

# Temple University Health System

Consolidated Financial Statements as of and  
for the Years Ended June 30, 2019 and 2018,  
Supplemental Schedules as of and for the  
Year Ended June 30, 2019, 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, 2019 and 2018, 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 Health System'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 Health System'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, 2019 and 2018, 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.

## **Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, the Health System adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* retrospectively for all periods presented, except as it relates to the presentation of expenses by their natural and functional classification as permitted in the transition guidance relating to the adoption of ASU 2016-14. Our opinion is not modified with respect to this matter.

## **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 54-62 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Health System'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 23, 2019

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2019 AND 2018

(In thousands)

	2019	2018
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 220,121	\$ 187,401
Patient accounts receivable—net of allowance for doubtful accounts	209,409	220,562
Other receivables—net of allowance for doubtful accounts of \$1,053 and \$764 in 2019 and 2018, respectively	149,032	52,668
Inventories and other current assets	46,007	40,860
Current portion of assets limited as to use	29,734	28,107
Investments	181,387	163,332
Current portion of workers' compensation fund	7,825	8,190
Current portion of self-insurance program receivables	2,250	2,575
Expenditures reimbursable by research grants and awards	<u>9,184</u>	<u>5,948</u>
Total current assets	<u>854,949</u>	<u>709,643</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	12,212	12,225
Buildings	503,889	502,723
Fixed and movable equipment	509,853	508,194
Construction-in-progress	<u>7,818</u>	<u>5,236</u>
	1,033,772	1,028,378
Less accumulated depreciation	<u>749,797</u>	<u>715,443</u>
Net property, plant and equipment	<u>283,975</u>	<u>312,935</u>
ASSETS LIMITED AS TO USE	128,444	127,065
INVESTMENTS	40,808	47,361
WORKERS' COMPENSATION FUND	2,592	2,874
SELF-INSURANCE PROGRAM RECEIVABLES	21,782	20,090
GOODWILL AND OTHER INTANGIBLES	16,976	18,436
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	128,194	126,450
OTHER ASSETS	<u>64,032</u>	<u>39,111</u>
TOTAL ASSETS	<u>\$ 1,541,752</u>	<u>\$ 1,403,965</u>

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2019 AND 2018

(In thousands)

	2019	2018
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 15,912	\$ 18,036
Accounts payable	158,230	86,582
Accrued expenses	117,562	88,078
Current portion of estimated settlements with third-party payors	13,152	15,520
Current portion of self-insurance program liabilities	25,413	32,290
Unexpended research grants and awards	4,359	1,436
Other current liabilities	<u>50,014</u>	<u>41,688</u>
 Total current liabilities	 <u>384,642</u>	 <u>283,630</u>
 LONG-TERM DEBT	 487,077	 496,768
 SELF-INSURANCE PROGRAM LIABILITIES	 117,759	 114,055
 ACCRUED POSTRETIREMENT BENEFITS	 31,448	 19,001
 OTHER LONG-TERM LIABILITIES	 <u>29,764</u>	 <u>36,488</u>
 Total liabilities	 <u>1,050,690</u>	 <u>949,942</u>
 NET ASSETS:		
Without donor restrictions	325,827	290,816
With donor restrictions	<u>165,235</u>	<u>163,207</u>
 Total net assets	 <u>491,062</u>	 <u>454,023</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,541,752</u>	 <u>\$ 1,403,965</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, 2019 AND 2018 (In thousands)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and other support without donor restrictions:		
Net patient service revenue before allowance for doubtful accounts	\$ 1,910,758	\$ 1,788,214
Allowance for doubtful accounts	<u>(4,657)</u>	<u>(27,593)</u>
Total net patient service revenue	1,906,101	1,760,621
Research revenue	42,561	39,296
Contribution revenue	7,723	5,761
Other revenue	36,548	35,491
Investment income	710	650
Net assets released from restrictions used for operations	<u>7,705</u>	<u>8,813</u>
Revenues and other support without donor restrictions	<u>2,001,348</u>	<u>1,850,632</u>
Expenses:		
Salaries	747,239	718,121
Employee benefits	208,591	193,740
Professional fees	208,329	190,579
Supplies and pharmaceuticals	472,946	403,785
Purchased services and other	175,882	168,860
Maintenance	19,226	19,230
Utilities	20,877	20,725
Leases	17,458	20,802
Insurance	21,179	17,685
Depreciation and amortization	47,535	51,236
Interest	24,144	26,841
Asset impairment	883	1,737
(Gain) loss on disposal of fixed assets	<u>(677)</u>	<u>55</u>
Expenses	<u>1,963,612</u>	<u>1,833,396</u>
Operating income	<u>37,736</u>	<u>17,236</u>
Other income—net:		
Investment income	11,128	11,067
Other—net	<u>400</u>	<u>669</u>
Other income—net	<u>11,528</u>	<u>11,736</u>
Excess of revenues and other support over expenses	<u>49,264</u>	<u>28,972</u>

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(In thousands)

	2019	2018
Excess of revenues and other support over expenses	\$ 49,264	\$ 28,972
Other changes in net assets without donor restrictions:		
Net transfers to the University	(7,736)	(7,680)
Net assets released from restrictions used for purchase of property and equipment	1,474	609
Net change in fair value of investments	6,931	4,562
Adjustment to funded status of pension and postretirement liabilities	(14,870)	35,457
Adjustment to funded status of long-term disability liabilities	<u>(52)</u>	<u>700</u>
Increase in net assets without donor restrictions	<u>35,011</u>	<u>62,620</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contribution income	6,526	5,635
Net assets released from restrictions	(9,179)	(9,422)
Net change in fair value of investments	288	306
Investment income	2,649	2,735
Change in beneficial interest in assets held by others	<u>1,744</u>	<u>7,683</u>
Increase in net assets with donor restrictions	<u>2,028</u>	<u>6,937</u>
INCREASE IN NET ASSETS	37,039	69,557
NET ASSETS—Beginning of year	<u>454,023</u>	<u>384,466</u>
NET ASSETS—End of year	<u>\$ 491,062</u>	<u>\$ 454,023</u>

See notes to consolidated financial statements.

(Concluded)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (In thousands)

	2019	2018
OPERATING ACTIVITIES:		
Increase in net assets	\$ 37,039	\$ 69,557
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(10,093)	(10,713)
Net realized and unrealized gains on beneficial interests in assets held by others	(1,744)	(7,683)
Depreciation, amortization and accretion	46,909	50,361
Intangible amortization	626	875
Impairment on intangibles	834	1,737
Amortization of bond premium, discount, debt issuance costs and underwriter's discount	(1,816)	(1,167)
<b>Allowance for doubtful accounts</b>	4,657	<b>27,593</b>
Adjustment to funded status of pension and postretirement liabilities	14,870	(35,457)
Adjustment to funded status of long-term disability liabilities	52	(700)
Gain on extinguishment of debt	-	(107)
Asset impairment	49	-
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(1,474)	(609)
(Gain) loss on disposal of fixed assets	(677)	55
Perpetually restricted gifts and donations received	(910)	(239)
Net transfers to the University	7,736	7,680
Changes in operating assets and liabilities:		
<b>Patient accounts receivable</b>	6,496	<b>(30,730)</b>
<b>Other receivables</b>	(96,349)	<b>27,069</b>
<b>Pledges receivable—net</b>	(239)	<b>663</b>
Inventories and other current assets	(5,147)	(3,231)
Expenditures reimbursable by research grants and awards	(3,236)	(3,413)
Other assets	(24,697)	(2,371)
<b>Accounts payable</b>	71,353	<b>(1,622)</b>
<b>Accrued expenses</b>	29,484	<b>7,911</b>
<b>Estimated settlements with third-party payors</b>	(2,368)	<b>5,633</b>
Self-insurance program receivables and liabilities	(4,540)	(493)
Unexpended research grants and awards	2,923	(547)
Other liabilities	(653)	(26,142)
Net cash provided by operating activities	<u>69,085</u>	<u>73,910</u>

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (In thousands)

	2019	2018
INVESTING ACTIVITIES:		
(Increase) decrease in assets limited as to use	\$ (1,914)	\$ 10,638
Purchases of property, plant and equipment	(16,029)	(20,558)
Purchases of investments	(159,814)	(563,988)
Proceeds from sales of investments	157,960	566,802
Proceeds from sale of fixed assets	<u>1,015</u>	<u>198</u>
Net cash used in investing activities	<u>(18,782)</u>	<u>(6,908)</u>
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	1,474	609
Repayment of long-term debt	(14,776)	(16,261)
Repayment of capital lease obligations	(3,682)	(3,177)
Repurchase of bonds	-	(255,930)
Proceeds from issuance of long-term debt	6,227	<u>267,062</u>
Proceeds from line of credit	-	<u>15,000</u>
Repayment of line of credit	-	(30,000)
Perpetually restricted gifts and donations received	910	239
Net transfers to the University	<u>(7,736)</u>	<u>(7,680)</u>
Net cash used in financing activities	<u>(17,583)</u>	<u>(30,138)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,720	36,864
CASH AND CASH EQUIVALENTS—Beginning of year	<u>187,401</u>	<u>150,537</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 220,121</u>	<u>\$ 187,401</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest		
	<u>\$ 25,963</u>	<u>\$ 28,009</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Amounts recorded for purchases of property and equipment in excess of amounts paid	<u>\$ 1,407</u>	<u>\$ 1,112</u>
Cost of assets acquired through capitalized leases	<u>\$ 2,232</u>	<u>\$ 3,943</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, 2019 AND 2018

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### 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 payers, commercial payers 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 became active on July 1, 2019 (see Note 21).

## 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, 2019 and 2018, 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 revenues and other support without donor restrictions. 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, 2019 and 2018. 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 \$47,128,000 and \$50,520,000 for the years ended June 30, 2019 and 2018, 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 \$24,783,000 and \$22,551,000 at June 30, 2019 and 2018, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2019 and 2018, the accumulated depreciation balance included \$15,267,000 and \$11,646,000, 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, 2019 and 2018 were \$49,000 and \$0, respectively.

**Goodwill and Other Intangibles**—Goodwill and other intangible assets are accounted for in accordance with the accounting guidance in FASB ASC Topic 350 for *Intangibles—Goodwill and Other*. Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or when indicators of a potential impairment are present. The Health System’s annual impairment date is June 30th. The annual evaluation for impairment of goodwill and indefinite-lived intangibles is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. 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 2019 and 2018.

