u>17,148</u>	<u>51</u>	Monthly	45 days
	<u>\$ 40,048</u>	<u>\$ 207</u>		

- (a) This category includes investments in hedge funds that use a variety of strategies. These strategies may include long/short equity, long/short credit, event-driven, capital structure arbitrage, fixed income arbitrage, credit of distressed companies, and restructuring and underpriced companies. The remaining restriction period for these investments ranged from three to twelve months.
- (b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies. In September 2010, Private Advisors Distressed Opportunities Fund notified the Health System that the fund has begun liquidation. Investors are no longer eligible for voluntary redemptions.
- (c) This category includes investments in private equity partnerships whose strategy is to add 5% in value comparable public investments and that will be in the top 25% of comparable private equity managers. In 2017 and 2016, investments representing 98% of the value of the investments in this category cannot be redeemed.
- (d) This category includes investments (typically through traditional, long-only stock managers) that maintain (beta) exposure to stocks and achieve (alpha) value added of at least 2% per year over a passive portfolio. Investments in this category are not currently eligible for redemption.
- (e) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.

The fair value of the Health System's pension assets is disclosed in Note 13.

The following methods and assumptions were used by the Health System in estimating fair value for disclosures in the consolidated financial statements:

Long-Term Debt—The fair value of long-term debt is based on quoted market prices or is estimated using discounted cash flow analyses for similar types of borrowing arrangements based on incremental borrowing rates. The carrying and fair values of long-term debt, excluding capital lease obligations, the Episcopal Healthcare Foundation debt, equipment financing arrangements, and the mortgage obligation at June 30, 2017, are \$487,549,000 and \$511,710,000, respectively. The carrying and fair values of long-term debt, excluding capital lease obligations, the Episcopal Healthcare Foundation debt, and equipment financing arrangements at June 30, 2016, are \$498,458,000 and \$528,866,000, respectively.

Other—Cash and cash equivalents, patient and other accounts receivable, and all other current assets and liabilities are reported at amounts that approximate fair value due to the relatively short period to maturity.

19. FUNCTIONAL EXPENSES

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2017	2016
Health care services	\$ 1,392,089	\$ 1,299,135
Research	42,067	39,976
General and administrative	313,789	289,803
Institutional support	<u>3,978</u>	<u>3,182</u>
	<u>\$ 1,751,923</u>	<u>\$ 1,632,096</u>

20. SUBSEQUENT EVENTS

The Health System has evaluated subsequent events through October 19, 2017, the date the financial statements were issued. There were no additional subsequent events requiring recording or disclosure in the consolidated financial statements.

