

Temple University Health System

Consolidated Financial Statements as of and
for the Years Ended June 30, 2018 and 2017,
Supplemental Schedules as of and for the
Year Ended June 30, 2018, 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, 2018 and 2017, 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 the Health System as of June 30, 2018 and 2017, 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 24, 2018

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2018 AND 2017

(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 187,401	\$ 150,537
Patient accounts receivable—net of allowance for doubtful accounts	220,562	217,425
Other receivables—net of allowance for doubtful accounts of \$764 and \$746 in 2018 and 2017, respectively	52,668	80,183
Inventories and other current assets	40,860	37,629
Current portion of assets limited as to use	28,107	37,558
Investments	163,332	150,813
Current portion of workers' compensation fund	8,190	7,546
Current portion of self-insurance program receivables	2,575	3,150
Expenditures reimbursable by research grants and awards	<u>5,948</u>	<u>2,535</u>
Total current assets	<u>709,643</u>	<u>687,376</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	12,225	11,915
Buildings	502,723	494,020
Fixed and movable equipment	508,194	497,936
Construction-in-progress	<u>5,236</u>	<u>10,781</u>
	1,028,378	1,014,652
Less accumulated depreciation	<u>715,443</u>	<u>674,587</u>
Net property, plant and equipment	<u>312,935</u>	<u>340,065</u>
ASSETS LIMITED AS TO USE	127,065	129,396
INVESTMENTS	47,361	50,496
WORKERS' COMPENSATION FUND	2,874	3,859
SELF-INSURANCE PROGRAM RECEIVABLES	20,090	20,495
GOODWILL AND OTHER INTANGIBLES	18,436	21,044
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	126,450	118,767
OTHER ASSETS	<u>39,111</u>	<u>36,961</u>
TOTAL ASSETS	<u>\$ 1,403,965</u>	<u>\$ 1,408,459</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2018 AND 2017

(In thousands)

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 18,036	\$ 18,397
Line of credit	-	15,000
Accounts payable	86,582	90,471
Accrued expenses	88,078	80,167
Current portion of estimated settlements with third-party payors	15,520	9,887
Current portion of self-insurance program liabilities	32,290	31,192
Unexpended research grants and awards	1,436	1,983
Other current liabilities	<u>41,688</u>	<u>50,461</u>
 Total current liabilities	 <u>283,630</u>	 <u>297,558</u>
 LONG-TERM DEBT	 496,768	 502,044
 SELF-INSURANCE PROGRAM LIABILITIES	 114,055	 116,626
 ACCRUED POSTRETIREMENT BENEFITS	 19,001	 57,068
 OTHER LONG-TERM LIABILITIES	 <u>36,488</u>	 <u>50,697</u>
 Total liabilities	 <u>949,942</u>	 <u>1,023,993</u>
 NET ASSETS:		
Unrestricted	290,816	228,196
Temporarily restricted	22,755	24,108
Permanently restricted	<u>140,452</u>	<u>132,162</u>
 Total net assets	 <u>454,023</u>	 <u>384,466</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,403,965</u>	 <u>\$ 1,408,459</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, 2018 AND 2017

(In thousands)

	2018	2017
UNRESTRICTED NET ASSETS:		
Unrestricted revenues and other support:		
Net patient service revenue before allowance for doubtful accounts	\$ 1,788,214	\$ 1,681,900
Allowance for doubtful accounts	<u>(27,593)</u>	<u>(26,233)</u>
Total net patient service revenue	1,760,621	1,655,667
Research revenue	39,296	35,189
Contribution revenue	5,761	11,251
Other revenue	35,491	42,483
Investment income	650	842
Net assets released from restrictions used for operations	<u>8,813</u>	<u>6,960</u>
Unrestricted revenues and other support	<u>1,850,632</u>	<u>1,752,392</u>
Expenses:		
Salaries	718,121	694,391
Employee benefits	193,740	197,073
Professional fees	190,579	174,960
Supplies and pharmaceuticals	403,785	353,092
Purchased services and other	168,860	170,008
Maintenance	19,230	17,945
Utilities	20,725	18,784
Leases	20,802	18,521
Insurance	17,685	26,949
Depreciation and amortization	51,236	51,131
Interest	26,841	28,595
Asset impairment	1,737	213
Loss on disposal of fixed assets	<u>55</u>	<u>261</u>
Expenses	<u>1,833,396</u>	<u>1,751,923</u>
Operating income	<u>17,236</u>	<u>469</u>
Other income—net:		
Investment income	11,067	6,894
Other — net	<u>669</u>	<u>-</u>
Other income—net	<u>11,736</u>	<u>6,894</u>
Excess of revenues and other support over expenses	<u>28,972</u>	<u>7,363</u>

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(In thousands)

	2018	2017
Excess of revenues and other support over expenses	\$ 28,972	\$ 7,363
Other changes in unrestricted net assets:		
Net transfers to the University	(7,680)	(7,822)
Net assets released from restrictions used for purchase of property and equipment	609	1,728
Net change in fair value of investments	4,562	15,535
Adjustment to funded status of pension and postretirement liabilities	35,457	31,087
Adjustment to funded status of long-term disability liabilities	<u>700</u>	<u>(497)</u>
Increase in unrestricted net assets	<u>62,620</u>	<u>47,394</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution income	5,396	5,849
Net assets released from restrictions	(9,422)	(8,688)
Net change in fair value of investments	(62)	109
Investment income	<u>2,735</u>	<u>2,609</u>
Decrease in temporarily restricted net assets	<u>(1,353)</u>	<u>(121)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contribution income	239	2,050
Net change in fair value of investments	368	948
Investment loss	-	(283)
Change in beneficial interest in assets held by others	<u>7,683</u>	<u>13,590</u>
Increase in permanently restricted net assets	<u>8,290</u>	<u>16,305</u>
INCREASE IN NET ASSETS	69,557	63,578
NET ASSETS—Beginning of year	<u>384,466</u>	<u>320,888</u>
NET ASSETS—End of year	<u>\$ 454,023</u>	<u>\$ 384,466</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (In thousands)

	2018	2017
OPERATING ACTIVITIES:		
Increase in net assets	\$ 69,557	\$ 63,578
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(10,713)	(21,179)
Net realized and unrealized gains on beneficial interests in assets held by others	(7,683)	(13,590)
Depreciation, amortization and accretion	50,361	50,212
Intangible amortization	875	920
Impairment on intangibles	1,737	146
Amortization of bond premium, discount, debt issuance costs and underwriter's discount	(1,167)	60
Allowance for doubtful accounts	27,593	26,233
Adjustment to funded status of pension and postretirement liabilities	(35,457)	(31,087)
Adjustment to funded status of long-term disability liabilities	(700)	497
Capitalized interest	-	(164)
Gain on extinguishment of debt	(107)	-
Asset impairment	-	67
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(609)	(1,728)
Loss on disposal of fixed assets	55	261
Permanently restricted gifts and donations received	(239)	(2,050)
Net transfers to the University	7,680	7,822
Changes in operating assets and liabilities:		
Patient accounts receivable	(30,730)	(48,438)
Other receivables	27,069	20,303
Pledges receivable—net	663	(967)
Inventories and other current assets	(3,231)	3,565
Expenditures reimbursable by research grants and awards	(3,413)	307
Other assets	(2,371)	(9,718)
Accounts payable	(1,622)	(15,859)
Accrued expenses	7,911	(11,833)
Estimated settlements with third-party payors	5,633	(11,928)
Self-insurance program receivables and liabilities	(493)	(2,874)
Unexpended research grants and awards	(547)	887
Other liabilities	(26,142)	3,118
Net cash provided by operating activities	<u>73,910</u>	<u>6,561</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (In thousands)

	2018	2017
INVESTING ACTIVITIES:		
Decrease in assets limited as to use	\$ 10,638	\$ 2,954
Purchases of property, plant and equipment	(20,558)	(34,202)
Purchases of investments	(563,988)	(276,366)
Proceeds from sales of investments	566,802	291,875
Proceeds from sale of fixed assets	198	491
Net cash used in investing activities	<u>(6,908)</u>	<u>(15,248)</u>
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	609	1,728
Repayment of long-term debt	(16,261)	(16,072)
Repayment of capital lease obligations	(3,177)	(2,213)
Repurchase of bonds	(255,930)	-
Proceeds from issuance of long-term debt	267,062	15,229
Proceeds from line of credit	15,000	15,000
Repayment of line of credit	(30,000)	-
Permanently restricted gifts and donations received	239	2,050
Net transfers to the University	(7,680)	(7,822)
Net cash (used in) provided by financing activities	<u>(30,138)</u>	<u>7,900</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,864	(787)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>150,537</u>	<u>151,324</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 187,401</u>	<u>\$ 150,537</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest		
	<u>\$ 28,009</u>	<u>\$ 28,395</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Amounts recorded for purchases of property and equipment in excess of amounts paid	<u>\$ 1,112</u>	<u>\$ 3,380</u>
Cost of assets acquired through capitalized leases	<u>\$ 3,943</u>	<u>\$ 5,625</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, 2018 AND 2017

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.
- Temple Faculty Practice Plan, Inc. (“TFPP”), a nonprofit corporation, provides teaching and physician services to the TUHS hospitals, with TUHS as its sole member. TFPP was incorporated in June 2018 and is currently inactive.