**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, 2019 and 2018, the recorded asset retirement obligation was \$6,851,000 and \$6,666,000, respectively. Accretion costs for 2019 and 2018 were \$375,000 and \$323,000, respectively.

**Deferred Financing Costs**—Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs were \$7,136,000 as of June 30, 2019 and 2018. Accumulated amortization of deferred financing costs was \$1,472,000 and \$998,000 as of June 30, 2019 and 2018, respectively. Deferred financing costs are presented on the balance sheets 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 two net asset categories follows:

*Net Assets Without Donor Restrictions*—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. Included in net assets without donor restrictions are board-designated assets of \$9,657,000 and \$3,532,000 at June 30, 2019 and 2018, respectively.

*Net Assets With Donor Restrictions*— are those assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature and limit the use of assets to a specific time period or purpose. Other donor restrictions are perpetual in nature and require that the corpus of the related gifts, trusts, or pledges 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 net assets with donor restrictions.

**Contributions, Grants and Awards, and Research Contracts** —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, that is, when a stipulated time restriction ends and/or purpose restriction is accomplished, amounts are reclassified as net assets without donor restriction and reported as net assets released from restriction. Conditional promises to give are recognized once the Health System overcomes the barrier to be entitled to the resources and the grantor is released from its obligation to transfer the resources.

Donor restricted contributions whose restrictions are met within the same year they are received are reported as net assets without donor restrictions as either research revenue or contribution revenue depending on the purpose of the contribution.

Income from research contracts and grants and awards that are considered exchange transactions are recognized as research revenue over time by measuring progress toward complete satisfaction of the performance obligations. Overhead allowances are 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 payers. Appropriate allowances are made currently for estimated adjustments to governmental arrangements.

**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 net assets without donor restrictions 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, Patient Accounts Receivable, and Estimated Settlements with Third-Party Payers**—The Health System reports net patient service revenue at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from Medicare and Medicaid, managed health care plans, commercial payers, patients and others. Reimbursement is primarily based on the payment terms of contractual arrangements, such as predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Generally, the Health System bills the patients and third-party payers several days after the services are performed and/or the patient is discharged. 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.

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. The Health System recognizes revenues for performance obligations satisfied over a period of time based on actual charges incurred in relation to total expected (or actual) charges. The Health System believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Health System receiving inpatient acute care services. The Health System measures performance obligations from admission to the point where there are no further services required for the patient, which is generally the time of discharge. The Health System recognizes revenues for performance obligations satisfied at a point in time, which generally relates to patients receiving outpatient services, when: (a) services are provided; and (b) the Health System does not believe the patient requires additional services.

The Health System estimates the transaction price for patients based on gross charges for services provided, reduced by explicit price concessions which include contractual adjustments provided to third-party payers and discounts provided to uninsured patients in accordance with the Health System’s policy. The Health System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical collection experience. Revenues are also adjusted for implicit price concessions. Implicit price concessions are determined based on historical collection experience. The implicit price concessions included in estimating the transaction price represent the difference between amounts remaining to be paid and the amounts the Health System

generally expects to collect based on its historical experience. Subsequent changes to the estimate of transaction price are generally recorded as adjustments to patient service revenue in the period of change and are accrued on an estimated basis in the period the related services are rendered. Adjustments may also occur in future periods as final settlements are determined.

Because the Health System's patient service obligations generally relate to contracts with duration of less than one year, the Health System has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Generally, patients who are covered by third-party payers are responsible for related co-pays, coinsurance and deductibles, which vary in amount. The Health System also provides services to uninsured patients and offers uninsured patients a discount from standard charges. The Health System estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under the Health System's uninsured discount programs, the discount offered to certain uninsured patients is recognized as a contractual discount, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual discounts recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenues in the period of the change.

Consistent with the Health System's mission, care is provided to patients regardless of their ability to pay. 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. The Health System has determined that it has provided sufficient explicit price concessions for these accounts.

In assessing collectability, the Health System uses a combination of contract specific adjustments (such as high dollar and long length-of-stay accounts) as well as a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. This portfolio approach is being used as the Health System has a large volume of similar contracts with similar classes of customers. The Health System reasonably expects that the effect of applying a portfolio approach would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payer or group of payers will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Amounts received under Medicare and Medicaid programs are subject to review and final determination by program intermediaries or their agents and the contracts the Health System has with commercial payers typically provide for retroactive audit and review of claims. Revenue includes an estimate of variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. 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).

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.

**Other Revenue**—Other revenue includes amounts earned from cafeteria operations, parking garage operations, transport services provided by T3, and other non-patient care services. Revenue is recognized as performance obligations are satisfied.

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 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 2019 and 2018, the Health System recognized \$185,000 and \$0, respectively, from Medicare EHR incentive payments and \$1,025,000 and \$1,319,000, respectively, from Medicaid EHR incentive payments.

**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 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 2018, 2017, 2016, and 2015 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, implicit price concessions on patient service revenue and patient accounts receivable, estimated settlements with third-party payers, 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, *Revenue from Contracts with Customers*, which created Accounting Standards Codification Topic 606 (“ASC 606”). The core principle of ASC 606 is 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. ASC 606 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. Effective July, 1, 2018, the Health System adopted the new standard using the modified retrospective transition method. Adoption of the standard resulted in changes to the presentation of 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 previous standard, the Health System's estimate for certain amounts not expected to be collected based on historical experience was recorded to allowance for doubtful accounts after accounts went uncollected for a period of time. Under the new standard, the Health System's estimate for unrealizable amounts is recognized as implicit price concessions that are a direct reduction to net patient service revenues. These implicit price concessions are now recognized when patient service revenues are recognized. See Note 3, *Net Patient Service Revenue and Accounts Receivable*, for additional disclosure related to revenues including a disaggregation of consolidated net patient service revenue by major source for each of the periods presented herein as well as the impact of the adoption of the new standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, 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 June 15, 2018. The Health System adopted the new guidance for the year ended June 30, 2019. The adoption did not have a material impact on the Health System's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which removes the requirement for a not-for-profit entity to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning a not-for-profit entity will present two classes of net assets instead of three. ASU 2016-14 also requires expenses to be presented by their natural and functional classification, investment returns to be presented net of external and direct internal investment expenses, and requires entities to provide more information about their available resources and liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Health System adopted the new guidance for the year ended June 30, 2019 and applied it retrospectively to all periods presented, except as it relates to the presentation of expenses by their natural and functional classification as permitted in the transition

guidance. The adoption did not have a material impact on the Health System's consolidated financial statements. ASU 2016-14 requires enhanced and additional disclosures which are included in the notes to the consolidated financial statements (see Notes 14, 15, 19, and 20).

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, 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, *Leases (Topic 842)*. The new guidance affects any entity that enters into a lease, as that term is defined in Topic 842, with some specified scope exceptions. The main difference between the guidance in Topic 842 and current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. Recognition of these assets and liabilities will have a material impact on the Health System's consolidated balance sheets and statements of cash flows upon adoption. 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.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, 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, *Statement of Cash Flows (Topic 230): Restricted Cash*, 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, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, 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 ASC 715-30-35-4 and ASC 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This update is effective for annual periods beginning after December 15, 2018. The Health System is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

### 3. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Net patient accounts receivable includes the allowance for doubtful accounts of \$9,217,000 and \$27,273,000 at June 30, 2019 and 2018, respectively, pertaining to patient balances recorded on or before June 30, 2018. 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 recorded on or before June 30, 2018 and prior are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and the Health System ceases collection efforts. After adoption of the new accounting standard these amounts are considered in the transaction price and implicit price concessions and any subsequent changes are adjustments to net patient service revenue. Overall, the total of self-pay write-offs for the year ended June 30, 2019 has not changed significantly from the year ended June 30, 2018 nor has the Health System changed its charity care policy.

Net patient service revenue before allowance for doubtful accounts from these major payer sources based on primary insurance designation is as follows for the years ended June 30, 2019 and 2018 (in thousands):

	<b>2019</b>		
	<b><u>Inpatient</u></b>	<b><u>Outpatient</u></b>	<b><u>Total</u></b>
Medicare	\$ 203,381	\$ 138,051	\$ 341,432
Managed Medicare	135,550	95,656	231,206
Medicaid	34,379	1,516	35,895
Managed Medicaid	195,107	107,676	302,783
Commercial and managed care	204,698	350,641	555,339
Self-pay	753	8,166	8,919
Other	<u>283,299</u>	<u>151,885</u>	<u>435,184</u>
Net patient service revenue before allowance for doubtful accounts	<u>\$ 1,057,167</u>	<u>\$ 853,591</u>	<u>\$ 1,910,758</u>

Physician revenue is included in outpatient revenue in the above schedule.

	<b>2018</b>		
	<u><b>Inpatient</b></u>	<u><b>Outpatient</b></u>	<u><b>Total</b></u>
Medicare	\$ 211,111	\$ 131,609	\$ 342,720
Managed Medicare	150,414	83,781	234,195
Medicaid	34,148	1,877	36,025
Managed Medicaid	174,784	101,391	276,175
Commercial and managed care	215,144	342,912	558,056
Self-pay and other	1,459	12,031	13,490
Other	<u>206,595</u>	<u>120,958</u>	<u>327,553</u>
Net patient service revenue before allowance for doubtful accounts	<u>\$ 993,655</u>	<u>\$ 794,559</u>	<u>\$ 1,788,214</u>

Physician revenue is included in outpatient revenue in the above schedule.

Net patient service revenue also includes estimates of reimbursement from third-party payers. For the fiscal years ended June 30, 2019 and 2018, net patient service revenue increased by \$5,584,000 and \$4,719,000, respectively, as a result of settlements related to prior years or changes in estimates related thereto. For the fiscal years ended June 30, 2019 and 2018, net patient service revenue increased by \$10,000,000 and \$12,016,000, respectively, as a result of changes in estimates associated with state Medicaid audits. Audits pertaining to fiscal years through 2015 have been closed.

