



READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Consolidating Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

READING HEALTH SYSTEM AND SUBSIDIARIES

June 30, 2017 and 2016

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-49
Supplementary Consolidating Information	
Schedule I: Consolidating Balance Sheet Information, June 30, 2017	50-51
Schedule II: Consolidating Statement of Operations Information, year ended June 30, 2017	52
Schedule III: Consolidating Balance Sheet Information, June 30, 2016	53-54
Schedule IV: Consolidating Statement of Operations Information, year ended June 30, 2016	55



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Reading Health System:

We have audited the accompanying consolidated financial statements of Reading Health System and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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



Other Matter

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The Supplementary Consolidating Information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
September 27, 2017

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 55,535	117,814
Patient accounts receivable , less allowance for uncollectible accounts of \$34,640 and \$38,194, respectively	123,553	113,033
Other receivables	5,460	6,832
Inventories	15,034	14,127
Estimated third-party payor receivables	7,262	11,404
Prepaid expenses and other current assets	15,101	20,994
Assets whose use is limited – required for current liabilities:		
Self-insurance funding arrangements	7,482	10,711
Total current assets	229,427	294,915
Assets whose use is limited:		
Self-insurance funding arrangements	11,804	8,408
Under regulatory requirements	2,666	2,719
By board for capital improvements	857,972	775,662
Total assets whose use is limited, net of current portion	872,442	786,789
Restricted investments	28,149	25,640
Temporarily restricted funds	302	366
Property, plant and equipment, net	834,146	827,264
Investments in joint ventures	12,317	10,393
Other assets	5,387	9,599
Total assets	\$ 1,982,170	1,954,966

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Liabilities and Net Assets	2017	2016
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Current liabilities:		
Current installments of long-term debt	\$ 5,719	5,529
Accounts payable	54,756	60,399
Estimated third-party payor settlements	4,112	7,171
Current portion of estimated self-insurance costs	10,885	13,243
Accrued expenses	29,713	38,977
Accrued vacation	30,160	27,245
Other current liabilities	8,906	7,613
	<hr/>	<hr/>
Total current liabilities	144,251	160,177
Long-term debt, net of current portion and unamortized discount/premium and deferred financing costs	568,800	574,368
Accrued pension liabilities	252,256	325,912
Deferred revenue	42,811	41,062
Other liabilities	2,694	2,563
Estimated self-insurance costs, net of current portion	37,499	47,955
Swap contracts	40,790	59,134
	<hr/>	<hr/>
Total liabilities	1,089,101	1,211,171
Net assets:		
Unrestricted	862,951	720,076
Temporarily restricted	1,667	366
Permanently restricted	28,451	23,353
	<hr/>	<hr/>
Total net assets	893,069	743,795
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Total liabilities and net assets	\$ 1,982,170	1,954,966
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See accompanying notes to consolidated financial statements.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 1,045,331	975,705
Provision for uncollectible accounts	<u>(47,592)</u>	<u>(51,468)</u>
Net patient service revenue less provision for uncollectible accounts	997,739	924,237
Residential revenue	23,143	22,372
Other revenue	<u>31,474</u>	<u>31,861</u>
Total revenues and other support	<u>1,052,356</u>	<u>978,470</u>
Expenses:		
Salaries and benefits	595,442	540,385
Supplies	160,158	158,489
Utilities	12,465	12,282
Interest	12,524	10,840
Depreciation	84,039	78,385
Purchased services	90,176	86,134
Repairs and maintenance	32,131	32,046
Other	53,475	49,158
Acquisition related expenses	<u>2,221</u>	<u>—</u>
Total expenses	<u>1,042,631</u>	<u>967,719</u>
Income from operations	<u>9,725</u>	<u>10,751</u>
Nonoperating gains:		
Investment income	44,395	29,324
Change in fair value of swap contracts and net of settlement payments	9,598	(20,172)
Other-than-temporary impairment losses on investments	(4,111)	(9,228)
Other (losses) gains	<u>(7,490)</u>	<u>1,200</u>
Nonoperating gains, net	<u>42,392</u>	<u>1,124</u>
Excess of revenues, gains and other support over expenses	\$ <u>52,117</u>	<u>11,875</u>

See accompanying notes to consolidated financial statements.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Excess of revenues, gains and other support over expenses	\$ 52,117	11,875
Change in unrealized gains (losses) on investments, net	37,367	(32,136)
Change in pension liability	54,056	(169,690)
Net assets released from restriction and other	<u>(665)</u>	<u>4</u>
Increase (decrease) in unrestricted net assets	<u>142,875</u>	<u>(189,947)</u>
Temporarily restricted net assets:		
Contributions	1,549	18
Realized losses on investments	—	(13)
Net assets released from restrictions – for operations	<u>(248)</u>	<u>(344)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,301</u>	<u>(339)</u>
Permanently restricted net assets:		
Contributions	2,211	853
Change in unrealized gains (losses) on investments, net	1,869	(209)
Change in beneficial interest in trusts	<u>1,018</u>	<u>(933)</u>
Increase (decrease) in permanently restricted net assets	<u>5,098</u>	<u>(289)</u>
Change in net assets	149,274	(190,575)
Net assets:		
Beginning of year	<u>743,795</u>	<u>934,370</u>
End of year	<u>\$ 893,069</u>	<u>743,795</u>