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, 2018 and 2017, 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 and hedge funds. Such investments are accounted for using a net asset value (“NAV”) equivalent, which approximates fair value as determined by the fund managers and financial information provided by the funds. 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, 2018 and 2017. 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 \$50,520,000 and \$50,040,000 for the years ended June 30, 2018 and 2017, 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 \$22,551,000 and \$18,620,000 at June 30, 2018 and 2017, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2018 and 2017, the accumulated depreciation balance included \$11,646,000 and \$8,434,000, respectively, of accumulated amortization of capital leased assets.

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, 2018 and 2017 were \$0 and \$67,000, 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. Any resulting impairment losses are recognized in the results of operations. Subsequent to the latest review, there have been no events or circumstances that indicate any 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 2018 and 2017.

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. Effective June 30, 2018, the Health System determined that the anticipated timing of settlement for the obligation had changed and also revised its cost estimates. An estimated increase in future cash flows of \$1,409,000 was recognized as an additional asset retirement obligation and asset retirement cost on the balance sheet. At June 30, 2018 and 2017, the recorded asset retirement obligation was \$6,666,000 and \$5,051,000, respectively. Accretion costs for 2018 and 2017 were \$323,000 and \$330,000, respectively.

Deferred Financing Costs—Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs were \$7,136,000 and \$5,911,000 as of June 30, 2018 and 2017, respectively. Accumulated amortization of deferred financing costs was \$998,000 and \$2,008,000 as of June 30, 2018 and 2017, 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 2018 and 2017, the Health System recognized \$0 and \$196,000, respectively, from Medicare EHR incentive payments and \$1,319,000 and \$6,052,000, 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 2017, 2016, 2015, and 2014 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 Accounting Standards Update (“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 consolidated financial statements. The Health System will adopt the new standard using the modified retrospective transition method. Adoption of the standard will result in significant changes to the presentation of total net patient service revenue and allowance for doubtful accounts in the consolidated statements of operations and changes in net assets. The principal change affecting the Health System results from the presentation of variable consideration that under the accounting standard is included in the transaction price up to an amount which is probable that a significant reversal will not occur. The most common form of variable consideration the Health System experiences are amounts for services provided that are ultimately not realizable from a patient. Under the current standards, the Health System’s estimate for certain amounts not expected to be collected based on our historical experience have been recorded to allowance for doubtful accounts. Under the new standard, the Health System’s estimate for unrealizable amounts will be recognized as an additional allowance to revenue and will be reflected as a reduction to accounts receivable. Subsequent changes in estimates of collectability will be recognized as adjustments to the variable consideration included in the transaction price unless due to a change in the financial status of a payor, for example a bankruptcy, which will be recognized as bad debt expense.

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 in reporting 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. In July 2018, the FASB introduced ASU 2018-11 which establishes targeted improvements to ASU 2016-02. Entities are now provided with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests.

Lessors are provided a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component, and instead, to account for those components as a single component if the non-lease component otherwise would be accounted for under the new revenue guidance (Topic 606) and both of the following are met: (1) timing and pattern of transfer of non-lease components and associated lease component are the same and (2) the lease component, if accounted for separately, would be classified as an operating lease. 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. The Health System will adopt this standard for the fiscal year beginning July 1, 2018.

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.

In June 2018, the FASB issued ASU 2018-08, which provides clarity and improvements on current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. This update clarifies that, consistent with GAAP, in instances in which a resource provider is not itself receiving commensurate value for the resources provided, an entity must determine whether a transfer of assets represents a payment from a third-party payer on

behalf of an existing exchange transaction between the recipient and an identified customer. The amendments in this update require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome the barrier(s) in the agreement. After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted on the basis of the current definition of the term donor-imposed restriction, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. 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 \$27,273,000 and \$28,180,000 at June 30, 2018 and 2017, 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, 2018 has not changed significantly from the year ended June 30, 2017 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, 2018 and 2017 (in thousands):

	2018	2017
Medicare and Medicaid	\$ 1,129,552	\$ 1,062,486
Self-pay	13,805	16,105
Other third-party payors	<u>644,857</u>	<u>603,309</u>
Total	<u>\$ 1,788,214</u>	<u>\$ 1,681,900</u>

Net patient service revenue also includes estimates of reimbursement from third-party payors. For the fiscal years ended June 30, 2018 and 2017, net patient service revenue increased by \$4,719,000 and \$17,295,000, respectively, as a result of settlements related to prior years or changes in estimates related thereto. For the fiscal years ended June 30, 2018 and 2017, net patient service revenue increased by \$12,016,000 and decreased by \$11,500,000, respectively, as a result of changes in estimates associated with state Medicaid audits. Audits pertaining to fiscal years through 2014 have been closed.

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, 2018 and 2017, is as follows (unaudited):

	2018		2017	
	Discharges	%	Discharges	%
Continuing operations:				
Medical assistance:				
Fee for service	2,280	6.1 %	2,493	6.6 %
Managed care	11,386	30.2	11,624	30.8
Total medical assistance	13,666	36.3	14,117	37.4
Medicare:				
Fee for service	8,848	23.5	8,838	23.4
Managed care	8,087	21.5	7,781	20.6
Total Medicare	16,935	45.0	16,619	44.0
Independence Blue Cross*	4,182	11.1	4,601	12.2
All other	2,866	7.6	2,450	6.4
	<u>37,649</u>	<u>100 %</u>	<u>37,787</u>	<u>100 %</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, 2018 and 2017 is as follows:

	2018	2017
Medical assistance:		
Fee for service (FFS)	6.0 %	2.8 %
Managed care	15.6	18.0
Medicare (FFS only)	16.2	17.5
Independence Blue Cross	23.0	20.4
Aetna U.S. Healthcare	7.3	7.7
Commercial	6.6	6.6
Managed care/HMOs (including Medicare)	19.4	20.5
Other	5.9	6.5
	<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 \$198,565,000 and \$206,913,000 for the fiscal years ended June 30, 2018 and 2017, respectively (see Note 17).

6. INVESTMENTS

Assets Limited as to Use—The composition of assets limited as to use at June 30, 2018 and 2017, is set forth in the following table (in thousands):

	2018	2017
Under indenture agreements-held by trustee:		
Debt service funds	\$ 21,758	\$ 25,019
Debt service reserve funds	48,924	51,034
Construction fund	-	201
	<u>70,682</u>	<u>76,254</u>
Under debt agreements	229	225
Under insurance arrangements (TUHIC)	50,037	49,270
Board designated	3,532	11,477
Donor restricted	29,734	28,975
Workers' and unemployment compensation	<u>958</u>	<u>753</u>
	155,172	166,954
Less amounts required for current liabilities	<u>28,107</u>	<u>37,558</u>
	<u>\$ 127,065</u>	<u>\$ 129,396</u>

By security classification (in thousands):

	2018	2017
U.S. government securities	\$ 82,079	\$ 58,045
Fixed income mutual funds	1,921	2,013
Corporate bonds, notes, and other debt securities	15,148	15,227
Cash, money market funds, and certificates of deposit	45,824	82,870
Equity securities and mutual funds	8,642	8,167
Alternative funds	<u>1,558</u>	<u>632</u>
	<u>\$ 155,172</u>	<u>\$ 166,954</u>

Workers' Compensation Fund—Workers' compensation fund at June 30, 2018 and 2017, consisted of (in thousands):

	2018	2017
U.S. government securities	\$ 7,823	\$ 6,977
Corporate bonds, notes, and other debt securities	3,099	3,003
Cash, money market funds, and certificates of deposit	<u>129</u>	<u>1,155</u>
	<u>\$ 11,051</u>	<u>\$ 11,135</u>

Investments—Investments at June 30, 2018 and 2017, consisted of (in thousands):

	2018	2017
U.S. government securities	\$ 27,441	\$ 26,752
Corporate bonds, notes, and other debt securities	23,732	19,391
Fixed income mutual funds	10,229	10,349
Equity securities and mutual funds	101,958	94,321
Real estate	320	345
Alternative funds	27,090	29,900
Limited partnerships	17,168	17,843
Limited liability corporations and joint ventures	2,299	2,313
Other	<u>456</u>	<u>95</u>
	<u>\$ 210,693</u>	<u>\$ 201,309</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, 2018 and 2017 (in thousands):