On July 1, 2018, the Health System adopted the new revenue accounting guidance in ASC 606 using the modified retrospective method. The information in the comparative period has not been restated and continues to be reported under the accounting standards in effect for that period. In accordance with the new accounting standard requirements, the disclosure of the impact of adoption on the consolidated statement of operations was as follows (in thousands):

	<b>As Reported</b>	<b>Without Adoption of ASC 606</b>	<b>Effect of Change</b>
For the year ended June 30, 2019			
Net patient service revenue before allowance for doubtful accounts	\$ 1,910,758	\$ 1,938,043	\$ (27,285)
Allowance for doubtful accounts	<u>(4,657)</u>	<u>(31,942)</u>	<u>27,285</u>
Total net patient service revenue	<u>\$ 1,906,101</u>	<u>\$ 1,906,101</u>	<u>\$ -</u>

#### 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 payer for the years ended June 30, 2019 and 2018, is as follows (unaudited):

	2019		2018	
	Discharges	%	Discharges	%
Continuing operations:				
Medical assistance:				
Fee for service	2,183	6.0 %	2,280	6.1 %
Managed care	11,379	31.2	11,386	30.2
Total medical assistance	13,562	37.2	13,666	36.3
Medicare:				
Fee for service	8,455	23.2	8,848	23.5
Managed care	7,715	21.2	8,087	21.5
Total Medicare	16,170	44.4	16,935	45.0
Independence Blue Cross*	3,887	10.7	4,182	11.1
All other	2,827	7.7	2,866	7.6
	<u>36,446</u>	<u>100.0 %</u>	<u>37,649</u>	<u>100.0 %</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 payer agreements. The mix of net receivables from third-party payers and patients at June 30, 2019 and 2018 is as follows:

	2019	2018
Medical assistance:		
Fee for service (FFS)	6.1 %	6.0 %
Managed care	18.2	15.6
Medicare (FFS only)	12.0	16.2
Independence Blue Cross	24.1	23.0
Aetna U.S. Healthcare	7.7	7.3
Commercial	5.5	6.6
Managed care/HMOs (including Medicare)	21.0	19.4
Other	5.4	5.9
	<u>100.0 %</u>	<u>100.0 %</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 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 \$213,235,000 and \$198,565,000 for the fiscal years ended June 30, 2019 and 2018, respectively (see Note 17).

## 6. INVESTMENTS

**Assets Limited as to Use**—The composition of assets limited as to use at June 30, 2019 and 2018, is set forth in the following table (in thousands):

	<b>2019</b>	<b>2018</b>
Under indenture agreements-held by trustee:		
Debt service funds	\$ 18,492	\$ 21,758
Debt service reserve funds	<u>50,159</u>	<u>48,924</u>
	68,651	70,682
Under debt agreements	230	229
Under insurance arrangements (TUHIC)	48,066	50,037
Board designated	9,657	3,532
Donor restricted	30,542	29,734
Workers' and unemployment compensation	<u>1,032</u>	<u>958</u>
	158,178	155,172
Less amounts required for current liabilities	<u>29,734</u>	<u>28,107</u>
	<u>\$ 128,444</u>	<u>\$ 127,065</u>

By security classification (in thousands):

	<b>2019</b>	<b>2018</b>
U.S. government securities	\$ 64,196	\$ 82,079
Fixed income mutual funds	2,635	1,921
Corporate bonds, notes, and other debt securities	11,313	15,148
Cash, money market funds, and certificates of deposit	69,648	45,824
Equity securities and mutual funds	9,196	8,642
Alternative funds	<u>1,190</u>	<u>1,558</u>
	<u>\$ 158,178</u>	<u>\$ 155,172</u>

**Workers' Compensation Fund**—Workers' compensation fund at June 30, 2019 and 2018, consisted of (in thousands):

	<b>2019</b>	<b>2018</b>
U.S. government securities	\$ 7,171	\$ 7,823
Corporate bonds, notes, and other debt securities	3,206	3,099
Cash, money market funds, and certificates of deposit	<u>3</u>	<u>129</u>
	<u>\$ 10,380</u>	<u>\$ 11,051</u>

**Investments**—Investments at June 30, 2019 and 2018, consisted of (in thousands):

	<b>2019</b>	<b>2018</b>
U.S. government securities	\$ 12,948	\$ 27,441
Fixed income mutual funds	12,849	10,229
Corporate bonds, notes, and other debt securities	41,627	23,732
Equity securities and mutual funds	113,992	101,958
Real estate	670	320
Alternative funds	15,852	27,090
Limited partnerships	22,005	17,168
Limited liability corporations and joint ventures	1,796	2,299
Other	<u>456</u>	<u>456</u>
	<u>\$ 222,195</u>	<u>\$ 210,693</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, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Interest and dividend income	\$ 12,169	\$ 9,570
Net realized gains (losses) on sales of investments	909	3,518
Net change in fair value of alternative investments	1,964	2,327
Recognition of other-than-temporary impairment	(241)	(963)
Investment management fees	(315)	-
Net unrealized gains	<u>7,220</u>	<u>4,868</u>
	<u>\$ 21,706</u>	<u>\$ 19,320</u>

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

	2019	2018
Consolidated statements of operations and changes in net assets:		
Revenues without donor restrictions—investment income	\$ 710	\$ 650
Other income without donor restrictions—investment income	11,128	11,067
Other changes in net assets without donor restrictions— net change in fair value	6,931	4,562
Net assets with donor restrictions—investment income	2,649	2,735
Net assets with donor restrictions—net change in fair value	<u>288</u>	<u>306</u>
	<u>\$ 21,706</u>	<u>\$ 19,320</u>

Unrealized gains (losses) are reported as a component of other changes in net assets without donor restrictions 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, 2019 and 2018 (in thousands):

	At June 30, 2019					
	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	\$ 2,305	\$ (8)	\$ 1,530	\$ (12)	\$ 3,835	\$ (20)
Fixed income mutual funds	6,066	(372)	-	-	6,066	(372)
Corporate bonds, notes, and other debt securities	237	(1)	1,039	(3)	1,276	(4)
Equity securities and mutual funds	<u>24,210</u>	<u>(470)</u>	<u>-</u>	<u>-</u>	<u>24,210</u>	<u>(470)</u>
Total temporarily impaired securities	<u>\$ 32,818</u>	<u>\$ (851)</u>	<u>\$ 2,569</u>	<u>\$ (15)</u>	<u>\$ 35,387</u>	<u>\$ (866)</u>

  

	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>

With respect to the debt and equity securities in an unrealized loss position as of June 30, 2019 and 2018, 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 2019 and 2018, the Health System recorded other-than-temporary impairment charges of \$241,000 and \$963,000, respectively, on certain investments in debt and equity securities.

**TUHIC Debt Securities**—At June 30, 2019 and 2018, TUHIC 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, 2019 and 2018, 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 \$1,558,000 and \$240,000 at June 30, 2019 and 2018, respectively. Gross unrealized holding losses on these securities aggregated \$4,000 and \$449,000 at June 30, 2019 and 2018, respectively.

	2019		2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	\$ -	\$ -	\$ 831	\$ 830
Due after one year through five years	20,776	21,244	25,561	25,434
Due after five years through ten years	<u>23,546</u>	<u>24,594</u>	<u>20,853</u>	<u>20,797</u>
	44,322	45,838	47,245	47,061
Mortgage and asset-backed securities	<u>1,702</u>	<u>1,740</u>	<u>1,869</u>	<u>1,844</u>
	<u>\$ 46,024</u>	<u>\$ 47,578</u>	<u>\$ 49,114</u>	<u>\$ 48,905</u>

## 7. PLEDGES

As of June 30, 2019 and 2018, pledges are included in the consolidated financial statements at their net present value, less estimated uncollectible amounts, as follows (in thousands):

	2019	2018
Total value of pledges	\$ 4,669	\$ 4,694
Unamortized discount for gross pledges	(83)	(380)
Reserve for uncollectible pledges	<u>(75)</u>	<u>(42)</u>
Reported value for pledges	<u>\$ 4,511</u>	<u>\$ 4,272</u>

The discount rates applied to pledges were between 1.71% to 1.92% for 2019 and 2.33% to 2.73% for 2018.

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):

	<b>2019</b>	<b>2018</b>
Amounts due within one year	\$ 960	\$ 945
Amounts due in two to five years	<u>3,551</u>	<u>3,327</u>
Reported value for pledges	<u>\$ 4,511</u>	<u>\$ 4,272</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, 2018 the Health System had \$18,436,000 of goodwill and other intangibles related to the affiliation with AOH and acquisitions of community-based primary care practices by TPI. There were no new intangible assets acquired during 2019.

Goodwill and other intangibles at June 30, 2019 and 2018 are summarized as follows (in thousands):

	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
Balance at June 30, 2018	\$ 524	\$ 17,912	\$ 18,436
Adjustments:			
Intangible assets acquired	-	-	-
Impairment	-	(834)	(834)
Amortization	<u>-</u>	<u>(626)</u>	<u>(626)</u>
Balance at June 30, 2019	<u>\$ 524</u>	<u>\$ 16,452</u>	<u>\$ 16,976</u>

  

	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
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>

At June 30, 2019 and 2018, intangible assets with indefinite lives were \$14,564,000. The following table summarizes intangible assets with indefinite lives at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>		
	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
AOH trade name	\$ 13,000	\$ -	\$ 13,000
Research and development of intellectual property	<u>1,564</u>	<u>-</u>	<u>1,564</u>
Total intangibles with indefinite lives	<u>\$ 14,564</u>	<u>\$ -</u>	<u>\$ 14,564</u>
	<b>2018</b>		
	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
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>

At June 30, 2019 and 2018, amortizing intangible assets were \$1,888,000 and \$3,348,000, respectively. The following table summarizes amortizing intangible assets at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>			
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Impairment</b>	<b>Net</b>
Intellectual property	\$ 4,342	\$ (2,742)	\$ (726)	\$ 874
Contracts and agreements	1,860	(1,015)	-	845
Physician contracts	2,346	(2,238)	(108)	-
Other	<u>619</u>	<u>(450)</u>	<u>-</u>	<u>169</u>
Total amortizing intangibles	<u>\$ 9,167</u>	<u>\$ (6,445)</u>	<u>\$ (834)</u>	<u>\$ 1,888</u>
	<b>2018</b>			
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Impairment</b>	<b>Net</b>
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>

Aggregate amortization expense was \$626,000 and \$875,000 for the years ended June 30, 2019 and 2018, respectively. Amortization expense for the next five years and thereafter is expected to be as follows (in thousands):

2020	\$ 331
2021	304
2022	304
2023	289
2024	234
Thereafter	<u>426</u>
 Total	 <u>\$ 1,888</u>

## 9. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at June 30, 2019 and 2018, was as follows (in thousands):

	2019	2018
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	\$ 235,240
Unamortized premium, debt issuance costs, and underwriter's discount	<u>19,980</u>	<u>22,189</u>
Long-term debt net of unamortized premium, debt issuance costs, and underwriter's discount	255,220	257,429
2012 TUHS Series A and B Hospital Revenue Bonds issued by the Authority at fixed interest rates of 5.625% and 6.25% and due in installments through 2043		
Principal amount	219,210	228,680
Unamortized discount, debt issuance costs, and underwriter's discount	<u>(7,786)</u>	<u>(8,179)</u>
Long-term debt net of unamortized discount, debt issuance costs, and underwriter's discount	211,424	220,501
Loan payable to Episcopal Healthcare Foundation due in December 2020 at a fixed interest rate of 4.0%	971	1,587
Various capital lease obligations due in installments through 2024 at varied fixed interest rates ranging from 4.18% to 5.79%	10,422	11,872
Equipment financing arrangements due in installments through 2024 at varied fixed interest rates ranging from 3.68% to 5.88%	16,308	14,544
Mortgage obligation due in installments through December 2031 at a fixed interest rate of 4.18%	<u>8,644</u>	<u>8,871</u>
	502,989	514,804
Less current portion of long-term debt	<u>15,912</u>	<u>18,036</u>
	<u>\$ 487,077</u>	<u>\$ 496,768</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 was recorded as a non-operating gain in other income in fiscal year 2018.