See accompanying notes to consolidated financial statements.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 149,274	(190,575)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized gains (losses) on investments and beneficial interest in trusts	(40,254)	33,278
Change in fair value of swap contracts	(18,344)	10,431
Amortization of bond discount	77	77
Amortization of bond premium	(212)	(212)
Amortization of deferred financing costs	285	193
Change in pension liability, net	(73,656)	153,527
Depreciation	84,039	78,385
Amortization of entrance fees	(4,972)	(4,849)
Proceeds from entrance fees and deposits	6,165	6,316
Provision for uncollectible accounts	47,592	51,468
Investment income	(44,048)	(22,660)
Equity in earnings of affiliates	(2,987)	(1,449)
Restricted contributions	(3,760)	(871)
Change in cash due to changes in operating assets and liabilities:		
Receivable from patients and others	(56,740)	(45,976)
Receivable from affiliates	—	720
Inventories	(907)	556
Prepaid expenses and other assets	11,470	(14,663)
Accounts payable and other liabilities	12,207	21,075
Estimated self-insurance costs	(12,814)	2,853
Deferred revenue	1,104	970
Third-party payor settlements	1,083	(7,674)
Net cash provided by operating activities	<u>54,602</u>	<u>70,920</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(113,696)	(166,244)
Investment in equity investees	(2,000)	—
Distribution from equity investees	3,063	2,633
Sales of investments and assets whose use is limited, net	167,460	449,680
Purchases of investments and assets whose use is limited, net	<u>(168,027)</u>	<u>(271,088)</u>
Net cash (used in) provided by investing activities	<u>(113,200)</u>	<u>14,981</u>
Cash flows from financing activities:		
Restricted contributions and investment income received	2,395	871
Repayment of refinanced long-term debt	—	(174,200)
Proceeds from long-term debt issuance	—	175,165
Increase deferred financing costs	—	(990)
Payments of long-term debt	(5,528)	(5,274)
Refunds of entrance fees and deposits	(548)	(664)
Net cash used in financing activities	<u>(3,681)</u>	<u>(5,092)</u>
Net (decrease) increase in cash and cash equivalents	(62,279)	80,809
Cash and cash equivalents:		
Beginning of year	<u>117,814</u>	<u>37,005</u>
End of year	\$ <u>55,535</u>	\$ <u>117,814</u>
Supplemental cash flow information:		
Cash paid during the year for interest, net of capitalized interest of \$5,790 and \$6,851 for 2017 and 2016	\$ 12,424	10,540
Fixed asset additions included in accounts payable and accrued expenses at June 30	5,515	28,290

See accompanying notes to consolidated financial statements.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(1) Organizational Structure and Nature of Operations

Reading Health System (Parent) is a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Parent is located in West Reading, Pennsylvania, and provides inpatient, outpatient and emergency care for residents of the greater Berks County area through its subsidiaries (collectively, the System).

(a) Subsidiaries of the Parent Include:

Reading Hospital (Hospital), a tax-exempt not-for-profit corporation providing acute and post-acute care.

Reading Health Physician Network (RHPN), a tax-exempt entity established on July 1, 2015 through consolidation of Reading Professional Services (RPS) and The Reading Hospital Medical Group (TRHMG) to assure access to high quality primary care physicians and specialty physicians in sufficient numbers to meet the community needs for charitable, educational, and scientific purposes. RHPN also recruits physicians and provides administrative services for the Hospital, including supervision and instruction for medical students completing their residency training.

The Highlands at Wyomissing (The Highlands), a not-for-profit corporation, is a fully controlled entity of the Parent. The purpose of The Highlands is to operate a continuing care retirement community including residential, recreational and health care facilities and services specially designed to meet the physical, social and psychological needs of elderly persons. The Highlands facility is located in Wyomissing, Pennsylvania, and its residents are principally from the Wyomissing and Reading, Pennsylvania, area. The facility contains 285 residential living units, an 80-bed skilled nursing unit, and 66 personal care units. Certain members of the Board of Directors from the Hospital are also members of the Board of Directors of The Highlands.

Reading Health Partners (RHP), a Pennsylvania limited liability company, was formed to develop a physician network working in conjunction with the Parent to implement a clinical integration program. Clinical integration is the implementation of an active and ongoing program to evaluate and modify practice patterns by the network's physician participants and create a high degree of interdependence and cooperation among the physicians to control costs and improve the quality and efficiency of health care in the community.

Reading Health System Foundation (RHF), a not-for-profit corporation to support research, education, innovation and fund raising in support of the Parent and its' subsidiaries, and the community. The Parent is the sole member of RHF.