	2018	2017
Interest and dividend income	\$ 11,897	\$ 11,746
Net realized gains (losses) on sales of investments	3,518	(445)
Recognition of other-than-temporary impairment	(963)	(1,239)
Net unrealized gains	<u>4,868</u>	<u>16,592</u>
	<u>\$ 19,320</u>	<u>\$ 26,654</u>

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

	2018	2017
Consolidated statements of operations and changes in net assets:		
Unrestricted revenues—investment income	\$ 650	\$ 842
Unrestricted other income—investment income	11,067	6,894
Other changes in unrestricted net assets—net change in fair value	4,562	15,535
Temporarily restricted net assets—net unrealized (losses) gains	(62)	109
Temporarily restricted net assets—investment income	2,735	2,609
Permanently restricted net assets—net unrealized gains	368	948
Permanently restricted net assets—investment loss	-	(283)
	<u>\$ 19,320</u>	<u>\$ 26,654</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, 2018 and 2017 (in thousands):

	At June 30, 2018					
	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	\$ 23,003	\$ (173)	\$ 2,004	\$ (26)	\$ 25,007	\$ (199)
Fixed income mutual funds	15,881	(260)	-	-	15,881	(260)
Corporate bonds, notes, and other debt securities	19,788	(425)	56	(4)	19,844	(429)
Equity securities and mutual funds	<u>16,575</u>	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>16,575</u>	<u>(36)</u>
Total temporarily impaired securities	<u>\$ 75,247</u>	<u>\$ (894)</u>	<u>\$ 2,060</u>	<u>\$ (30)</u>	<u>\$ 77,307</u>	<u>\$ (924)</u>

	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	<u>-</u>	<u>-</u>	<u>543</u>	<u>(3)</u>	<u>543</u>	<u>(3)</u>
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>

With respect to the debt and equity securities in an unrealized loss position as of June 30, 2018 and 2017, 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 2018 and 2017, the Health System recorded other-than-temporary impairment charges of \$963,000 and \$1,239,000, respectively, on certain investments in debt and equity securities.

TUHC Debt Securities—At June 30, 2018 and 2017, 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, 2018 and 2017, 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 \$240,000 and \$144,000 at June 30, 2018 and 2017, respectively. Gross unrealized holding losses on these securities aggregated \$449,000 and \$287,000 at June 30, 2018 and 2017, respectively.

	2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	\$ 831	\$ 830	\$ 216	\$ 217
Due after one year through five years	25,561	25,434	30,208	30,207
Due after five years through ten years	20,853	20,797	18,714	18,572
Due after ten years	-	-	79	78
	47,245	47,061	49,217	49,074
Mortgage and asset-backed securities	1,869	1,844	-	-
	<u>\$ 49,114</u>	<u>\$ 48,905</u>	<u>\$ 49,217</u>	<u>\$ 49,074</u>

7. PLEDGES

As of June 30, 2018 and 2017, pledges are included in the consolidated financial statements at their net present value, less estimated uncollectible amounts, as follows (in thousands):

	2018	2017
Total value of pledges	\$ 4,694	\$ 4,992
Unamortized discount for gross pledges	(380)	(57)
Reserve for uncollectible pledges	(42)	-
Reported value for pledges	<u>\$ 4,272</u>	<u>\$ 4,935</u>

The discount rates applied to pledges were between 2.33% to 2.73% for 2018 and 1.24% to 1.89% for 2017.

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):

	2018	2017
Amounts due within one year	\$ 945	\$ 1,391
Amounts due in two to five years	<u>3,327</u>	<u>3,544</u>
Reported value for pledges	<u>\$ 4,272</u>	<u>\$ 4,935</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, 2017 the Health System had \$21,044,000 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 2018 relate to additional acquisitions by TPI of \$4,000.

Goodwill and other intangibles at June 30, 2018 and 2017 are summarized as follows (in thousands):

	Goodwill	Other Intangible Assets	Total
Balance at June 30, 2017	\$ 524	\$ 20,520	\$ 21,044
Adjustments:			
Intangible assets acquired	-	4	4
Impairment	-	(1,737)	(1,737)
Amortization	<u>-</u>	<u>(875)</u>	<u>(875)</u>
Balance at June 30, 2018	<u>\$ 524</u>	<u>\$ 17,912</u>	<u>\$ 18,436</u>
	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>

At June 30, 2018 and 2017, intangible assets with indefinite lives were \$14,564,000 and \$14,984,000, respectively. The following table summarizes intangible assets with indefinite lives at June 30, 2018 and 2017 (in thousands):

	2018		
	Gross	Impairment	Net
AOH trade name	\$ 13,000	\$ -	\$ 13,000
Research and development of intellectual property	<u>1,984</u>	<u>(420)</u>	<u>1,564</u>
Total intangibles with indefinite lives	<u>\$ 14,984</u>	<u>\$ (420)</u>	<u>\$ 14,564</u>
	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>

At June 30, 2018 and 2017, amortizing intangible assets were \$3,348,000 and \$5,536,000, respectively. The following table summarizes amortizing intangible assets at June 30, 2018 and 2017 (in thousands):

	2018			
	Gross	Accumulated		Net
		Amortization	Impairment	
Intellectual property	\$ 5,615	\$ (2,472)	\$ (1,273)	\$ 1,870
Contracts and agreements	1,860	(870)	-	990
Physician contracts	2,390	(2,074)	(44)	272
Other	<u>619</u>	<u>(403)</u>	<u>-</u>	<u>216</u>
Total amortizing intangibles	<u>\$ 10,484</u>	<u>\$ (5,819)</u>	<u>\$ (1,317)</u>	<u>\$ 3,348</u>
	2017			
	Gross	Accumulated		Net
		Amortization	Impairment	
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>

Aggregate amortization expense was \$875,000 and \$920,000 for the years ended June 30, 2018 and 2017, respectively. Amortization expense for the next five years and thereafter is expected to be as follows (in thousands):

2019	\$ 639
2020	505
2021	407
2022	395
2023	379
Thereafter	<u>1,023</u>
Total	<u>\$ 3,348</u>

9. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at June 30, 2018 and 2017, was as follows (in thousands):

	2018	2017
2017 TUHS Hospital Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia (the "Authority") at a fixed interest rate of 5.0% due in installments through 2035		
Principal amount	\$ 235,240	\$ -
Unamortized premium, debt issuance costs, and underwriter's discount	<u>22,189</u>	<u>-</u>
Long-term debt less unamortized discount, premium, and debt issuance costs	257,429	-
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	\$ 228,680	\$ 294,310
Unamortized discount, premium, debt issuance costs, and underwriter's discount	<u>(8,179)</u>	<u>(7,189)</u>
Long-term debt less unamortized discount, premium, and debt issuance costs	220,501	287,121
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
Unamortized discount, premium, and debt issuance costs	<u>-</u>	<u>(1,182)</u>
Long-term debt less unamortized discount, premium, and debt issuance costs		200,428
Loan payable to Episcopal Healthcare Foundation due in December 2020 at a fixed interest rate of 4.0%	1,587	2,180
Various capital lease obligations due in installments through 2022 at varied fixed interest rates ranging from 5.79% to 6.00%	11,872	11,107
Equipment financing arrangements due in installments through 2020 at varied fixed interest rates ranging from 1.34% to 3.80%	14,544	10,605
Mortgage obligation due in installments through December 2031 at a fixed interest rate of 4.18%	<u>8,871</u>	<u>9,000</u>
	514,804	520,441
Less current portion of long-term debt	<u>18,036</u>	<u>18,397</u>
	<u>\$ 496,768</u>	<u>\$ 502,044</u>

In November 2017, the Health System issued, through the Authority, \$235,240,000 aggregate principal Revenue Bonds. The proceeds of the Bonds were used to defease the Authority's outstanding Revenue Bond Series A and B of 2007 and Revenue Bond Series B of 2012, resulting in a gain of approximately \$107,000 which has been recorded as a non-operating gain in other income.

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 2018 and 2017.

At June 30, 2018, 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
2019	\$ 14,411	\$ 3,625
2020	10,707	3,588
2021	9,400	2,710
2022	8,672	1,473
2023	14,364	465
Thereafter	<u>431,368</u>	<u>11</u>
Total	<u>\$ 488,922</u>	<u>\$ 11,872</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. During fiscal year 2018, the line of credit was renewed with a borrowing limit of \$40,000,000 and expiration in June 2019. Interest is calculated at one month fully absorbed LIBOR plus 1.4%. Borrowings at June 30, 2018 and 2017 were \$0 and \$15,000,000, respectively, 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 2018 and 2017 were \$20,802,000 and \$18,521,000, respectively.