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 2019 and 2018.

At June 30, 2019, total aggregate principal payments under long-term debt and capital lease obligations for the next five years and thereafter are (in thousands):

	<b>Long-Term Debt</b>	<b>Capital Leases</b>
2020	\$ 11,869	\$ 4,040
2021	10,601	3,144
2022	9,938	1,937
2023	15,699	934
2024	11,868	367
Thereafter	<u>420,398</u>	<u>-</u>
Total	<u>\$ 480,373</u>	<u>\$ 10,422</u>

The Health System has a revolving line of credit arrangement with a financial institution allowing for outstanding borrowings not to exceed \$40,000,000 and expiring in June 2020. Interest is calculated at one month fully absorbed LIBOR plus 1.4%. There were no outstanding borrowings at June 30, 2019 and 2018.

## 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 2019 and 2018 were \$17,458,000 and \$20,802,000, respectively.

At June 30, 2019, 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):

2020	\$ 9,835
2021	7,958
2022	5,085
2023	1,820
2024	1,610
Thereafter	<u>3,932</u>
Total	<u>\$ 30,240</u>

## 11. RELATED PARTY TRANSACTIONS

**Temple University**—The Health System has made various transfers of net assets without donor restrictions to the University to be used for health-related programs and initiatives. In fiscal years 2019 and 2018, \$7,736,000 and \$7,680,000, respectively, in net asset transfers were recognized. All of the 2019 and 2018 transfers were disbursed by June 30, 2019 and 2018, 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 2019 and 2018 include (in thousands):

	<b>Health System Expense</b>	
	<b>2019</b>	<b>2018</b>
Medical school clinical physicians	\$ 160,673	\$ 144,035
Maintenance	9,563	8,411
Telecommunications	5,873	6,261
Institutional support	6,013	6,284
Security	2,293	2,375
Employee tuition	2,271	2,293
Other administrative support	<u>18,799</u>	<u>18,987</u>
 Total expenses billed	 <u>\$ 205,485</u>	 <u>\$ 188,646</u>

The University also billed the Health System for capital projects in the amount of \$202,000 and \$400,000 for the years ended June 30, 2019 and 2018, respectively.

TUH is the teaching hospital for Temple University School of Medicine and its clinical practice plan physicians, Temple University 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 2019 and 2018 include (in thousands):

	<b>2019</b>	<b>2018</b>
Salaries and fringe benefits, primarily for residents	\$ 22,582	\$ 21,421
Rent	7,545	7,178
Other	<u>4,524</u>	<u>3,395</u>
 Total expenses billed to the University	 <u>\$ 34,651</u>	 <u>\$ 31,994</u>

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

At June 30, 2019 and 2018, \$95,401,000 and \$33,827,000, respectively, are due to the University for transactions during those years and are included in accounts payable. At June 30, 2019 and 2018, \$5,555,000 and \$3,561,000, 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 \$1,380,949,000 and \$1,500,286,000 for fiscal years 2019 and 2018. For fiscal years 2019 and 2018, the Health System recognized a gain of \$40,353,000 and \$19,120,000, respectively, for Medicaid in net patient service revenue from HPP members.

HPP's annual premium revenues for Medicare were \$305,323,000 and \$351,931,000 for fiscal years 2019 and 2018. For fiscal years 2019 and 2018, the Health System recognized a loss of \$984,000 and \$16,160,000, respectively, for Medicare in net patient service revenue from HPP members.

HPP's annual premium revenues for CHIP were \$20,363,000 and \$18,544,000 for fiscal years 2019 and 2018. For fiscal years 2019 and 2018, the Health System recognized a gain of \$314,000 and \$227,000, 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 2019 and 2018 was \$39,683,000 and \$3,187,000, 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. The letter of credit automatically extends for four consecutive years. No amounts were drawn on the letter of credit during fiscal year 2019 or 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, 2019 and 2018, was 1.75% and 2.75%, 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 \$119,754,000 and \$123,921,000 at June 30, 2019 and 2018, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was \$33,175,000 and \$32,887,000 at June 30, 2019 and 2018, respectively. The Health System incurred net medical professional liability insurance expense of \$18,703,000 and \$15,544,000 in 2019 and 2018, 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, 2019 and 2018, is summarized as follows (in thousands):

	<b>2019</b>	<b>2018</b>
Outstanding	\$ 7,937	\$ 8,260
Incurred but not reported	<u>17,238</u>	<u>16,627</u>
	<u>\$ 25,175</u>	<u>\$ 24,887</u>
Balance—July 1	\$ 24,887	\$ 25,539
Incurred related to current year	9,708	10,360
Incurred related to prior year	<u>(3,119)</u>	<u>(3,049)</u>
	<u>6,589</u>	<u>7,311</u>
Paid related to current year	315	227
Paid related to prior year	<u>5,986</u>	<u>7,736</u>
	<u>6,301</u>	<u>7,963</u>
Net balance—June 30	<u>\$ 25,175</u>	<u>\$ 24,887</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 (\$3,119,000) for the year ended June 30, 2019 and decreased by (\$3,049,000) for the year ended June 30, 2018.

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, 2019 and 2018, was \$2,518,000 and \$2,489,000, respectively, and the actual statutory capital and surplus was \$29,880,000 and \$27,153,000, respectively. The minimum required level of liquid assets was \$30,696,000 and \$26,434,000 and actual liquid assets were \$70,809,000 and \$62,706,000 at June 30, 2019 and 2018, respectively.

The Health System is primarily self-insured for workers’ compensation. Program assets at June 30, 2019 and 2018, were \$10,392,000 and \$11,064,000, respectively. Program liabilities were determined using a discount rate of 2.00% and 3.00% for fiscal years 2019 and 2018, respectively. The estimated discounted liability accrued at June 30, 2019 and 2018, was \$23,418,000 and \$22,424,000, respectively. Workers’ compensation expense was \$7,833,000 and \$6,767,000 for fiscal years 2019 and 2018, 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, 2019 and 2018 are summarized as follows (in thousands):

	2019			2018		
	Current	Long-Term	Total	Current	Long-Term	Total
Workers' compensation:						
Open reserves in excess of retention	\$ -	\$ 708	\$ 708	\$ -	\$ 737	\$ 737
Incurred but not recorded reserves in excess of retention	-	343	343	-	400	400
Professional liability:						
Claims settled within the MCare Layer	2,250	-	2,250	2,575	-	2,575
Open reserves within the MCare Layer	-	3,750	3,750	-	3,000	3,000
Incurred but not recorded reserves in excess of the MCare Layer	-	4,563	4,563	-	4,724	4,724
Incurred but not recorded reserves in excess of the Buffer Layer	-	4,418	4,418	-	3,228	3,228
	<u>\$ 2,250</u>	<u>\$ 13,782</u>	<u>\$ 16,032</u>	<u>\$ 2,575</u>	<u>\$ 12,089</u>	<u>\$ 14,664</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 2019 and 2018 were \$32,910,000 and \$27,458,000, respectively. Contributions to the plans for fiscal year 2020 are expected to be \$36,058,000.

**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, 2019, 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 2019 and 2018 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
		2019	2018		2019	2018		
The Pension Fund for Hospital and Health Care Employees Philadelphia and Vicinity (1)	23-2627428/001	Red	Red	Yes	\$ 8,910,000	\$ 8,712,000	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	99,000	97,000	No	November 2023
Total contributions					\$ 9,009,000	\$ 8,809,000		

(1) Plan years began 1/1/19 and 1/1/18  
(2) Plan years began 2/1/19 and 2/1/18

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:

<b>Pension Fund</b>	<b>Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan’s Year End)</b>
The Pension Fund for Hospital and Health Care Employees — Philadelphia and Vicinity	2018

At the date these consolidated financial statements were issued, Forms 5500 were not available for the plan year ending in 2019.

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 8.2% annual rates of increase in the per-capita cost of postretirement benefits were assumed for 2019 for the shared plan of the Health System and University and the AOH and Affiliates plan, respectively, compared to the rates of 7.3% and 8.8% for 2018. For 2019, 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, 2019 (in thousands) for all Health System and University participants:

	<b>1% Increase</b>	<b>1% (Decrease)</b>
Incremental effect on total of service and interest cost components	\$ 2,847	\$ (2,468)
Incremental effect on postretirement benefit obligation	42,270	(35,865)

**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 \$43,272,000 and \$40,113,000 for the fiscal years ended June 30, 2019 and 2018, 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, 2019 and 2018 (dollars in thousands). A measurement date of June 30th is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 197,108	\$ 208,274	\$ 335,201	\$ 408,973
Service cost	2,121	2,025	9,951	12,853
Interest cost	7,743	6,966	12,232	12,973
Plan participant contributions	212	202	1,857	1,897
Actuarial loss (gain)	17,302	(10,334)	(3,207)	(87,156)
Benefits paid	(8,672)	(8,534)	(17,188)	(14,339)
Administrative expenses paid	(1,494)	(1,460)	-	-
Settlement	-	(31)	-	-
	<u>214,320</u>	<u>197,108</u>	<u>338,846</u>	<u>335,201</u>
Benefit obligation—end of year				
Change in plan assets:				
Fair value of plan assets—beginning of year	179,579	173,335	324,402	310,146
Actual return on plan assets	11,351	10,860	8,615	21,888
Employer contributions	2,972	5,176	3,268	4,810
Plan participant contributions	212	202	1,857	1,897
Plan expenses	(1,494)	(1,460)	-	-
Benefits paid	(8,672)	(8,534)	(17,188)	(14,339)
	<u>183,948</u>	<u>179,579</u>	<u>320,954</u>	<u>324,402</u>
Fair value of plan assets—end of year				
Funded status	(30,372)	(17,529)	(17,892)	(10,799)
Less University prepaid (accrued) cost	(2,739)	(585)	(13,611)	(8,266)
Net amount recognized—TUHS Only	<u>\$ (27,633)</u>	<u>\$ (16,944)</u>	<u>\$ (4,281)</u>	<u>\$ (2,533)</u>
Amount recognized in the balance sheets, include:				
Other noncurrent assets	\$ -	\$ -	\$ -	\$ -
Other current liabilities	-	-	(466)	(475)
Accrued postretirement benefits—noncurrent	(27,633)	(16,944)	(3,815)	(2,058)
Net amount recognized—TUHS Only	<u>\$ (27,633)</u>	<u>\$ (16,944)</u>	<u>\$ (4,281)</u>	<u>\$ (2,533)</u>