* * * * *

SUPPLEMENTAL SCHEDULES

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2017

(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
ASSETS											
CURRENT ASSETS:											
Cash and cash equivalents	\$ 45,254	\$ 3,678	\$ 9,837	\$ 29,963	\$ 10,663	\$ 58	\$ 3,719	\$ 132	\$ 41,767	\$ -	\$ 145,071
Patient accounts receivable—net of allowance for doubtful accounts	155,686	17,010	-	37,381	3,404	-	3,944	-	-	-	217,425
Other receivables—net of allowance for doubtful accounts	70,928	975	1,360	1,050	322	702	262	509	1,051	-	77,159
Inventories and other current assets	22,017	5,279	1,077	7,016	23	-	404	29	2,660	(897)	37,608
Current portion of assets limited as to use	-	-	424	442	-	-	-	-	36,279	-	37,145
Investments	68,217	3,855	6,476	19,772	-	-	-	-	29,357	-	127,677
Current portion of workers' compensation fund	6,169	605	-	658	-	-	63	-	51	-	7,546
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	3,150	-	3,150
Expenditures reimbursable by research grants and awards	-	-	1,420	939	-	176	-	-	-	-	2,535
Due from affiliates—current portion	21,907	5,193	1,529	4,327	3,904	29	3,104	285	49,129	(87,327)	2,080
Total current assets	<u>390,178</u>	<u>36,595</u>	<u>22,123</u>	<u>101,548</u>	<u>18,316</u>	<u>965</u>	<u>11,496</u>	<u>955</u>	<u>163,444</u>	<u>(88,224)</u>	<u>657,396</u>
PROPERTY, PLANT AND EQUIPMENT:											
Land and land improvements	5,586	1,785	1,221	3,083	-	-	-	-	9	-	11,684
Buildings	319,671	84,364	23,541	23,528	-	-	4,865	-	25,787	-	481,756
Fixed and movable equipment	323,290	48,614	19,536	33,386	166	-	4,818	1,326	66,541	-	497,677
Construction-in-progress	1,278	2,664	141	5,025	-	-	-	-	1,673	-	10,781
	649,825	137,427	44,439	65,022	166	-	9,683	1,326	94,010	-	1,001,898
Less accumulated depreciation	<u>433,175</u>	<u>112,323</u>	<u>17,557</u>	<u>29,436</u>	<u>162</u>	<u>-</u>	<u>7,303</u>	<u>629</u>	<u>62,358</u>	<u>-</u>	<u>662,943</u>
Net property, plant and equipment	216,650	25,104	26,882	35,586	4	-	2,380	697	31,652	-	338,955
ASSETS LIMITED AS TO USE	4,201	703	17,802	6,504	23	-	-	-	51,306	-	80,539
INVESTMENTS	36,328	1,940	345	5,206	122	-	-	-	422	-	44,363
WORKERS' COMPENSATION FUND	3,281	249	-	-	-	-	12	-	317	-	3,859
SELF-INSURANCE PROGRAM RECEIVABLES	23,168	2,691	-	464	4,347	-	8,146	-	15,494	(38,815)	15,495
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	-	24,977	-	24,977
GOODWILL AND OTHER INTANGIBLES	-	-	5,540	13,261	-	1,659	584	-	-	-	21,044
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	33,481	18,881	60,588	5,817	-	-	-	-	-	-	118,767
DUE FROM AFFILIATES	9,367	-	-	-	-	-	-	-	359,784	(369,151)	-
OTHER ASSETS	<u>20,559</u>	<u>1,136</u>	<u>8,749</u>	<u>1,061</u>	<u>284</u>	<u>-</u>	<u>298</u>	<u>-</u>	<u>3,935</u>	<u>-</u>	<u>36,022</u>
TOTAL ASSETS	<u>\$ 737,213</u>	<u>\$ 87,299</u>	<u>\$ 142,029</u>	<u>\$ 169,447</u>	<u>\$ 23,096</u>	<u>\$ 2,624</u>	<u>\$ 22,916</u>	<u>\$ 1,652</u>	<u>\$ 651,331</u>	<u>\$ (496,190)</u>	<u>\$ 1,341,417</u>

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2017

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Non-Obligated Group Eliminations	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 746	\$ 717	\$ 3,814	\$ -	\$ 189	\$ -	\$ 5,466	\$ -	\$ 150,537
Patient accounts receivable—net of allowance for doubtful accounts	-	-	-	-	-	-	-	-	217,425
Other receivables net of allowance for doubtful accounts	54	1,172	4	-	1,794	-	3,024	-	80,183
Inventories and other current assets	6	9	-	-	6	-	21	-	37,629
Current portion of assets limited as to use	-	413	-	-	-	-	413	-	37,558
Investments	5,312	-	17,824	-	-	-	23,136	-	150,813
Current portion of workers' compensation fund	-	-	-	-	-	-	-	-	7,546
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	3,150
Expenditures reimbursable by research grants and awards	-	-	-	-	-	-	-	-	2,535
Due from affiliates—current portion	395	-	9,400	17	1,368	-	11,180	(13,260)	-
Total current assets	6,513	2,311	31,042	17	3,357	-	43,240	(13,260)	687,376
PROPERTY, PLANT AND EQUIPMENT:									
Land and land improvements	231	-	-	-	-	-	231	-	11,915
Buildings	12,264	-	-	-	-	-	12,264	-	494,020
Fixed and movable equipment	259	-	-	-	-	-	259	-	497,936
Construction-in-progress	-	-	-	-	-	-	-	-	10,781
	12,754	-	-	-	-	-	12,754	-	1,014,652
Less accumulated depreciation	11,644	-	-	-	-	-	11,644	-	674,587
Net property, plant and equipment	1,110	-	-	-	-	-	1,110	-	340,065
ASSETS LIMITED AS TO USE	-	48,857	-	-	-	-	48,857	-	129,396
INVESTMENTS	310	-	5,823	-	-	-	6,133	-	50,496
WORKERS' COMPENSATION FUND	-	-	-	-	-	-	-	-	3,859
SELF-INSURANCE PROGRAM RECEIVABLES	-	5,000	-	-	-	-	5,000	-	20,495
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	(24,977)	-
GOODWILL AND OTHER INTANGIBLES	-	-	-	-	-	-	-	-	21,044
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	27,348	-	-	-	-	-	27,348	(27,348)	118,767
DUE FROM AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER ASSETS	939	-	-	-	-	-	939	-	36,961
TOTAL ASSETS	\$ 36,220	\$ 56,168	\$ 36,865	\$ 17	\$ 3,357	\$ -	\$ 132,627	\$ (65,585)	\$ 1,408,459