At June 30, 2018, 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):

2019	\$ 9,427
2020	9,196
2021	7,291
2022	4,480
2023	1,443
Thereafter	<u>4,688</u>
Total	<u>\$ 36,525</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 2018 and 2017, \$7,680,000 and \$7,822,000, respectively, in net asset transfers were recognized. All of the 2018 and 2017 transfers were disbursed by June 30, 2018 and 2017, 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 2018 and 2017 include (in thousands):

	Health System Expense	
	2018	2017
Medical school clinical physicians	\$ 144,035	\$ 122,953
Maintenance	8,411	8,562
Telecommunications	6,261	4,254
Institutional support	6,284	6,163
Security	2,375	2,365
Employee tuition	2,293	1,975
Other administrative support	<u>18,987</u>	<u>21,142</u>
 Total expenses billed	 <u>\$ 188,646</u>	 <u>\$ 167,414</u>

The University also billed the Health System for capital projects in the amount of \$400,000 and \$205,000 for the years ended June 30, 2018 and 2017, 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 2018 and 2017 include (in thousands):

	2018	2017
Salaries and fringe benefits, primarily for residents	\$ 21,421	\$ 18,543
Rent	7,178	7,204
Other	<u>3,395</u>	<u>4,449</u>
 Total expenses billed to the University	 <u>\$ 31,994</u>	 <u>\$ 30,196</u>

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

At June 30, 2018 and 2017, \$33,827,000 and \$39,779,000, respectively, are due to the University for transactions during those years and are included in accounts payable. At June 30, 2018 and 2017, \$3,561,000 and \$2,691,000, 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 \$1,500,286,000 and \$1,452,687,000 for fiscal years 2018 and 2017. For fiscal years 2018 and 2017, the Health System recognized a gain of \$19,120,000 and \$37,067,000, respectively, for Medicaid in net patient service revenue from HPP members.

HPP’s annual premium revenues for Medicare were \$351,931,000 and \$299,736,000 for fiscal years 2018 and 2017. For fiscal years 2018 and 2017, the Health System recognized a loss of \$16,160,000 and \$8,720,000, respectively, for Medicare in net patient service revenue from HPP members.

HPP’s annual premium revenues for CHIP were \$18,544,000 and \$17,477,000 for fiscal years 2018 and 2017. For fiscal years 2018 and 2017, the Health System recognized a gain of \$227,000 and a loss of \$79,000, respectively, for CHIP in net patient service revenue from HPP members.

The Health System’s estimated gains and losses in HPP 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 2018 and 2017 was \$3,187,000 and \$28,268,000, respectively.

In fiscal year 2018, the Health System obtained a letter of credit in the amount of \$17,200,000, of which HPP is the beneficiary. No amounts were drawn on the letter of credit during fiscal year 2018.

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, 2018 and 2017, was 2.75% and 1.75%, 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 \$123,921,000 and \$125,022,000 at June 30, 2018 and 2017, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was \$32,887,000 and \$30,539,000 at June 30, 2018 and 2017, respectively. The Health System incurred net medical professional liability insurance expense of \$15,544,000 and \$24,837,000 in 2018 and 2017, 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, 2018 and 2017, is summarized as follows (in thousands):

	2018	2017
Outstanding	\$ 8,260	\$ 11,290
Incurred but not reported	<u>16,627</u>	<u>14,249</u>
	<u>\$ 24,887</u>	<u>\$ 25,539</u>
Balance—July 1	\$ 25,539	\$ 31,341
Incurred related to current year	10,360	10,969
Incurred related to prior year	<u>(3,049)</u>	<u>(5,730)</u>
	<u>7,311</u>	<u>5,239</u>
Paid related to current year	227	242
Paid related to prior year	<u>7,736</u>	<u>10,799</u>
	<u>7,963</u>	<u>11,041</u>
Net balance—June 30	<u>\$ 24,887</u>	<u>\$ 25,539</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 \$3,049,000 for the year ended June 30, 2018 and decreased by \$5,730,000 for the year ended June 30, 2017.

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, 2018 and 2017, was \$2,489,000 and \$2,554,000, respectively, and the actual statutory capital and surplus was \$27,153,000 and \$24,970,000, respectively. The minimum required level of liquid assets was \$26,434,000 and \$22,989,000 and actual liquid assets were \$62,706,000 and \$55,721,000 at June 30, 2018 and 2017, respectively.

The Health System is primarily self-insured for workers’ compensation. Program assets at June 30, 2018 and 2017, were \$11,064,000 and \$11,405,000, respectively. Program liabilities were determined using a discount rate of 3.00% and 2.25% for fiscal years 2018 and 2017, respectively. The estimated discounted liability accrued at June 30, 2018 and 2017, was \$22,424,000 and \$22,796,000, respectively. Workers’ compensation expense was \$6,767,000 and \$6,301,000 for fiscal years 2018 and 2017, 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, 2018 and 2017 are summarized as follows (in thousands):

	2018			2017		
	Current	Long-Term	Total	Current	Long-Term	Total
Workers' compensation:						
Open reserves in excess of retention	\$ -	\$ 737	\$ 737	\$ -	\$ 1,122	\$ 1,122
Incurred but not recorded reserves in excess of retention	-	400	400	-	527	527
Professional liability:						
Claims settled within the MCare Layer	2,575	-	2,575	3,150	-	3,150
Open reserves within the MCare Layer	-	3,000	3,000	-	6,100	6,100
Incurred but not recorded reserves in excess of the MCare Layer	-	4,724	4,724	-	5,647	5,647
Incurred but not recorded reserves in excess of the Buffer Layer	-	3,228	3,228	-	2,098	2,098
	<u>\$ 2,575</u>	<u>\$ 12,089</u>	<u>\$ 14,664</u>	<u>\$ 3,150</u>	<u>\$ 15,494</u>	<u>\$ 18,644</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 2018 and 2017 were \$27,458,000 and \$28,496,000, respectively. Contributions to the plans for fiscal year 2019 are expected to be \$33,980,000.

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, 2018, 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 2018 and 2017 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
		2018	2017		2018	2017		
The Pension Fund for Hospital and Health Care Employees Philadelphia and Vicinity (1)	23-2627428/001	Red	Red	Yes	\$ 8,712,000	\$ 7,493,000	Yes	Various up to 2024
Central Pension Fund of the International Union of Operating Engineers and Participating Employers (2)	36-6052390/001	Green	Green	No	97,000	96,000	No	November 2018
Total contributions					<u>\$ 8,809,000</u>	<u>\$ 7,589,000</u>		

(1) Plan years began 1/1/18 and 1/1/17
(2) Plan years began 2/1/18 and 2/1/17

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:

Pension Fund	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	2017

At the date these consolidated financial statements were issued, Forms 5500 were not available for the plan year ending in 2018.

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, 7.3% and 8.8% annual rates of increase in the per-capita cost of postretirement benefits were assumed for 2018 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 9.4% for 2017. For 2018, 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, 2018 (in thousands) for all Health System and University participants:

	1% Increase	1% (Decrease)
Incremental effect on total of service and interest cost components	\$ 3,658	\$ (3,105)
Incremental effect on postretirement benefit obligation	42,320	(34,181)

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 \$40,113,000 and \$40,687,000 for the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017 (dollars in thousands). A measurement date of June 30 is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2018	2017	2018	2017
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 208,274	\$ 213,387	\$ 408,973	\$ 454,611
Affiliation impact	-	-	-	-
Service cost	2,025	2,019	12,853	15,505
Interest cost	6,966	6,555	12,973	13,012
Plan participant contributions	202	174	1,897	2,016
Actuarial (gain) loss	(10,334)	(4,231)	(87,156)	(61,014)
Benefits paid	(8,534)	(8,416)	(14,339)	(15,157)
Administrative expenses paid	(1,460)	(1,176)	-	-
Settlement	(31)	(38)	-	-
	<u>197,108</u>	<u>208,274</u>	<u>335,201</u>	<u>408,973</u>
Benefit obligation—end of year				
Change in plan assets:				
Fair value of plan assets—beginning of year	173,335	152,147	310,146	283,806
Actual return on plan assets	10,860	17,118	21,888	26,978
Employer contributions	5,176	13,488	4,810	12,503
Plan participant contributions	202	174	1,897	2,016
Plan expenses	(1,460)	(1,176)	-	-
Benefits paid	(8,534)	(8,416)	(14,339)	(15,157)
	<u>179,579</u>	<u>173,335</u>	<u>324,402</u>	<u>310,146</u>
Fair value of plan assets—end of year				
Funded status	(17,529)	(34,939)	(10,799)	(98,827)
Less University prepaid (accrued) cost	(585)	(584)	(8,266)	(75,614)
Net amount recognized—TUHS Only	<u>\$ (16,944)</u>	<u>\$ (34,355)</u>	<u>\$ (2,533)</u>	<u>\$ (23,213)</u>
Amount recognized in the balance sheets, include:				
Other noncurrent assets	\$ -	\$ -	\$ -	\$ -
Other current liabilities	-	-	(475)	(500)
Accrued postretirement benefits—noncurrent	(16,944)	(34,355)	(2,058)	(22,713)
Net amount recognized—TUHS Only	<u>\$ (16,944)</u>	<u>\$ (34,355)</u>	<u>\$ (2,533)</u>	<u>\$ (23,213)</u>