	Pensions		Other Postretirement Benefit Plan	
	2019	2018	2019	2018
Amounts recognized in unrestricted net assets:				
Prior service cost (credit)	\$ -	\$ -	\$ -	\$ -
Net actuarial loss (gain)	<u>83,403</u>	<u>71,744</u>	<u>(6,402)</u>	<u>(10,227)</u>
Net amount recognized in unrestricted net assets	<u>\$ 83,403</u>	<u>\$ 71,744</u>	<u>\$ (6,402)</u>	<u>\$ (10,227)</u>
Weighted-average assumptions to determine benefit obligation:				
Discount rate	3.31%-3.75%	4.13%-4.38%	2.60%-3.62%	3.70%-4.31%
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	4.16%-4.38%	3.66%-4.07%	3.67%-4.31%	2.82%-3.95%
Rate of compensation increase	2.50%-3.00%	2.50%-3.00%	N/A	N/A
Expected return on plan assets	6.00%-6.50%	6.00%-7.00%	7.00%	7.00%
Components of net periodic cost (benefit):				
Service cost	\$ 2,121	\$ 2,025	\$ 9,951	\$ 12,853
Interest cost	7,743	6,966	12,232	12,973
Expected return on plan assets	(11,336)	(11,650)	(22,144)	(21,317)
Amortization	-	-	-	(249)
Recognized net actuarial loss	4,646	5,848	(6,774)	199
Settlement	-	106	-	-
Net periodic cost	3,174	3,295	(6,735)	4,459
Less: University net periodic cost	<u>(657)</u>	<u>(516)</u>	<u>5,572</u>	<u>(3,392)</u>
TUHS net periodic cost	<u>\$ 2,517</u>	<u>\$ 2,779</u>	<u>\$ (1,163)</u>	<u>\$ 1,067</u>

The estimated net actuarial loss for the defined benefit plans that will be amortized from net assets without donor restrictions into net periodic benefit cost in fiscal year 2020 is \$6,231,000. The estimated net actuarial gain for the postretirement health and life insurance plan that will be amortized from net assets without donor restrictions into net periodic benefit cost in fiscal year 2020 is \$1,410,000.

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, 2020	June 30, 2019	June 30, 2018
Equity funds and alternative funds	66-93%	74 %	77 %
Cash and fixed income	7-34%	<u>26</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:

<b>Pension and Other Postretirement Benefit Plan Assets</b>	<b>Target Allocation</b>	<b>Percentage of Plan Assets at</b>	
	<b>Fiscal Year Ending June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Equity funds and securities	25-77%	71 %	69 %
Cash and fixed income	23-75%	<u>29</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 \$183,948,000 and \$179,579,000 at June 30, 2019 and 2018, respectively. The fair values of the pension plan assets at June 30, 2019, by asset category are as follows (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Cash and cash equivalents	\$ 4,212	\$ -	\$ -	\$ -	\$ 4,212
U.S. government securities	12,493	-	-	-	12,493
Corporate bonds, notes, and other debt securities	-	22,808	-	-	22,808
Equity funds and securities	81,399	-	-	17,378	98,777
Alternative funds	-	-	-	6,937	6,937
Fixed income mutual funds	33,697	-	-	-	33,697
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,024</u>	<u>5,024</u>
Total market value	<u>\$ 131,801</u>	<u>\$ 22,808</u>	<u>\$ -</u>	<u>\$ 29,339</u>	<u>\$ 183,948</u>

The fair values of the pension plan assets at June 30, 2018, by asset category are as follows (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
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
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,776</u>	<u>14,776</u>
Total market value	<u>\$ 122,057</u>	<u>\$ 23,810</u>	<u>\$ -</u>	<u>\$ 33,712</u>	<u>\$ 179,579</u>

**Transfers between Levels 1 and 2**—During the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

	<b>Fair Value</b> <b>(In Thousands)</b>	<b>Unfunded</b> <b>Commitments</b> <b>(In Thousands)</b>	<b>Redemption</b> <b>Frequency</b> <b>(If Currently</b> <b>Eligible)</b>	<b>Redemption</b> <b>Notice</b> <b>Period</b> <b>(If Applicable)</b>
As of June 30, 2019:				
Multi-Strategy Hedge Funds (a)	\$ 12,314	\$ -	Daily, Quarterly	60–95 days
Real Estate Funds (b)	11,429	-	Quarterly	45–90 days
Equity Funds (c)	<u>5,596</u>	<u>-</u>	Weekly, Monthly	3 - 30 days
	<u>\$ 29,339</u>	<u>\$ -</u>		

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

- (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 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.
- (c) 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 \$320,953,000 and \$324,402,000 at June 30, 2019 and 2018, 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, 2019, by asset category are as follows (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,259	\$ -	\$ -	\$ -	\$ 2,259
U.S. government securities	36,888	-	-	-	36,888
Fixed income funds	-	-	-	29,515	29,515
Equity funds and securities	35,952	-	-	122,487	158,439
Commodity funds	-	-	-	4,081	4,081
Private equity funds	-	-	-	2,856	2,856
Real estate funds	-	-	-	15,509	15,509
Multi-strategy hedge funds	-	-	-	70,107	70,107
Opportunistic funds	-	-	-	1,299	1,299
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,299</u>	<u>1,299</u>
Total market value	<u>\$ 75,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,854</u>	<u>\$ 320,953</u>

The fair values of the postretirement plan assets at June 30, 2018, by asset category are as follows (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
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	-	-	-	228,152	228,152
	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,152</u>	<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 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, 2019 and 2018.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2019:				
Commodity funds (a)	\$ 4,081	\$ -	Daily, Monthly	1–20 days
Multi-Strategy Hedge Funds (b)	70,107	-	Quarterly	90 days
Private Equity Funds (c)	2,856	32,058	Illiquid	N/A
Real Estate Funds (d)	15,509	-	Quarterly	30–90 days
Fixed Income Funds (e)	29,515	-	Daily, Monthly	1–30 days
Equity Funds (f)	122,487	-	Weekly, Monthly	3–30 days
Opportunistic Funds (g)	<u>1,299</u>	<u>-</u>	Illiquid	N/A
	<u>\$ 245,854</u>	<u>\$ 32,058</u>		

	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>		

- (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 with attractive risk/return characteristics based on a particular market environment. These investments include strategies such as private credit, distressed debt, and direct lending.

**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 5.35% to 10.75% over the long-term, while fixed income is expected to return between 2.25% and 6.0%.

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

	<b>Pension Plans TU/ Health System</b>	<b>Postretirement Benefit Plan TU/ Health System</b>
Expected Health System contributions for fiscal year ending June 30, 2020:		
Expected employer contributions	\$ 2,568	\$ 464
Expected employee contributions	-	1,902
Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending June 30:		
2020	10,116	18,337
2021	10,472	18,797
2022	10,988	19,223
2023	11,448	19,527
2024	11,644	19,786
2025 to 2029	62,718	98,839

#### 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 net assets with donor restrictions (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 net assets with donor restrictions 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.

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 (in thousands):

	<b>With Donor Restrictions</b>
Endowment net assets—June 30, 2017	\$ 20,341
Contributions	239
Investment return—investment income	3,042
Appropriations of endowment assets for expenditure	<u>(3,543)</u>
Endowment net assets—June 30, 2018	20,079
Contributions	910
Investment return—investment income	2,936
Appropriations of endowment assets for expenditure	<u>(4,882)</u>
Endowment net assets—June 30, 2019	<u>\$ 19,043</u>

**Underwater Endowments**—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. The Health System’s policy allows spending from funds with such deficiencies unless otherwise precluded by donor intent or relevant laws and regulations. There were no material deficiencies of this nature at June 30, 2019 and 2018.

**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, 2019 and 2018.

## 15. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were held for the following purposes at June 30, 2019 and 2018 (in thousands):

	2019	2018
Subject to expenditure for specified purpose:		
Property and equipment additions	\$ 1,684	\$ 874
Research	11,224	12,619
Specific health care programs	<u>9,030</u>	<u>9,262</u>
	21,938	22,755
Beneficial interest in perpetual trusts, income from which is expendable for:		
Research	15,077	15,377
Specific health care programs	<u>26,519</u>	<u>26,040</u>
	41,596	41,417
Beneficial interest in assets held by Episcopal Foundation	28,163	28,418
Beneficial interest in assets held by Fox Chase Cancer Center Foundation	58,435	56,615
Perpetual endowment funds, income from which is expendable for:		
Research	9,808	8,856
Specific health care programs	<u>5,295</u>	<u>5,146</u>
	15,103	14,002
Total net assets with donor restrictions	<u>\$ 165,235</u>	<u>\$ 163,207</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 net assets with donor restrictions of \$28,163,000 and \$28,418,000 at June 30, 2019 and 2018, 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 net assets with donor restrictions of \$58,435,000 and \$56,615,000 at June 30, 2019 and 2018, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 81% and 89% marketable equity securities and 19% and 11% fixed income securities at June 30, 2019 and 2018, 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, 2019, JH has committed to making investments of \$51,000 into a partnership (a real estate fund), which may be requested through capital calls from the partnership. Detail regarding the unfunded commitments is disclosed in Note 18.