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2017

(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES:											
Current portion of long-term debt	\$ 4,146	\$ 1,093	\$ 199	\$ 408	\$ -	\$ -	\$ -	\$ -	\$ 11,959	\$ -	\$ 17,805
Line of Credit	-	-	-	-	-	-	-	-	15,000	-	15,000
Accounts payable	66,150	5,587	2,795	9,558	889	60	215	206	3,408	-	88,868
Accrued expenses	32,088	7,062	3,280	5,733	6,883	130	4,031	230	49,427	(32,265)	76,599
Current portion of estimated settlements with third-party payors	91	-	-	10,693	-	-	-	-	-	(897)	9,887
Current portion of self-insurance program liabilities	15,445	1,220	241	1,038	161	-	833	121	3,201	-	22,260
Unexpended research grants and awards	-	-	1,886	91	6	-	-	-	-	-	1,983
Due to affiliates—current portion	48,109	6,688	3,323	12,514	2,132	234	5,188	557	19,763	(87,327)	11,181
Other current liabilities	19,875	2,926	302	4,420	772	-	135	-	15,438	-	43,868
Total current liabilities	185,904	24,576	12,026	44,455	10,843	424	10,402	1,114	118,196	(120,489)	287,451
LONG-TERM DEBT	10,087	3,663	708	9,759	-	-	-	-	476,239	-	500,456
SELF-INSURANCE PROGRAM LIABILITIES	61,345	8,016	785	6,276	3,340	-	5,875	186	15,746	(6,550)	95,019
ACCRUED POSTRETIREMENT BENEFITS	27,384	13,094	1,366	2,635	578	-	-	-	-	-	45,057
DUE TO AFFILIATES	218,611	48,721	20,639	71,813	-	-	-	-	9,367	(369,151)	-
OTHER LONG-TERM LIABILITIES	40,141	3,001	1,363	1,431	547	-	390	-	1,830	-	48,703
Total liabilities	543,472	101,071	36,887	136,369	15,308	424	16,667	1,300	621,378	(496,190)	976,686
NET ASSETS (DEFICIT):											
Unrestricted	156,522	(33,118)	20,141	18,379	7,788	2,200	6,249	352	29,948	-	208,461
Temporarily restricted	2,291	391	16,035	5,386	-	-	-	-	5	-	24,108
Permanently restricted	34,928	18,955	68,966	9,313	-	-	-	-	-	-	132,162
Total net assets (deficit)	193,741	(13,772)	105,142	33,078	7,788	2,200	6,249	352	29,953	-	364,731
TOTAL LIABILITIES AND NET ASSETS	\$ 737,213	\$ 87,299	\$ 142,029	\$ 169,447	\$ 23,096	\$ 2,624	\$ 22,916	\$ 1,652	\$ 651,331	\$ (496,190)	\$ 1,341,417