	Pensions		Other Postretirement Benefit Plan	
	2018	2017	2018	2017
Amounts recognized in unrestricted net assets:				
Prior service cost (credit)	\$ -	\$ -	\$ -	\$ (249)
Net actuarial loss	<u>71,744</u>	<u>87,274</u>	<u>(10,227)</u>	<u>10,055</u>
Net amount recognized in unrestricted net assets	<u>\$ 71,744</u>	<u>\$ 87,274</u>	<u>\$ (10,227)</u>	<u>\$ 9,806</u>
Weighted-average assumptions to determine benefit obligation:				
Discount rate	4.13%-4.38%	3.67%-4.07%	3.70%-4.31%	2.82%-3.95%
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	3.66%-4.07%	3.36%-4.03%	2.82%-3.95%	2.34%-3.83%
Rate of compensation increase	2.50%-3.00%	2.50%-3.00%	N/A	N/A
Expected return on plan assets	6.00%-7.00%	6.50%-7.00%	7.00%	7.50%
Components of net periodic cost (benefit):				
Service cost	\$ 2,025	\$ 2,019	\$ 12,853	\$ 15,505
Interest cost	6,966	6,555	12,973	13,012
Expected return on plan assets	(11,650)	(11,212)	(21,317)	(21,167)
Amortization	-	-	(249)	(2,491)
Recognized net actuarial loss	5,848	6,823	199	5,822
Settlement	<u>106</u>	<u>197</u>	<u>-</u>	<u>-</u>
Net periodic cost	3,295	4,382	4,459	10,681
Less: University net periodic cost	<u>(516)</u>	<u>(648)</u>	<u>(3,392)</u>	<u>(9,812)</u>
TUHS net periodic cost	<u>\$ 2,779</u>	<u>\$ 3,734</u>	<u>\$ 1,067</u>	<u>\$ 869</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 2019 is \$4,735,000. The estimated net actuarial gain for the postretirement health and life insurance plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2019 is \$2,176,000.

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, 2019	June 30, 2018	June 30, 2017
Equity funds and alternative funds	68-95%	77 %	77 %
Cash and fixed income	5-32%	<u>23</u>	<u>23</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, 2019	June 30, 2018	June 30, 2017
Equity funds and securities	15-75%	69 %	69 %
Cash and fixed income	25-85%	<u>31</u>	<u>31</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 \$179,579,000 and \$173,335,000 at June 30, 2018 and 2017, respectively. The fair values of the pension plan assets at June 30, 2018, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 5,791	\$ -	\$ -	\$ -	\$ 5,791
U.S. government securities	12,648	-	-	-	12,648
Corporate bonds, notes, and other debt securities	-	23,810	-	-	23,810
Equity funds and securities	76,627	-	-	13,391	90,018
Alternative funds	-	-	-	5,545	5,545
Fixed income mutual funds	26,991	-	-	-	26,991
Limited partnerships	-	-	-	14,776	14,776
Total market value	<u>\$ 122,057</u>	<u>\$ 23,810</u>	<u>\$ -</u>	<u>\$ 33,712</u>	<u>\$ 179,579</u>

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 NAV	Total
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>

Transfers between Levels 1 and 2—During the years ended June 30, 2018 and 2017, 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. During the years ended June 30, 2018 and 2017, there were no transfers into or out of Level 3.

The fair values of the following investments have been estimated using an NAV equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2018 and 2017.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2018:				
Multi-Strategy Hedge Funds (a)	17,879	\$ -	Daily, Quarterly	60–95 days
Real Estate Funds (e)	9,707	-	Quarterly	45–90 days
Equity Funds (f)	<u>6,126</u>	<u>-</u>	Monthly	30 days
	<u>\$ 33,712</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, 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>		

* 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 \$324,402,000 and \$310,146,000 at June 30, 2018 and 2017, 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, 2018, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 2,049	\$	\$	\$	\$ 2,049
U.S. government securities	\$ 32,670				32,670
Equity funds and securities	61,531				61,531
Limited partnerships	<u> </u>	<u> </u>	<u> </u>	228,152	<u>228,152</u>
Total market value	<u>\$ 96,250</u>	<u>\$</u>	<u>\$</u>	<u>\$ 228,152</u>	<u>\$ 324,402</u>

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>	69,791	<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 following investments have been estimated using an NAV equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2018 and 2017.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2018:				
Commodity funds (a)	\$ 6,785	\$ -	Daily	1–2 days
Multi-Strategy Hedge Funds (b)	41,663	-	Quarterly	90 days
Private Equity Funds (c)	1,630	33,310	Illiquid	N/A
Real Estate Funds (d)	12,890	-	Quarterly	30–90 days
Fixed Income Funds (e)	43,465	-	Daily, Monthly	1–30 days
Equity Funds (f)	<u>121,719</u>	<u>-</u>	Semi-monthly, Monthly	5–30 days
	<u>\$ 228,152</u>	<u>\$ 33,310</u>		
As of June 30, 2017:				
Cash*	\$ 1,805	\$ -	Quarterly	90 days
Multi-Strategy Hedge Funds (b)	31,020	-	Quarterly	65–90 days
Distressed Debt Hedge Funds (g)	4,214	-	Quarterly	65–90 days
Private Equity Funds (c)	903	-	Quarterly	90 days
Global/Macro Hedge Funds (h)	8,086	-	Quarterly	90 days
Real Estate Funds (d)	8,550	-	Monthly	30 days
Fixed Income Funds (e)	67,169	-	Daily	2–6 days
Equity Funds (f)	<u>25,752</u>	<u>-</u>	Daily, Monthly	0–60 days
	<u>\$ 147,499</u>	<u>\$ -</u>		

* Cash holdings of underlying managers

- (a) This category includes investments in both long and short commodities derivatives in a unitized fund structure.
- (b) 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.
- (c) This category includes real estate loans and non-public company equity and debt securities.
- (d) 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.
- (e) 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.
- (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.
- (g) 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.
- (h) 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.

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 10.25% over the long-term, while fixed income is expected to return between 2.25% and 5.75%.

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, 2019:		
Expected employer contributions	\$ 2,830	\$ 472
Expected employee contributions	-	1,903
Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending June 30:		
2019	9,673	19,113
2020	10,086	19,015
2021	10,441	19,666
2022	10,946	20,173
2023	11,378	20,507
2024 to 2028	61,374	105,288

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, 2018 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 6,077</u>	<u>\$ 14,002</u>	<u>\$ 20,079</u>

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>

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
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	6,946	13,395	20,341
Contributions	-	239	239
Investment return—investment income	2,674	368	3,042
Appropriations of endowment assets for expenditure	<u>(3,543)</u>	<u>-</u>	<u>(3,543)</u>
Endowment net assets—June 30, 2018	<u>\$ 6,077</u>	<u>\$ 14,002</u>	<u>\$ 20,079</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, 2018 and 2017.

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, 2018 and 2017, respectively.

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2018 and 2017 (in thousands):

	2018	2017
Property and equipment additions	\$ 874	\$ 681
Specific health care programs	<u>21,881</u>	<u>23,427</u>
	<u>\$ 22,755</u>	<u>\$ 24,108</u>

Permanently restricted net assets consist of the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Beneficial interest in perpetual trusts, income from which is expendable to support health care services (income reported as unrestricted)	\$ 41,417	\$ 40,042
Beneficial interest in assets held by Episcopal Foundation	28,418	27,348
Beneficial interest in assets held by Fox Chase Cancer Center Foundation	<u>56,615</u>	<u>51,377</u>
	126,450	118,767
Endowment funds, income from which is expendable for specific health care programs (income is temporarily restricted)	<u>14,002</u>	<u>13,395</u>
	<u>\$ 140,452</u>	<u>\$ 132,162</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 \$28,418,000 and \$27,348,000 at June 30, 2018 and 2017, 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 \$56,615,000 and \$51,377,000 at June 30, 2018 and 2017, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 89% and 70% marketable equity securities and 11% and 30% fixed income securities at June 30, 2018 and 2017, 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, 2018, JH has committed to making investments of \$198,000 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 \$50,037,000 and \$49,270,000 as of June 30, 2018 and 2017, 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, 2018 and 2017, including any provider tax expenses, are as follows:

	2018	2017
Base supplemental revenues	<u>\$ 130,410,000</u>	<u>\$ 102,322,000</u>
State and local hospital assessment revenues	82,130,000	94,311,000
State and local hospital assessment expenses	<u>(46,787,000)</u>	<u>(46,787,000)</u>
Net state and local hospital assessment program	<u>35,343,000</u>	<u>47,524,000</u>
Academic Health Center	<u>6,210,000</u>	<u>6,229,000</u>
Subtotal supplemental funding, net of taxes	171,963,000	156,075,000
Supplemental funding impact on faculty support	<u>(10,310,000)</u>	<u>6,810,000</u>
Total net supplemental funding	<u>\$ 161,653,000</u>	<u>\$ 162,885,000</u>

The Academic Health Center support of \$6,210,000 and \$6,229,000 for the years ended June 30, 2018 and 2017, respectively, was passed through to the University as an equity transfer.