TUHC holds cash and investments in debt securities in the amount of \$48,066,000 and \$50,037,000 as of June 30, 2019 and 2018, 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, 2019 and 2018, including any provider tax expenses, are as follows:

	<b>2019</b>	<b>2018</b>
Base supplemental revenues	<u>\$ 163,268,000</u>	<u>\$ 130,410,000</u>
State and local hospital assessment revenues	89,088,000	82,130,000
State and local hospital assessment expenses	<u>(48,909,000)</u>	<u>(46,787,000)</u>
Net state and local hospital assessment program	<u>40,179,000</u>	<u>35,343,000</u>
Academic Health Center	<u>6,266,000</u>	<u>6,210,000</u>
Subtotal supplemental funding, net of taxes	209,713,000	171,963,000
Supplemental funding impact on faculty support	<u>(23,032,000)</u>	<u>(10,310,000)</u>
Total net supplemental funding	<u>\$ 186,681,000</u>	<u>\$ 161,653,000</u>

The Academic Health Center support of \$6,266,000 and \$6,210,000 for the years ended June 30, 2019 and 2018, respectively, was passed through to the University as an equity transfer.

For the years ended June 30, 2019 and 2018, there was a supplemental funding impact on faculty support of (\$23,032,000) and (\$10,310,000), 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, 2019 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total	
Assets limited as to use:						
U.S. government securities	\$ 62,083	\$ 2,113	\$ -	\$ -	\$ 64,196	
Fixed income mutual funds	2,635	-	-	-	2,635	
Corporate bonds, notes, and other debt securities	-	11,313	-	-	11,313	
Cash, money market funds, and certificates of deposit	68,616	1,032	-	-	69,648	
Equity securities and mutual funds	9,196	-	-	-	9,196	
Alternative funds	-	-	-	1,190	1,190	
	<u>142,530</u>	<u>14,458</u>	<u>-</u>	<u>1,190</u>	<u>158,178</u>	Balance sheet 158,178 (000)
						Difference 0 (000)
Workers' Compensation Fund:						
U.S. government securities	6,427	744	-	-	7,171	
Corporate bonds, notes, and other debt securities	-	3,206	-	-	3,206	
Cash, money market funds, and certificates of deposit	3	-	-	-	3	
	<u>6,430</u>	<u>3,950</u>	<u>-</u>	<u>-</u>	<u>10,380</u>	balance sheet 10,417 (000)
						Difference 37 (000)
Investments:						
U.S. government securities	5,550	7,398	-	-	12,948	
Fixed income mutual funds	12,849	-	-	-	12,849	
Corporate bonds, notes, and other debt securities	-	41,627	-	-	41,627	
Equity securities and mutual funds	113,992	-	-	-	113,992	
Real estate	-	670	-	-	670	
Alternative funds	-	-	-	15,852	15,852	
Limited partnerships	-	-	-	20,698	20,698	
	<u>132,391</u>	<u>49,695</u>	<u>-</u>	<u>36,550</u>	<u>218,636</u>	balance sheet 222,195 (000)
						Difference 3,559 (000)
Beneficial interest in perpetual trusts	-	-	41,596	-	41,596	
Beneficial interest in the assets held by Episcopal Foundation	-	-	28,163	-	28,163	
Beneficial interest in the Fox Chase Cancer Center Foundation	-	-	58,435	-	58,435	
<b>Total</b>	<b>\$ 281,351</b>	<b>\$ 68,103</b>	<b>\$ 128,194</b>	<b>\$ 37,740</b>	<b>\$ 515,388</b>	

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Don't worry:  
I just used the  
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large enough  
to read, and  
then I copied  
your #s into  
my Excel file.

The best part  
is, now that  
your #s are  
in Excel, folks  
all over the  
world can  
look at them  
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True statement.

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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):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
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	-	-	41,417	-	41,417
Beneficial interest in the assets held by Episcopal Foundation	-	-	28,418	-	28,418
Beneficial interest in the Fox Chase Cancer Center Foundation	-	-	56,615	-	56,615
Total	<u>\$ 233,617</u>	<u>\$ 94,728</u>	<u>\$ 126,450</u>	<u>\$ 44,661</u>	<u>\$ 499,456</u>

**Transfers between Levels 1 and 2**—During the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
July 1, 2018	Total Realized/Unrealized Gains (Losses) Included in:		Purchases	Sales	Transfer Into Level 3	Transfer Out of Level 3	June 30, 2019
	Net Income (Loss)	Net Assets					
Year ended June 30, 2019:							
Beneficial interest in perpetual trusts	\$ 41,417	\$ -	\$ 179	\$ -	\$ -	\$ -	\$ 41,596
Beneficial interest in the assets held by Episcopal Foundation	\$ 28,418	\$ -	\$ (255)	\$ -	\$ -	\$ -	\$ 28,163
Beneficial interest in Fox Chase Cancer Center Foundation	\$ 56,615	\$ -	\$ 1,820	\$ -	\$ -	\$ -	\$ 58,435

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 Assets					
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

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, 2019 and 2018.

	Fair Value (In thousands)	Unfunded Commitments (In thousands)	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Applicable)
As of June 30, 2019:				
Multi-Strategy Hedge Funds (a)	\$ 16,670	\$ -	Annual, Quarterly	45–95 days
Stock Funds (c)	145	-		
Real Estate Funds (d)	<u>20,925</u>	<u>51</u>	Quarterly	90 days
	<u>\$ 37,740</u>	<u>\$ 51</u>		
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>		

- (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, 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, 2019, are \$466,644,000 and \$502,044,000, 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, 2018, are \$477,930,000 and \$496,418,000, 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 for the year ended June 30, 2019 are as follows (in thousands):

	2019				
	Health Care Services	Research	General and Administrative	Institutional Support	Total Expenses
Salaries	\$ 612,467	\$ 28,577	\$ 104,707	\$ 1,488	\$ 747,239
Employee benefits	171,748	8,452	27,951	440	208,591
Professional fees	190,156	1,011	17,114	48	208,329
Supplies and pharmaceuticals	455,528	6,296	10,960	162	472,946
Purchased services and other	89,444	689	82,506	3,243	175,882
Maintenance	13,002	-	6,224	-	19,226
Utilities	12,800	2,585	5,492	-	20,877
Leases	7,106	-	10,352	-	17,458
Insurance	18,703	-	2,476	-	21,179
Depreciation and amortization	29,420	2,573	15,542	-	47,535
Interest	22,599	1,054	491	-	24,144
Asset impairment	-	-	883	-	883
Loss on disposal of fixed assets	-	-	(677)	-	(677)
Total expenses	<u>\$ 1,622,973</u>	<u>\$ 51,237</u>	<u>\$ 284,021</u>	<u>\$ 5,381</u>	<u>\$ 1,963,612</u>

Expenses related to providing these services for the year ended June 30, 2018 are as follows (in thousands):

	<u>2018</u>
Health care services	\$ 1,485,882
Research	44,313
General and administrative	299,293
Institutional support	<u>3,908</u>
Total expenses	<u>\$ 1,833,396</u>

The financial statements report certain expense categories that are attributable to more than one program or supporting function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and other occupancy costs, are allocated on a square-footage basis. Other expenses are directly assigned to the related programs or supporting functions according to the functional department for which they are incurred. Departmental expenses may include allocations of costs based on direct assignment or other methods.

## 20. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Health System's financial assets available to meet cash needs for general expenditures within one year, as of June 30, 2019 and 2018, were as follows (in thousands):

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 220,121	\$ 187,401
Patient accounts receivable—net of allowance for doubtful accounts	209,409	220,562
Other receivables—net of allowance for doubtful accounts	149,032	52,668
Assets limited as to use—board-designated	9,309	3,360
Short-term investments	181,387	163,332
Expenditures reimbursable by research grants and awards	<u>9,184</u>	<u>5,948</u>
	<u>\$ 778,442</u>	<u>\$ 633,271</u>

Current financial assets not available for general use as of June 30, 2019 and 2018 were \$30,500,000 and \$35,512,000, respectively. Amounts not available for general use include debt service funds held by trustee, workers' compensation funds, and self-insurance assets.

As part of its liquidity management plan, the Health System invests cash in excess of planned requirements in short-term investments. The Health System also has long-term investments which could be liquidated in the event of an unanticipated cash need. Long-term investments as of June 30, 2019 and 2018 were \$40,808,000 and \$47,361,000, respectively.

Additionally, the Health System maintains a revolving line of credit arrangement with a financial institution, as described in Note 9. As of June 30, 2019 and 2018, unused borrowings of \$40,000,000 remained available on this line of credit.

## 21. SUBSEQUENT EVENTS

The Health System has evaluated subsequent events through October 23, 2019, the date the financial statements were issued. There were no subsequent events requiring recording or disclosure in the consolidated financial statements, except as described below.

Effective July 1, 2019, the University transferred the assets and liabilities of its physician practice plan known as TUP, formerly an unincorporated subdivision of Temple University School of Medicine, to TFPP, a newly-formed subsidiary of the Health System. At June 30, 2019, TUP had assets totaling \$72,157,000 and liabilities totaling \$101,732,000. On July 1, 2019 all activities related to the physician practice plan were assumed by TFPP.

Also effective July 1, 2019, the University transferred the assets and liabilities of its wholly-owned professional liability insurance captive, Good Samaritan Insurance Co. Ltd. (“GSIC”), to the Health System’s wholly-owned professional liability insurance captive, TUHIC. At June 30, 2019, GSIC had assets totaling \$41,222,000 and liabilities totaling \$26,531,000. On July 1, 2019, all reinsurance rights, interest, duties, obligations, responsibilities, and liabilities previously reinsured by GSIC were assumed by TUHIC.

As part of the asset transfer agreement, the University will also transfer cash proceeds to the Health System in an amount equal to the combined net deficit of TUP and GSIC as of June 30, 2019.

On July 29, 2019, the University and Thomas Jefferson University announced their intention to enter into a transaction that would include the sale of Fox Chase Cancer Center and the Health System’s interest in HPP. The final sale price for the transaction will be set upon completion of a formal agreement.