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2017

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Non-Obligated Group Eliminations	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Current portion of long-term debt	\$ 592	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 592	\$ -	\$ 18,397
Line of credit	-	-	-	-	-	-	-	-	15,000
Accounts payable	34	539	-	-	1,030	-	1,603	-	90,471
Accrued expenses	-	113	-	-	1,039	-	1,152	2,416	80,167
Current portion of estimated settlements with third-party payors	-	-	-	-	-	-	-	-	9,887
Current portion of self-insurance program liabilities	-	8,932	-	-	-	-	8,932	-	31,192
Unexpended research grants and awards	-	-	-	-	-	-	-	-	1,983
Due to affiliates—current portion	595	-	-	17	1,467	-	2,079	(13,260)	-
Other current liabilities	6,593	-	-	-	-	-	6,593	-	50,461
Total current liabilities	7,814	9,584	-	17	3,536	-	20,951	(10,844)	297,558
LONG-TERM DEBT	1,588	-	-	-	-	-	1,588	-	502,044
SELF-INSURANCE PROGRAM LIABILITIES	2,416	21,607	-	-	-	-	24,023	(2,416)	116,626
ACCRUED POSTRETIREMENT BENEFITS	12,011	-	-	-	-	-	12,011	-	57,068
DUE TO AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER LONG-TERM LIABILITIES	29,342	-	-	-	-	-	29,342	(27,348)	50,697
Total liabilities	53,171	31,191	-	17	3,536	-	87,915	(40,608)	1,023,993
NET ASSETS (DEFICIT):									
Unrestricted	(16,951)	24,977	36,865	-	(179)	-	44,712	(24,977)	228,196
Temporarily restricted	-	-	-	-	-	-	-	-	24,108
Permanently restricted	-	-	-	-	-	-	-	-	132,162
Total net assets (deficit)	(16,951)	24,977	36,865	-	(179)	-	44,712	(24,977)	384,466
TOTAL LIABILITIES AND NET ASSETS	\$ 36,220	\$ 56,168	\$ 36,865	\$ 17	\$ 3,357	\$ -	\$ 132,627	\$ (65,585)	\$ 1,408,459

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
UNRESTRICTED NET ASSETS:											
Unrestricted revenues and other support:											
Net patient service revenue before allowance for doubtful accounts	\$ 1,105,399	\$ 153,134	\$ -	\$ 341,041	\$ 34,441	\$ -	\$ 54,682	\$ -	\$ -	\$ (8,574)	\$ 1,680,123
Allowance for doubtful accounts	(16,864)	(3,842)	-	(3,325)	(1,185)	-	(1,017)	-	-	-	(26,233)
Total net patient service revenue	1,088,535	149,292	-	337,716	33,256	-	53,665	-	-	(8,574)	1,653,890
Research revenue	-	-	37,541	-	-	106	-	-	-	(2,458)	35,189
Contribution revenue	6,171	18	4,350	608	-	-	-	-	14	-	11,161
Other revenue	21,397	6,585	1,115	2,146	26,956	461	13,424	5,065	104,432	(139,618)	41,963
Investment income	-	-	-	-	-	-	-	-	842	-	842
Net assets released from restrictions used for operations	503	47	5,767	643	-	-	-	-	-	-	6,960
Unrestricted revenues and other support	1,116,606	155,942	48,773	341,113	60,212	567	67,089	5,065	105,288	(150,650)	1,750,005
Expenses:											
Salaries	375,828	63,124	41,698	86,347	50,604	369	41,554	4,524	29,231	(1,214)	692,065
Employee benefits	116,919	19,531	11,475	22,284	6,012	108	9,981	1,447	8,099	(106)	195,750
Professional fees	151,965	13,461	2,118	22,513	132	415	6,890	104	7,088	(30,055)	174,631
Supplies and pharmaceuticals	209,070	27,972	8,244	100,790	204	4	3,642	169	2,715	152	352,962
Purchased services and other	157,432	21,899	3,997	50,336	46	67	6,741	971	13,018	(84,802)	169,705
Maintenance	13,614	2,502	-	-	-	-	238	88	1,218	13	17,673
Utilities	9,627	1,136	3,280	2,292	-	-	940	80	1,023	27	18,405
Leases	13,741	1,345	607	2,233	19	-	3,230	195	4,619	(5,219)	20,770
Insurance	26,824	619	99	2,328	(604)	-	(2,183)	30	(324)	-	26,789
Depreciation and amortization	27,995	4,212	3,732	5,770	2	145	1,019	139	7,591	-	50,605
Interest	19,224	3,676	913	5,633	9	-	51	5	28,432	(29,446)	28,497
Asset impairment	-	-	-	-	-	-	213	-	-	-	213
Loss on disposal of fixed assets	137	171	4	(51)	-	-	-	-	-	-	261
Expenses	1,122,376	159,648	76,167	300,475	56,424	1,108	72,316	7,752	102,710	(150,650)	1,748,326
Operating income (loss)	(5,770)	(3,706)	(27,394)	40,638	3,788	(541)	(5,227)	(2,687)	2,578	-	1,679
Other income—net:											
Investment income (loss)	4,317	1,108	1,199	492	52	-	185	-	(1,080)	-	6,273
Other income—net	4,317	1,108	1,199	492	52	-	185	-	(1,080)	-	6,273
Excess (deficiency) of revenues and other support over expenses from continuing operations	(1,453)	(2,598)	(26,195)	41,130	3,840	(541)	(5,042)	(2,687)	1,498	-	7,952