For the years ended June 30, 2018 and 2017, there was a supplemental funding impact on faculty support of (\$10,310,000) and \$6,810,000, respectively, related to funding 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, 2018 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Assets limited as to use:					
U.S. government securities	\$ 43,232	\$ 38,847	\$ -	\$ -	\$ 82,079
Fixed income mutual funds	1,921	-	-	-	1,921
Corporate bonds, notes, and other debt securities	-	15,148	-	-	15,148
Cash, money market funds, and certificates of deposit	44,866	958	-	-	45,824
Equity securities and mutual funds	8,642	-	-	-	8,642
Alternative funds	-	-	-	1,558	1,558
	<u>98,661</u>	<u>54,953</u>	<u>-</u>	<u>1,558</u>	<u>155,172</u>
Workers' Compensation Fund:					
U.S. government securities	7,128	695	-	-	7,823
Corporate bonds, notes, and other debt securities	-	3,099	-	-	3,099
Cash, money market funds, and certificates of deposit	129	-	-	-	129
	<u>7,257</u>	<u>3,794</u>	<u>-</u>	<u>-</u>	<u>11,051</u>
Investments:					
U.S. government securities	15,512	11,929	-	-	27,441
Fixed income mutual funds	10,229	-	-	-	10,229
Corporate bonds, notes, and other debt securities	-	23,732	-	-	23,732
Equity securities and mutual funds	101,958	-	-	-	101,958
Real estate	-	320	-	-	320
Alternative funds	-	-	-	27,090	27,090
Limited partnerships	-	-	-	16,013	16,013
	<u>127,699</u>	<u>35,981</u>	<u>-</u>	<u>43,103</u>	<u>206,783</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>41,417</u>	<u>-</u>	<u>41,417</u>
Beneficial interest in the assets held by Episcopal Foundation	<u>-</u>	<u>-</u>	<u>28,418</u>	<u>-</u>	<u>28,418</u>
Beneficial interest in the Fox Chase Cancer Center Foundation	<u>-</u>	<u>-</u>	<u>56,615</u>	<u>-</u>	<u>56,615</u>
Total	<u>\$ 233,617</u>	<u>\$ 94,728</u>	<u>\$ 126,450</u>	<u>\$ 44,661</u>	<u>\$ 499,456</u>

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>

Transfers between Levels 1 and 2—During the years ended June 30, 2018 and 2017, 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. During the years ended June 30, 2018 and 2017, there were no transfers into or out of Level 3.

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, 2018:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)								
July 1, 2017	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Sales	Transfer Into Level 3	Transfer Out of Level 3	June 30, 2018	
	Net Income (Loss)	Net Asset						
Year ended June 30, 2018:								
Beneficial interest in perpetual trusts	\$ 40,042	\$	\$ 1,375	\$	\$	\$	\$	\$ 41,417
Beneficial interest in the assets held by Episcopal Foundation	\$ 27,348	\$	\$ 1,070	\$	\$	\$	\$	\$ 28,418
Beneficial interest in Fox Chase Cancer Center Foundation	\$ 51,377	\$	\$ 5,238	\$	\$	\$	\$	\$ 56,615

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

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 an NAV equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2018 and 2017.

	Fair Value (In thousands)	Unfunded Commitments (In thousands)	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Applicable)
As of June 30, 2018:				
Multi-Strategy Hedge Funds (a)	\$ 28,666	\$ -	Annual, Quarterly	45–95 days
Private Equity Funds (b)	96	147		
Stock Funds (c)	131	-		
Real Estate Funds (d)	<u>15,768</u>	<u>51</u>	Quarterly	90 days
	<u>\$ 44,661</u>	<u>\$ 198</u>		
As of June 30, 2017:				
Multi-Strategy Hedge Funds (a)	\$ 30,756	\$ -	Annual, Quarterly	45–95 days
Private Equity Funds (b)	342	149		
Stock Funds (c)	116	-		
Real Estate Funds (d)	<u>16,015</u>	<u>52</u>	Quarterly	90 days
	<u>\$ 47,229</u>	<u>\$ 201</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 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 2018 and 2017, investments representing 98% of the value of the investments in this category cannot be redeemed.
- (c) 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.
- (d) 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, 2018, are \$477,930,000 and \$496,418,000, respectively. 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.

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):

	2018	2017
Health care services	\$ 1,485,882	\$ 1,392,089
Research	44,313	42,067
General and administrative	299,293	313,789
Institutional support	<u>3,908</u>	<u>3,978</u>
	<u>\$ 1,833,396</u>	<u>\$ 1,751,923</u>

20. SUBSEQUENT EVENTS

The Health System has evaluated subsequent events through October 24, 2018, 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, 2018

(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	\$ 74,136	\$ 3,847	\$ (75)	\$ 30,051	\$ 14,345	\$ 159	\$ 1,551	\$ 124	\$ 50,994	\$ -	\$ 175,132
Patient accounts receivable—net of allowance for doubtful accounts	154,975	18,265	-	39,988	3,467	-	3,867	-	-	-	220,562
Other receivables—net of allowance for doubtful accounts	41,877	951	620	987	560	534	372	538	1,683	-	48,122
Inventories and other current assets	22,572	4,769	1,207	9,647	30	-	309	16	2,522	(225)	40,847
Current portion of assets limited as to use	-	40	585	401	-	-	-	-	25,118	-	26,144
Investments	75,100	3,723	7,137	19,735	-	-	-	-	31,664	-	137,359
Current portion of workers' compensation fund	6,687	558	299	550	12	-	37	14	33	-	8,190
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	2,575	-	2,575
Expenditures reimbursable by research grants and awards	-	-	4,604	939	-	405	-	-	-	-	5,948
Due from affiliates—current portion	35,274	5,018	1,810	4,758	5,220	3	5,532	324	43,862	(87,200)	14,601
Total current assets	410,621	37,171	16,187	107,056	23,634	1,101	11,668	1,016	158,451	(87,425)	679,480
PROPERTY, PLANT AND EQUIPMENT:											
Land and land improvements	5,586	1,784	1,221	3,394	-	-	-	-	9	-	11,994
Buildings	323,532	87,316	23,632	24,738	-	-	4,947	-	25,690	-	489,855
Fixed and movable equipment	325,568	48,701	19,826	37,971	213	-	4,868	1,349	69,201	-	507,697
Construction-in-progress	627	178	-	3,978	-	-	-	-	453	-	5,236
	655,313	137,979	44,679	70,081	213	-	9,815	1,349	95,353	-	1,014,782
Less accumulated depreciation	458,338	114,955	20,269	34,542	149	-	7,881	745	66,790	-	703,669
Net property, plant and equipment	196,975	23,024	24,410	35,539	64	-	1,934	604	28,563	-	311,113
ASSETS LIMITED AS TO USE	4,711	757	17,700	6,806	24	-	-	-	48,994	-	78,992
INVESTMENTS	30,270	1,398	320	6,451	154	-	-	-	989	-	39,582
WORKERS' COMPENSATION FUND	518	251	86	1,750	79	-	8	136	46	-	2,874
SELF-INSURANCE PROGRAM RECEIVABLES	24,575	2,779	-	506	4,697	-	7,174	-	12,090	(39,731)	12,090
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	-	27,161	-	27,161
GOODWILL AND OTHER INTANGIBLES	-	-	3,435	13,215	-	1,514	272	-	-	-	18,436
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	34,695	19,763	65,581	6,411	-	-	-	-	-	-	126,450
DUE FROM AFFILIATES	7,494	-	-	-	-	-	-	-	348,440	(355,934)	-
OTHER ASSETS	24,439	978	8,394	1,236	142	-	208	-	3,658	-	39,055
TOTAL ASSETS	\$ 734,298	\$ 86,121	\$ 136,113	\$ 178,970	\$ 28,794	\$ 2,615	\$ 21,264	\$ 1,756	\$ 628,392	\$ (483,090)	\$ 1,335,233