\* \* \* \* \*

## **SUPPLEMENTAL SCHEDULES**

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2019

(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
<b>ASSETS</b>											
<b>CURRENT ASSETS:</b>											
Cash and cash equivalents	\$ 107,332	\$ 6,733	\$ 2,092	\$ 37,041	\$ 18,656	\$ 75	\$ 1,951	\$ 375	\$ 28,754	\$ -	\$ 203,009
Patient accounts receivable—net of allowance for doubtful accounts	146,284	17,065	-	38,087	4,317	-	3,656	-	-	-	209,409
Other receivables—net of allowance for doubtful accounts	130,104	6,191	1,074	2,363	375	721	331	571	2,057	-	143,787
Inventories and other current assets	22,596	5,520	1,189	10,416	49	-	382	26	3,405	(1,516)	42,067
Current portion of assets limited as to use	-	1	564	811	-	-	-	-	27,800	-	29,176
Investments	84,909	3,977	7,614	22,699	-	-	-	-	33,476	-	152,675
Current portion of workers' compensation fund	6,478	737	38	501	13	-	-	32	26	-	7,825
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	2,250	-	2,250
Expenditures reimbursable by research grants and awards	-	-	8,424	749	-	11	-	-	-	-	9,184
Due from affiliates—current portion	18,024	3,583	2,357	1,958	3,884	2	3,789	185	65,641	(97,225)	2,198
Total current assets	515,727	43,807	23,352	114,625	27,294	809	10,109	1,189	163,409	(98,741)	801,580
<b>PROPERTY, PLANT AND EQUIPMENT:</b>											
Land and land improvements	5,586	1,771	1,221	3,394	-	-	-	-	9	-	11,981
Buildings	324,906	87,260	23,632	24,738	-	-	4,795	-	25,690	-	491,021
Fixed and movable equipment	323,903	48,321	19,340	40,257	213	-	4,797	1,349	71,137	-	509,317
Construction-in-progress	2,600	54	-	3,774	-	-	-	-	1,390	-	7,818
	656,995	137,406	44,193	72,163	213	-	9,592	1,349	98,226	-	1,020,137
Less accumulated depreciation	477,277	117,442	21,005	39,177	155	-	8,167	931	73,751	-	737,905
Net property, plant and equipment	179,718	19,964	23,188	32,986	58	-	1,425	418	24,475	-	282,232
ASSETS LIMITED AS TO USE	4,843	725	16,615	8,497	28	-	-	-	50,228	-	80,936
INVESTMENTS	25,531	1,450	321	5,178	154	-	-	-	1,586	-	34,220
WORKERS' COMPENSATION FUND	62	31	585	1,469	75	-	-	129	241	-	2,592
SELF-INSURANCE PROGRAM RECEIVABLES	22,529	3,061	-	934	4,823	-	9,413	-	13,783	(40,761)	13,782
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	-	29,888	-	29,888
GOODWILL AND OTHER INTANGIBLES	-	-	2,438	13,169	-	1,369	-	-	-	-	16,976
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	34,425	20,257	66,895	6,617	-	-	-	-	-	-	128,194
DUE FROM AFFILIATES	5,620	-	-	-	-	-	-	-	341,749	(347,369)	-
OTHER ASSETS	42,182	1,029	9,303	1,167	142	-	201	-	4,339	-	58,363
TOTAL ASSETS	\$ 830,637	\$ 90,324	\$ 142,697	\$ 184,642	\$ 32,574	\$ 2,178	\$ 21,148	\$ 1,736	\$ 629,698	\$ (486,871)	\$ 1,448,763

(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, 2019

(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
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents	\$ 730	\$ 6,845	\$ 8,935	\$ -	\$ 602	\$ -	\$ 17,112	\$ -	\$ 220,121
Patient accounts receivable—net of allowance for doubtful accounts	-	-	-	-	-	-	-	-	209,409
Other receivables net of allowance for doubtful accounts	2,523	318	152	-	2,252	-	5,245	-	149,032
Inventories and other current assets	6	3,833	-	-	101	-	3,940	-	46,007
Current portion of assets limited as to use	-	558	-	-	-	-	558	-	29,734
Investments	2,653	-	26,059	-	-	-	28,712	-	181,387
Current portion of workers' compensation fund	-	-	-	-	-	-	-	-	7,825
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	2,250
Expenditures reimbursable by research grants and awards	-	-	-	-	-	-	-	-	9,184
Due from affiliates—current portion	179	-	-	4	750	-	933	(3,131)	-
Total current assets	<u>6,091</u>	<u>11,554</u>	<u>35,146</u>	<u>4</u>	<u>3,705</u>	<u>-</u>	<u>56,500</u>	<u>(3,131)</u>	<u>854,949</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>									
Land and land improvements	231	-	-	-	-	-	231	-	12,212
Buildings	12,868	-	-	-	-	-	12,868	-	503,889
Fixed and movable equipment	536	-	-	-	-	-	536	-	509,853
Construction-in-progress	-	-	-	-	-	-	-	-	7,818
	13,635	-	-	-	-	-	13,635	-	1,033,772
Less accumulated depreciation	<u>11,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,892</u>	<u>-</u>	<u>749,797</u>
Net property, plant and equipment	1,743	-	-	-	-	-	1,743	-	283,975
ASSETS LIMITED AS TO USE	-	47,508	-	-	-	-	47,508	-	128,444
INVESTMENTS	777	-	5,751	60	-	-	6,588	-	40,808
WORKERS' COMPENSATION FUND	-	-	-	-	-	-	-	-	2,592
SELF-INSURANCE PROGRAM RECEIVABLES	-	8,000	-	-	-	-	8,000	-	21,782
INVESTMENT IN TUHC	-	-	-	-	-	-	-	(29,888)	-
GOODWILL AND OTHER INTANGIBLES	-	-	-	-	-	-	-	-	16,976
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	28,163	-	-	-	-	-	28,163	(28,163)	128,194
DUE FROM AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER ASSETS	<u>1,844</u>	<u>3,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,669</u>	<u>-</u>	<u>64,032</u>
TOTAL ASSETS	<u>\$ 38,618</u>	<u>\$ 70,887</u>	<u>\$ 40,897</u>	<u>\$ 64</u>	<u>\$ 3,705</u>	<u>\$ -</u>	<u>\$ 154,171</u>	<u>\$ (61,182)</u>	<u>\$ 1,541,752</u>

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2019

(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
<b>LIABILITIES AND NET ASSETS</b>											
<b>CURRENT LIABILITIES:</b>											
Current portion of long-term debt	\$ 5,795	\$ 1,160	\$ 451	\$ 1,119	\$ -	\$ -	\$ -	\$ -	\$ 6,746	\$ -	\$ 15,271
Accounts payable	131,150	6,813	3,524	7,792	660	6	474	18	7,715	-	158,152
Accrued expenses	54,342	6,873	5,154	14,308	8,224	131	4,943	205	57,553	(37,157)	114,576
Current portion of estimated settlements with third-party payors	7,798	-	-	6,870	-	-	-	-	-	(1,516)	13,152
Current portion of self-insurance program liabilities	11,388	990	38	558	323	-	1,483	32	2,276	-	17,088
Unexpended research grants and awards	-	-	4,353	-	6	-	-	-	-	-	4,359
Due to affiliates—current portion	50,441	9,932	5,426	12,459	1,856	177	3,254	476	14,136	(97,225)	932
Other current liabilities	22,458	2,395	258	3,303	564	-	382	-	16,825	-	46,185
Total current liabilities	283,372	28,163	19,204	46,409	11,633	314	10,536	731	105,251	(135,898)	369,715
LONG-TERM DEBT	10,984	2,287	1,081	10,901	-	-	-	-	461,494	-	486,747
SELF-INSURANCE PROGRAM LIABILITIES	62,142	6,861	728	4,826	1,793	-	5,969	227	13,968	(3,604)	92,910
ACCRUED POSTRETIREMENT BENEFITS	7,895	11,310	1,123	2,128	525	-	-	-	-	-	22,981
DUE TO AFFILIATES	205,450	47,595	20,170	68,534	-	-	-	-	5,620	(347,369)	-
OTHER LONG-TERM LIABILITIES	14,925	3,255	1,338	1,658	484	-	356	-	1,313	-	23,329
Total liabilities	584,768	99,471	43,644	134,456	14,435	314	16,861	958	587,646	(486,871)	995,682
<b>NET ASSETS (DEFICIT):</b>											
Without donor restrictions	206,116	(30,022)	11,125	33,512	18,139	1,864	4,287	778	42,047	-	287,846
With donor restrictions	39,753	20,875	87,928	16,674	-	-	-	-	5	-	165,235
Total net assets (deficit)	245,869	(9,147)	99,053	50,186	18,139	1,864	4,287	778	42,052	-	453,081
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 830,637</b>	<b>\$ 90,324</b>	<b>\$ 142,697</b>	<b>\$ 184,642</b>	<b>\$ 32,574</b>	<b>\$ 2,178</b>	<b>\$ 21,148</b>	<b>\$ 1,736</b>	<b>\$ 629,698</b>	<b>\$ (486,871)</b>	<b>\$ 1,448,763</b>

(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, 2019

(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
<b>LIABILITIES AND NET ASSETS</b>									
CURRENT LIABILITIES:									
Current portion of long-term debt	\$ 641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 641	\$ -	\$ 15,912
Accounts payable	6	72	-	-	-	-	78	-	158,230
Accrued expenses	-	102	-	-	467	-	569	2,417	117,562
Current portion of estimated settlements with third-party payors	-	-	-	-	-	-	-	-	13,152
Current portion of self-insurance program liabilities	-	8,325	-	-	-	-	8,325	-	25,413
Unexpended research grants and awards	-	-	-	-	-	-	-	-	4,359
Due to affiliates—current portion	364	-	2	66	1,767	-	2,199	(3,131)	-
Other current liabilities	4	3,825	-	-	-	-	3,829	-	50,014
Total current liabilities	1,015	12,324	2	66	2,234	-	15,641	(714)	384,642
LONG-TERM DEBT	330	-	-	-	-	-	330	-	487,077
SELF-INSURANCE PROGRAM LIABILITIES	2,416	24,850	-	-	-	-	27,266	(2,417)	117,759
ACCRUED POSTRETIREMENT BENEFITS	8,467	-	-	-	-	-	8,467	-	31,448
DUE TO AFFILIATES	-	-	-	-	-	-	-	-	-
OTHER LONG-TERM LIABILITIES	30,773	3,825	-	-	-	-	34,598	(28,163)	29,764
Total liabilities	43,001	40,999	2	66	2,234	-	86,302	(31,294)	1,050,690
NET ASSETS (DEFICIT):									
Without donor restrictions	(4,383)	29,888	40,895	(2)	1,471	-	67,869	(29,888)	325,827
With donor restrictions	-	-	-	-	-	-	-	-	165,235
Total net assets (deficit)	(4,383)	29,888	40,895	(2)	1,471	-	67,869	(29,888)	491,062
TOTAL LIABILITIES AND NET ASSETS	\$ 38,618	\$ 70,887	\$ 40,897	\$ 64	\$ 3,705	\$ -	\$ 154,171	\$ (61,182)	\$ 1,541,752