(1) TUHS Parent Company accounts for its investment in TUHC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
UNRESTRICTED NET ASSETS:								
Unrestricted revenues and other support:								
Net patient service revenue before allowance for doubtful accounts	\$ (728)	\$ -	\$ -	\$ -	\$ 2,505	\$ 1,777	\$ -	\$ 1,681,900
Allowance for doubtful accounts	-	-	-	-	-	-	-	(26,233)
Total net patient service revenue	(728)	-	-	-	2,505	1,777	-	1,655,667
Research revenue								35,189
Contribution revenue	90	-	-	-	-	90	-	11,251
Other revenue	2,690	11,142	-	-	79	13,911	(13,391)	42,483
Investment income	-	-	-	-	-	-	-	842
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	6,960
Unrestricted revenues and other support	2,052	11,142	-	-	2,584	15,778	(13,391)	1,752,392
Expenses:								
Salaries	748	-	-	-	1,578	2,326	-	694,391
Employee benefits	819	-	-	-	504	1,323	-	197,073
Professional fees	-	-	-	-	329	329	-	174,960
Supplies and pharmaceuticals	113	-	-	-	17	130	-	353,092
Purchased services and other	135	119	13	-	155	422	(119)	170,008
Maintenance	272	-	-	-	-	272	-	17,945
Utilities	378	-	-	-	1	379	-	18,784
Leases	-	-	-	-	-	-	(2,249)	18,521
Insurance	160	5,383	-	-	-	5,543	(5,383)	26,949
Depreciation and amortization	526	-	-	-	-	526	-	51,131
Interest	98	-	-	-	-	98	-	28,595
Asset impairment	-	-	-	-	-	-	-	213
Loss on disposal of fixed assets	-	-	-	-	-	-	-	261
Expenses	3,249	5,502	13	-	2,584	11,348	(7,751)	1,751,923
Operating income (loss)	(1,197)	5,640	(13)	-	-	4,430	(5,640)	469
Other income—net:								
Investment income (loss)	91	16	488	42	-	637	(16)	6,894
Other income—net	91	16	488	42	-	637	(16)	6,894
Excess (deficiency) of revenues and other support over expenses from continuing operations	(1,106)	5,656	475	42	-	5,067	(5,656)	7,363