(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, 2018

(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	\$ 580	\$ 2,082	\$ 9,056	\$ -	\$ 551	\$ -	\$ 12,269	\$ -	\$ 187,401
Patient accounts receivable—net of allowance for doubtful accounts	-	-	-	-	-	-	-	-	220,562
Other receivables net of allowance for doubtful accounts	1,466	532	217	-	2,331	-	4,546	-	52,668
Inventories and other current assets	6	7	-	-	-	-	13	-	40,860
Current portion of assets limited as to use	-	1,963	-	-	-	-	1,963	-	28,107
Investments	3,275	-	22,698	-	-	-	25,973	-	163,332
Current portion of workers' compensation fund	-	-	-	-	-	-	-	-	8,190
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	2,575
Expenditures reimbursable by research grants and awards	-	-	-	-	-	-	-	-	5,948
Due from affiliates—current portion	198	2,250	-	55	1,503	-	4,006	(18,607)	-
Total current assets	5,525	6,834	31,971	55	4,385	-	48,770	(18,607)	709,643
PROPERTY, PLANT AND EQUIPMENT:									
Land and land improvements	231	-	-	-	-	-	231	-	12,225
Buildings	12,868	-	-	-	-	-	12,868	-	502,723
Fixed and movable equipment	497	-	-	-	-	-	497	-	508,194
Construction-in-progress	-	-	-	-	-	-	-	-	5,236
	13,596	-	-	-	-	-	13,596	-	1,028,378
Less accumulated depreciation	11,774	-	-	-	-	-	11,774	-	715,443
Net property, plant and equipment	1,822	-	-	-	-	-	1,822	-	312,935
ASSETS LIMITED AS TO USE	-	48,073	-	-	-	-	48,073	-	127,065
INVESTMENTS	395	-	7,384	-	-	-	7,779	-	47,361
WORKERS' COMPENSATION FUND	-	-	-	-	-	-	-	-	2,874
SELF-INSURANCE PROGRAM RECEIVABLES	-	8,000	-	-	-	-	8,000	-	20,090
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	(27,161)	-
GOODWILL AND OTHER INTANGIBLES	-	-	-	-	-	-	-	-	18,436
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	28,418	-	-	-	-	-	28,418	(28,418)	126,450
DUE FROM AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER ASSETS	56	-	-	-	-	-	56	-	39,111
TOTAL ASSETS	\$ 36,216	\$ 62,907	\$ 39,355	\$ 55	\$ 4,385	\$ -	\$ 142,918	\$ (74,186)	\$ 1,403,965

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2018

(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	\$ 5,482	\$ 1,180	\$ 374	\$ 914	\$ -	\$ -	\$ -	\$ -	\$ 9,470	\$ -	\$ 17,420
Line of Credit											
Accounts payable	63,359	5,587	2,115	9,757	435	11	154	5	4,589	-	86,012
Accrued expenses	35,210	6,534	4,000	7,262	7,414	207	4,143	230	51,975	(35,645)	81,330
Current portion of estimated settlements with third-party payors	9,730	-	-	6,015	-	-	-	-	-	(225)	15,520
Current portion of self-insurance program liabilities	16,556	754	300	622	228	-	1,971	14	2,608	-	23,053
Unexpended research grants and awards	-	-	1,339	91	6	-	-	-	-	-	1,436
Due to affiliates—current portion	38,681	5,900	3,601	12,152	1,942	607	3,536	571	24,214	(87,200)	4,004
Other current liabilities	19,043	1,931	262	5,798	671	-	105	-	13,872	-	41,682
Total current liabilities	188,061	21,886	11,991	42,611	10,696	825	9,909	820	106,728	(123,070)	270,457
LONG-TERM DEBT	12,288	2,654	1,209	11,186	-	-	-	-	468,460	-	495,797
SELF-INSURANCE PROGRAM LIABILITIES	60,578	6,645	669	4,430	2,007	-	7,578	285	12,301	(4,086)	90,407
ACCRUED POSTRETIREMENT BENEFITS	2,591	7,137	1,135	2,171	490	-	-	-	-	-	13,524
DUE TO AFFILIATES	209,142	48,721	20,404	70,173	-	-	-	-	7,494	(355,934)	-
OTHER LONG-TERM LIABILITIES	25,098	3,480	1,415	1,446	492	-	349	-	1,564	-	33,844
Total liabilities	497,758	90,523	36,823	132,017	13,685	825	17,836	1,105	596,547	(483,090)	904,029
NET ASSETS (DEFICIT):											
Unrestricted	197,299	(24,714)	12,234	30,361	15,109	1,790	3,428	651	31,839	-	267,997
Temporarily restricted	3,099	474	12,619	6,557	-	-	-	-	6	-	22,755
Permanently restricted	36,142	19,838	74,437	10,035	-	-	-	-	-	-	140,452
Total net assets (deficit)	236,540	(4,402)	99,290	46,953	15,109	1,790	3,428	651	31,845	-	431,204
TOTAL LIABILITIES AND NET ASSETS	\$ 734,298	\$ 86,121	\$ 136,113	\$ 178,970	\$ 28,794	\$ 2,615	\$ 21,264	\$ 1,756	\$ 628,392	\$ (483,090)	\$ 1,335,233

(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, 2018

(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	\$ 616	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 616	\$ -	\$ 18,036
Line of credit									
Accounts payable	68	502	-	-	-	-	570	-	86,582
Accrued expenses	-	2,359	-	-	1,973	-	4,332	2,416	88,078
Current portion of estimated settlements with third-party payors	-	-	-	-	-	-	-	-	15,520
Current portion of self-insurance program liabilities	-	9,237	-	-	-	-	9,237	-	32,290
Unexpended research grants and awards	-	-	-	-	-	-	-	-	1,436
Due to affiliates—current portion	12,006	-	-	6	2,591	-	14,603	(18,607)	-
Other current liabilities	6	-	-	-	-	-	6	-	41,688
Total current liabilities	12,696	12,098	-	6	4,564	-	29,364	(16,191)	283,630
LONG-TERM DEBT	971	-	-	-	-	-	971	-	496,768
SELF-INSURANCE PROGRAM LIABILITIES	2,416	23,648	-	-	-	-	26,064	(2,416)	114,055
ACCRUED POSTRETIREMENT BENEFITS	5,477	-	-	-	-	-	5,477	-	19,001
DUE TO AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER LONG-TERM LIABILITIES	31,062	-	-	-	-	-	31,062	(28,418)	36,488
Total liabilities	52,622	35,746	-	6	4,564	-	92,938	(47,025)	949,942
NET ASSETS (DEFICIT):									
Unrestricted	(16,406)	27,161	39,355	49	(179)	-	49,980	(27,161)	290,816
Temporarily restricted	-	-	-	-	-	-	-	-	22,755
Permanently restricted	-	-	-	-	-	-	-	-	140,452
Total net assets (deficit)	(16,406)	27,161	39,355	49	(179)	-	49,980	(27,161)	454,023
TOTAL LIABILITIES AND NET ASSETS	\$ 36,216	\$ 62,907	\$ 39,355	\$ 55	\$ 4,385	\$ -	\$ 142,918	\$ (74,186)	\$ 1,403,965