(Concluded)

# TEMPLE UNIVERSITY HEALTH SYSTEM

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

FOR THE YEAR ENDED JUNE 30, 2019

(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
NET ASSETS WITHOUT DONOR RESTRICTIONS:											
Revenues and other support without donor restrictions:											
Net patient service revenue before allowance for											
doubtful accounts	\$ 1,263,477	\$ 146,507	\$ -	\$ 408,579	\$ 34,599	\$ -	\$ 53,322	\$ -	\$ -	\$ (3,111)	\$ 1,903,373
Allowance for doubtful accounts	(5,723)	(546)	-	1,823	30	-	(241)	-	-	-	(4,657)
Total net patient service revenue	1,257,754	145,961	-	410,402	34,629	-	53,081	-	-	(3,111)	1,898,716
Research revenue	-	-	43,935	-	-	(94)	-	-	-	(1,280)	42,561
Contribution revenue	2,215	7	2,588	2,913	-	-	-	-	-	-	7,723
Other revenue	16,730	6,938	886	2,861	31,392	818	16,146	4,513	102,317	(147,337)	35,264
Investment income	-	-	-	-	-	-	-	-	710	-	710
Net assets released from restrictions used for operations	150	47	6,437	1,071	-	-	-	-	-	-	7,705
Revenues and other support without donor restrictions	1,276,849	152,953	53,846	417,247	66,021	724	69,227	4,513	103,027	(151,728)	1,992,679
Expenses:											
Salaries	400,646	64,914	45,678	97,715	56,384	623	43,791	3,869	31,602	(1,375)	743,847
Employee benefits	120,172	19,542	13,510	27,769	7,038	149	10,305	1,165	7,602	(115)	207,137
Professional fees	184,333	15,184	1,155	30,339	73	249	7,744	103	7,829	(39,089)	207,920
Supplies and pharmaceuticals	265,923	26,545	9,110	162,478	288	3	3,691	163	4,378	245	472,824
Purchased services and other	166,341	15,872	3,569	51,484	(577)	92	6,932	1,124	12,236	(82,996)	174,077
Maintenance	14,402	2,754	-	-	-	-	225	93	1,323	147	18,944
Utilities	11,448	1,079	2,984	2,456	-	-	932	119	1,360	114	20,492
Leases	11,491	1,477	520	2,821	(13)	-	3,281	150	5,322	(5,319)	19,730
Insurance	13,944	3,183	112	1,692	1,394	-	624	42	21	(21)	20,991
Depreciation and amortization	27,352	4,165	3,017	4,922	7	145	671	186	6,962	-	47,427
Interest	15,964	3,205	1,116	4,191	-	-	46	5	22,886	(23,319)	24,094
Asset impairment	-	-	726	-	-	-	157	-	-	-	883
(Gain) loss on disposal of fixed assets	76	(221)	45	29	-	-	38	-	-	-	(33)
Expenses	1,232,092	157,699	81,542	385,896	64,594	1,261	78,437	7,019	101,521	(151,728)	1,958,333
Operating income (loss)	44,757	(4,746)	(27,696)	31,351	1,427	(537)	(9,210)	(2,506)	1,506	-	34,346
Other income—net:											
Investment income (loss)	5,179	1,375	1,473	923	151	-	297	5	687	-	10,090
Other income (loss)	-	400	-	-	-	-	-	-	-	-	400
Other income—net	5,179	1,775	1,473	923	151	-	297	5	687	-	10,490
Excess (deficiency) of revenues and other support over expenses from continuing operations	49,936	(2,971)	(26,223)	32,274	1,578	(537)	(8,913)	(2,501)	2,193	-	44,836

(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, 2019

(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
NET ASSETS WITHOUT DONOR RESTRICTIONS:								
Revenues and other support without donor restrictions:								
Net patient service revenue before allowance for doubtful accounts	\$ 2,838	\$ -	\$ -	\$ -	\$ 4,547	\$ 7,385	\$ -	\$ 1,910,758
Allowance for doubtful accounts	-	-	-	-	-	-	-	(4,657)
Total net patient service revenue	2,838	-	-	-	4,547	7,385	-	1,906,101
Research revenue	-	-	-	-	-	-	-	42,561
Contribution revenue	-	-	-	-	-	-	-	7,723
Other revenue	2,652	11,344	-	(51)	955	14,900	(13,616)	36,548
Investment income	-	-	-	-	-	-	-	710
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	7,705
Revenues and other support without donor restrictions	5,490	11,344	-	(51)	5,502	22,285	(13,616)	2,001,348
Expenses:								
Salaries	781	-	-	-	2,611	3,392	-	747,239
Employee benefits	636	-	-	-	818	1,454	-	208,591
Professional fees	2	-	-	-	407	409	-	208,329
Supplies and pharmaceuticals	118	-	-	-	4	122	-	472,946
Purchased services and other	139	134	8	-	1,658	1,939	(134)	175,882
Maintenance	282	-	-	-	-	282	-	19,226
Utilities	381	-	-	-	4	385	-	20,877
Leases	-	-	-	-	-	-	(2,272)	17,458
Insurance	188	6,733	-	-	-	6,921	(6,733)	21,179
Depreciation and amortization	108	-	-	-	-	108	-	47,535
Interest	50	-	-	-	-	50	-	24,144
Asset impairment	-	-	-	-	-	-	-	883
(Gain) loss on disposal of fixed assets	(644)	-	-	-	-	(644)	-	(677)
Expenses	2,041	6,867	8	-	5,502	14,418	(9,139)	1,963,612
Operating income (loss)	3,449	4,477	(8)	(51)	-	7,867	(4,477)	37,736
Other income—net:								
Investment income (loss)	244	1,661	794	-	-	2,699	(1,661)	11,128
Other income (loss)	-	-	-	-	-	-	-	400
Other income—net	244	1,661	794	-	-	2,699	(1,661)	11,528
Excess (deficiency) of revenues and other support over expenses from continuing operations	3,693	6,138	786	(51)	-	10,566	(6,138)	49,264

(Continued)

## TEMPLE UNIVERSITY HEALTH SYSTEM

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

FOR THE YEAR ENDED JUNE 30, 2019

(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	\$ 49,936	\$ (2,971)	\$ (26,223)	\$ 32,274	\$ 1,578	\$ (537)	\$ (8,913)	\$ (2,501)	\$ 2,193	\$ -	\$ 44,836
Other changes in net assets without donor restrictions:											
Transfers (to) from affiliates/the University	(36,323)	2,099	24,195	(30,603)	1,451	611	9,779	2,625	4,947	-	(21,219)
Net assets released from restrictions used for purchase of property and equipment	54	13	683	724	-	-	-	-	-	-	1,474
Net change in fair value of investments	2,082	131	232	742	2	-	-	3	3,076	-	6,268
Adjustment to funded status of pension and postretirement liabilities	(6,871)	(4,570)	(4)	(3)	(10)	-	-	-	-	-	(11,458)
Adjustment to funded status of long-term disability liabilities	(60)	(9)	6	17	9	-	(7)	-	(8)	-	(52)
Increase (decrease) in net assets without donor restrictions	8,818	(5,307)	(1,111)	3,151	3,030	74	859	127	10,208	-	19,849
NET ASSETS WITH DONOR RESTRICTIONS:											
Contribution income	854	127	4,297	1,249	-	-	-	-	(1)	-	6,526
Net assets released from restrictions	(204)	(60)	(7,121)	(1,794)	-	-	-	-	-	-	(9,179)
Net change in fair value of investments	13	-	188	87	-	-	-	-	-	-	288
Investment income (loss)	119	1	2,196	333	-	-	-	-	-	-	2,649
Change in beneficial interest in assets held by others	(270)	494	1,314	206	-	-	-	-	-	-	1,744
Increase (decrease) in net assets with donor restrictions	512	562	874	81	-	-	-	-	(1)	-	2,028
INCREASE (DECREASE) IN NET ASSETS	9,330	(4,745)	(237)	3,232	3,030	74	859	127	10,207	-	21,877
NET ASSETS (DEFICIT)—Beginning of year	236,539	(4,402)	99,290	46,954	15,109	1,790	3,428	651	31,845	-	431,204
NET ASSETS (DEFICIT)—End of year	\$ 245,869	\$ (9,147)	\$ 99,053	\$ 50,186	\$ 18,139	\$ 1,864	\$ 4,287	\$ 778	\$ 42,052	\$ -	\$ 453,081

(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, 2019

(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	\$ 3,693	\$ 6,138	\$ 786	\$ (51)	\$ -	\$ 10,566	\$ (6,138)	\$ 49,264
Other changes in net assets without donor restrictions:								
Transfers (to) from affiliates/the University	11,833	(5,000)	-	-	1,650	8,483	5,000	(7,736)
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	1,474
Net change in fair value of investments	(91)	1,589	754	-	-	2,252	(1,589)	6,931
Adjustment to funded status of pension and postretirement liabilities	(3,412)	-	-	-	-	(3,412)	-	(14,870)
Adjustment to funded status of long-term disability liabilities	-	-	-	-	-	-	-	(52)
Increase (decrease) in net assets without donor restrictions	<u>12,023</u>	<u>2,727</u>	<u>1,540</u>	<u>(51)</u>	<u>1,650</u>	<u>17,889</u>	<u>(2,727)</u>	<u>35,011</u>
NET ASSETS WITH DONOR RESTRICTIONS:								
Contribution income	-	-	-	-	-	-	-	6,526
Net assets released from restrictions	-	-	-	-	-	-	-	(9,179)
Net change in fair value of investments	-	-	-	-	-	-	-	288
Investment income (loss)	-	-	-	-	-	-	-	2,649
Change in beneficial interest in assets held by others	-	-	-	-	-	-	-	1,744
Increase (decrease) in net assets with donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,028</u>
INCREASE (DECREASE) IN NET ASSETS	12,023	2,727	1,540	(51)	1,650	17,889	(2,727)	37,039
NET ASSETS (DEFICIT)—Beginning of year	<u>(16,406)</u>	<u>27,161</u>	<u>39,355</u>	<u>49</u>	<u>(179)</u>	<u>49,980</u>	<u>(27,161)</u>	<u>454,023</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ (4,383)</u>	<u>\$ 29,888</u>	<u>\$ 40,895</u>	<u>\$ (2)</u>	<u>\$ 1,471</u>	<u>\$ 67,869</u>	<u>\$ (29,888)</u>	<u>\$ 491,062</u>

(Concluded)