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians, Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
Excess (deficiency) of revenues and other support over expenses	\$ (1,453)	\$ (2,598)	\$ (26,195)	\$ 41,130	\$ 3,840	\$ (541)	\$ (5,042)	\$ (2,687)	\$ 1,498	\$ -	\$ 7,952
Other changes in unrestricted net assets:											
Transfers (to) from affiliates/the University	(25,938)	2,900	18,691	(29,928)	8,136	-	8,150	3,173	2,994	-	(11,822)
Net assets released from restrictions used for purchase of property and equipment	431	-	590	424	-	-	-	283	-	-	1,728
Net change in fair value of investments	12,169	(12)	(20)	1,578	-	-	-	-	(1,139)	-	12,576
Adjustment to funded status of pension and postretirement liabilities	22,646	5,595	(495)	(900)	(169)	-	-	-	-	-	26,677
Adjustment to funded status of long-term disability liabilities	(299)	-	-	(80)	(45)	-	(35)	-	(38)	-	(497)
Increase (decrease) in unrestricted net assets	<u>7,556</u>	<u>5,885</u>	<u>(7,429)</u>	<u>12,224</u>	<u>11,762</u>	<u>(541)</u>	<u>3,073</u>	<u>769</u>	<u>3,315</u>	<u>-</u>	<u>36,614</u>
TEMPORARILY RESTRICTED NET ASSETS:											
Contribution income	527	160	4,605	274	-	-	-	283	-	-	5,849
Net assets released from restrictions	(934)	(48)	(6,356)	(1,067)	-	-	-	(283)	-	-	(8,688)
Net change in fair value of investments	109	-	-	-	-	-	-	-	-	-	109
Investment income	186	-	2,133	290	-	-	-	-	-	-	2,609
Increase (decrease) in temporarily restricted net assets	<u>(112)</u>	<u>112</u>	<u>382</u>	<u>(503)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(121)</u>
PERMANENTLY RESTRICTED NET ASSETS:											
Contribution income	-	-	2,036	14	-	-	-	-	-	-	2,050
Net change in fair value of investments	-	-	712	236	-	-	-	-	-	-	948
Investment income (loss)	-	-	(252)	(31)	-	-	-	-	-	-	(283)
Change in beneficial interest in assets held by others	4,866	1,461	6,515	748	-	-	-	-	-	-	13,590
Increase (decrease) in permanently restricted net assets	<u>4,866</u>	<u>1,461</u>	<u>9,011</u>	<u>967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,305</u>
INCREASE (DECREASE) IN NET ASSETS	12,310	7,458	1,964	12,688	11,762	(541)	3,073	769	3,315	-	52,798
NET ASSETS (DEFICIT)—Beginning of year	<u>181,431</u>	<u>(21,230)</u>	<u>103,178</u>	<u>20,390</u>	<u>(3,974)</u>	<u>2,741</u>	<u>3,176</u>	<u>(417)</u>	<u>26,638</u>	<u>-</u>	<u>311,933</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 193,741</u>	<u>\$ (13,772)</u>	<u>\$ 105,142</u>	<u>\$ 33,078</u>	<u>\$ 7,788</u>	<u>\$ 2,200</u>	<u>\$ 6,249</u>	<u>\$ 352</u>	<u>\$ 29,953</u>	<u>\$ -</u>	<u>\$ 364,731</u>

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
Excess (deficiency) of revenues and other support over expenses	\$ (1,106)	\$ 5,656	\$ 475	\$ 42	\$ -	\$ 5,067	\$ (5,656)	\$ 7,363
Other changes in unrestricted net assets:								
Transfers (to) from affiliates/the University	4,000	(5,000)	-	-	-	(1,000)	5,000	(7,822)
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	1,728
Net change in fair value of investments	412	(959)	2,547	-	-	2,000	959	15,535
Adjustment to funded status of pension and postretirement liabilities	4,410	-	-	-	-	4,410	-	31,087
Adjustment to funded status of long-term disability liabilities	-	-	-	-	-	-	-	(497)
Increase (decrease) in unrestricted net assets	<u>7,716</u>	<u>(303)</u>	<u>3,022</u>	<u>42</u>	<u>-</u>	<u>10,477</u>	<u>303</u>	<u>47,394</u>
TEMPORARILY RESTRICTED NET ASSETS:								
Contribution income	-	-	-	-	-	-	-	5,849
Net assets released from restrictions	-	-	-	-	-	-	-	(8,688)
Net change in fair value of investments	-	-	-	-	-	-	-	109
Investment income	-	-	-	-	-	-	-	2,609
Increase (decrease) in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(121)</u>
PERMANENTLY RESTRICTED NET ASSETS:								
Contribution income	-	-	-	-	-	-	-	2,050
Net change in fair value of investments	-	-	-	-	-	-	-	948
Investment income (loss)	-	-	-	-	-	-	-	(283)
Change in beneficial interest in assets held by others	-	-	-	-	-	-	-	13,590
Increase (decrease) in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,305</u>
INCREASE (DECREASE) IN NET ASSETS	7,716	(303)	3,022	42	-	10,477	303	63,578
NET ASSETS (DEFICIT)—Beginning of year	<u>(24,667)</u>	<u>25,280</u>	<u>33,843</u>	<u>(42)</u>	<u>(179)</u>	<u>34,235</u>	<u>(25,280)</u>	<u>320,888</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ (16,951)</u>	<u>\$ 24,977</u>	<u>\$ 36,865</u>	<u>\$ -</u>	<u>\$ (179)</u>	<u>\$ 44,712</u>	<u>\$ (24,977)</u>	<u>\$ 384,466</u>

(Concluded)