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

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

FOR THE YEAR ENDED JUNE 30, 2018

(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	\$ 1,181,826	\$ 153,856	\$ -	\$ 370,901	\$ 36,502	\$ -	\$ 53,965	\$ -	\$ -	\$ (8,049)	\$ 1,789,001
Allowance for doubtful accounts	(16,861)	(4,586)	-	(3,704)	(1,176)	-	(1,266)	-	-	-	(27,593)
Total net patient service revenue	1,164,965	149,270		367,197	35,326		52,699			(8,049)	1,761,408
Research revenue	-	-	40,784	-	-	529	-	-	-	(2,017)	39,296
Contribution revenue	1,917	5	1,245	2,600	-	-	-	-	-	(6)	5,761
Other revenue	16,165	6,712	1,018	2,513	27,849	524	17,811	4,931	102,717	(145,482)	34,758
Investment income	-	-	-	-	-	-	-	-	650	-	650
Net assets released from restrictions used for operations	338	49	7,377	1,049	-	-	-	-	-	-	8,813
Unrestricted revenues and other support	1,183,385	156,036	50,424	373,359	63,175	1,053	70,510	4,931	103,367	(155,554)	1,850,686
Expenses:											
Salaries	383,798	65,027	43,699	92,194	53,118	599	43,976	4,358	29,946	(1,343)	715,372
Employee benefits	114,302	18,085	11,999	24,046	5,731	145	9,567	1,217	7,466	(84)	192,474
Professional fees	167,327	15,468	1,507	25,979	(45)	469	7,417	104	6,721	(35,439)	189,508
Supplies and pharmaceuticals	234,349	26,879	8,721	126,475	199	2	3,732	161	2,888	262	403,668
Purchased services and other	157,116	22,593	3,860	52,904	(1,505)	103	6,756	1,101	12,454	(87,081)	168,301
Maintenance	14,116	2,778	-	-	-	-	266	82	1,558	153	18,953
Utilities	10,668	1,051	3,559	2,591	-	-	1,050	102	1,248	42	20,311
Leases	14,360	1,579	617	2,265	33	-	3,306	197	6,023	(5,325)	23,055
Insurance	11,048	402	98	(409)	14	-	6,390	14	16	-	17,573
Depreciation and amortization	29,103	4,423	3,544	5,396	1	145	849	187	7,342	-	50,990
Interest	18,267	3,554	1,214	4,604	-	-	49	5	25,813	(26,739)	26,767
Asset impairment	-	-	1,694	-	-	-	43	-	-	-	1,737
Loss on disposal of fixed assets	58	(49)	22	2	-	-	-	4	18	-	55
Expenses	1,154,512	161,790	80,534	336,047	57,546	1,463	83,401	7,532	101,493	(155,554)	1,828,764
Operating income (loss)	28,873	(5,754)	(30,110)	37,312	5,629	(410)	(12,891)	(2,601)	1,874	-	21,922
Other income—net:											
Investment income (loss)	5,716	894	1,356	1,236	41	-	130	-	60	-	9,433
Other income (loss)	562	-	-	-	-	-	-	-	107	-	669
Other income—net	6,278	894	1,356	1,236	41	-	130	-	167	-	10,102
Excess (deficiency) of revenues and other support over expenses from continuing operations	35,151	(4,860)	(28,754)	38,548	5,670	(410)	(12,761)	(2,601)	2,041	-	32,024

(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, 2018

(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	\$ (4,708)	\$ -	\$ -	\$ -	\$ 3,921	\$ (787)	\$ -	\$ 1,788,214
Allowance for doubtful accounts	-	-	-	-	-	-	-	(27,593)
Total net patient service revenue	(4,708)	-	-	-	3,921	(787)	-	1,760,621
Research revenue	-	-	-	-	-	-	-	39,296
Contribution revenue	-	-	-	-	-	-	-	5,761
Other revenue	2,655	10,144	165	51	115	13,130	(12,397)	35,491
Investment income	-	-	-	-	-	-	-	650
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	8,813
Unrestricted revenues and other support	(2,053)	10,144	165	51	4,036	12,343	(12,397)	1,850,632
Expenses:								
Salaries	764	-	-	-	1,985	2,749	-	718,121
Employee benefits	624	-	-	-	642	1,266	-	193,740
Professional fees	31	-	-	13	1,027	1,071	-	190,579
Supplies and pharmaceuticals	116	-	-	-	1	117	-	403,785
Purchased services and other	138	126	42	-	379	685	(126)	168,860
Maintenance	277	-	-	-	-	277	-	19,230
Utilities	412	-	-	-	2	414	-	20,725
Leases	-	-	-	-	-	-	(2,253)	20,802
Insurance	112	7,454	-	-	-	7,566	(7,454)	17,685
Depreciation and amortization	246	-	-	-	-	246	-	51,236
Interest	74	-	-	-	-	74	-	26,841
Asset impairment	-	-	-	-	-	-	-	1,737
Loss on disposal of fixed assets	-	-	-	-	-	-	-	55
Expenses	2,794	7,580	42	13	4,036	14,465	(9,833)	1,833,396
Operating income (loss)	(4,847)	2,564	123	38	-	(2,122)	(2,564)	17,236
Other income—net:								
Investment income (loss)	158	(217)	1,465	11	-	1,417	217	11,067
Other income (loss)	-	-	-	-	-	-	-	669
Other income—net	158	(217)	1,465	11	-	1,417	217	11,736
Excess (deficiency) of revenues and other support over expenses from continuing operations	(4,689)	2,347	1,588	49	-	(705)	(2,347)	28,972

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

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

FOR THE YEAR ENDED JUNE 30, 2018

(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	\$ 35,151	\$ (4,860)	\$ (28,754)	\$ 38,548	\$ 5,670	\$ (410)	\$ (12,761)	\$ (2,601)	\$ 2,041	\$ -	\$ 32,024
Other changes in unrestricted net assets:											
Transfers (to) from affiliates/the University	(23,310)	7,959	20,689	(27,420)	1,501	-	9,899	2,900	102	-	(7,680)
Net assets released from restrictions used for purchase of property and equipment	141	483	(15)	-	-	-	-	-	-	-	609
Net change in fair value of investments	3,606	(42)	(93)	322	-	-	-	-	(296)	-	3,497
Adjustment to funded status of pension and postretirement liabilities	24,824	4,806	226	434	96	-	-	-	-	-	30,386
Adjustment to funded status of long-term disability liabilities	364	58	40	98	54	-	41	-	45	-	700
Increase (decrease) in unrestricted net assets	40,776	8,404	(7,907)	11,982	7,321	(410)	(2,821)	299	1,892	-	59,536
TEMPORARILY RESTRICTED NET ASSETS:											
Contribution income	1,099	614	1,762	1,921	-	-	-	-	-	-	5,396
Net assets released from restrictions	(479)	(532)	(7,362)	(1,049)	-	-	-	-	-	-	(9,422)
Net change in fair value of investments	(62)	-	-	-	-	-	-	-	-	-	(62)
Investment income	251	-	2,185	299	-	-	-	-	-	-	2,735
Increase (decrease) in temporarily restricted net assets	809	82	(3,415)	1,171	-	-	-	-	-	-	(1,353)
PERMANENTLY RESTRICTED NET ASSETS:											
Contribution income	-	-	252	(13)	-	-	-	-	-	-	239
Net change in fair value of investments	-	-	335	33	-	-	-	-	-	-	368
Investment income (loss)	-	-	(109)	109	-	-	-	-	-	-	-
Change in beneficial interest in assets held by others	1,214	884	4,992	593	-	-	-	-	-	-	7,683
Increase (decrease) in permanently restricted net assets	1,214	884	5,470	722	-	-	-	-	-	-	8,290
INCREASE (DECREASE) IN NET ASSETS	42,799	9,370	(5,852)	13,875	7,321	(410)	(2,821)	299	1,892	-	66,473
NET ASSETS (DEFICIT)—Beginning of year	193,741	(13,772)	105,142	33,078	7,788	2,200	6,249	352	29,953	-	364,731
NET ASSETS (DEFICIT)—End of year	\$ 236,540	\$ (4,402)	\$ 99,290	\$ 46,953	\$ 15,109	\$ 1,790	\$ 3,428	\$ 651	\$ 31,845	\$ -	\$ 431,204

(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, 2018

(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	\$ (4,689)	\$ 2,347	\$ 1,588	\$ 49	\$ -	\$ (705)	\$ (2,347)	\$ 28,972
Other changes in unrestricted net assets:								
Transfers (to) from affiliates/the University	-	-	-	-	-	-	-	(7,680)
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	609
Net change in fair value of investments	163	(163)	902	-	-	902	163	4,562
Adjustment to funded status of pension and postretirement liabilities	5,071	-	-	-	-	5,071	-	35,457
Adjustment to funded status of long-term disability liabilities	-	-	-	-	-	-	-	700
Increase (decrease) in unrestricted net assets	545	2,184	2,490	49	-	5,268	(2,184)	62,620
TEMPORARILY RESTRICTED NET ASSETS:								
Contribution income	-	-	-	-	-	-	-	5,396
Net assets released from restrictions	-	-	-	-	-	-	-	(9,422)
Net change in fair value of investments	-	-	-	-	-	-	-	(62)
Investment income	-	-	-	-	-	-	-	2,735
Increase (decrease) in temporarily restricted net assets	-	-	-	-	-	-	-	(1,353)
PERMANENTLY RESTRICTED NET ASSETS:								
Contribution income	-	-	-	-	-	-	-	239
Net change in fair value of investments	-	-	-	-	-	-	-	368
Investment income (loss)	-	-	-	-	-	-	-	-
Change in beneficial interest in assets held by others	-	-	-	-	-	-	-	7,683
Increase (decrease) in permanently restricted net assets	-	-	-	-	-	-	-	8,290
INCREASE (DECREASE) IN NET ASSETS	545	2,184	2,490	49	-	5,268	(2,184)	69,557
NET ASSETS (DEFICIT)—Beginning of year	(16,951)	24,977	36,865	-	(179)	44,712	(24,977)	384,466
NET ASSETS (DEFICIT)—End of year	\$ (16,406)	\$ 27,161	\$ 39,355	\$ 49	\$ (179)	\$ 49,980	\$ (27,161)	\$ 454,023

(Concluded)