(b) Other Noncontrolled Entities Include:

Berkshire Health Partners (BHP) is licensed by the Commonwealth of Pennsylvania as a fully integrated, nonrisk bearing preferred provider organization. A not-for-profit corporation in Pennsylvania, BHP was established by hospitals and physicians and offers a provider network of physicians, hospitals and ancillary providers and services. Certain members of the Hospital's Board of Directors are directors of BHP. During the year ended June 30, 2017, Berkshire Health Partners became wholly owned by Reading Hospital. Prior to consolidation, this investment was recorded under the equity method of accounting and

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

is included in investments in joint ventures on the accompanying consolidated balance sheet, \$677 in 2016.

The Reading Hospital Surgicenter at Springridge, LLC (Springridge, LLC), a limited liability company, was established to provide ambulatory surgery services to the surrounding community. The Hospital maintains a 50% ownership under the equity method of accounting. In the years ended June 30, 2017 and 2016, the Hospital received a distribution of, \$3,063 and \$2,633, respectively. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$1,065 and \$953 in 2017 and 2016, respectively.

The Parent, along with several other acute care service hospitals throughout the central Pennsylvania area, contributed capital to form Central Pennsylvania Alliance Laboratories (CPAL), a joint venture to combine laboratory operations. The Parent maintains a 20% ownership interest in CPAL. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$350 and \$350 in 2017 and 2016, respectively.

The Parent's ownership of Central Pennsylvania Homecare, Inc. (d.b.a. Affilia Home Health, AHH) is 44.1%. AHH provides visiting home nursing services to outpatients of the Hospital and other healthcare providers in the surrounding community. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$6,163 and \$6,948 in 2017 and 2016, respectively.

The Parent is a 20% owner of Quest Behavioral Health, Inc. (Quest). Quest is a not-for-profit corporation providing full service managed behavioral healthcare. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$84 and \$77 in 2017 and 2016, respectively.

Horizon is a for-profit limited liability partnership of which the Parent is a 25% owner. The investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$1,204 and \$861 in 2017 and 2016, respectively.

AllSpire Health Partners, LLC is an alliance of five systems in New Jersey and Pennsylvania for which the Parent is a 20% owner. The consortium will carry out joint activities in traditional areas of patient care services, research and education to enhance the value of health care that communities receive. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$596 and \$527 in 2017 and 2016, respectively.

AllSpire Health GPO, LLC formed May 31, 2016 is an alliance of the five system's that are part of AllSpire Health Partners, LLC for which the Parent is a 20% owner. The alliance was created to help manage the expenses by group purchasing volumes, streamline suppliers and implementations efficiencies across all partners. The goal is to identify clinical optimization and revenue opportunities to give access of quality products to providers and patients. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$854 in 2017.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

UPMC (University of Pittsburgh Medical Center) Health Plan and the Parent created a joint venture on January 1, 2017, which each member is a 50% equity owner. UPMC Health Plan provides third party administration and flexible spending account administration services for the System. Additional benefits result in enhanced cost savings, value based healthcare to residents and companies in the greater Berks County area and access to the System as an in-network provider. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, \$2,001 in 2017.

(2) Summary of Significant Accounting Policies

Basis of Accounting

These consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). The significant accounting policies followed by the System are as follows:

(a) Principles of Consolidation

The consolidated financial statements of the System include the accounts of the Parent, the Hospital, RHPN, The Highlands, RHP, and RHF. All entities where the Parent or Hospital exercises significant influence but for which it does not have control are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At June 30, 2017 and 2016, the System had cash balances in financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

(d) Net Service Revenue and Accounts Receivable

The System has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts as determined by the System. An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The System has determined that patient service revenue primarily is recorded prior to assessing the patient's ability to pay, and, as such, the entire provision for uncollectible accounts related to patient revenue is recorded as a deduction from patient service revenue in the consolidated statements of operations. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), for the years ended June 30, 2017 and 2016 from its major payor sources are as follows:

	<u>2017</u>	<u>2016</u>
Medicare	32%	32%
Medical assistance	11	7
Blue Cross	35	35
Commercial insurance	16	15
Self-pay	4	6
Other	2	5
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(e) Inventories

Inventories are stated at lower of cost (determined by the first-in, first-out method) or market.

(f) Assets Whose Use is Limited

Assets whose use is limited includes designated assets set aside by the Board of Directors for future capital improvements, assets held by trustees under indenture agreements and self-insurance trust arrangements and are considered available-for-sale investments. The Board of Directors retains control over Board-designated assets and may at its discretion subsequently use these assets for other purposes.

Assets whose use is limited includes cash and cash equivalents, marketable securities (including U.S. government and government agencies, corporate, state and local government), marketable equity securities (including common, preferred, and foreign stock), exchange traded/listed mutual funds (including fixed income funds), hedge funds, private equity funds, and limited partnerships.

The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan, or 10% of the projected annual operating expenses of the facilities exclusive of depreciation, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance agreement contracts. For the System, this statutory requirement applies only to The Highlands. This statutory reserve requirement is considered to be fulfilled from board-designated funds included within assets limited as to use under regulatory requirements.

The calculation of the 10% of the annual operating expenses for the fiscal year ended June 30, 2018 is as follows:

Budgeted operating expenses for fiscal year ended June 30, 2018	\$	28,006
Less budgeted depreciation and amortization expense		<u>4,034</u>
Net budgeted operating expenses for fiscal year ended June 30, 2018		<u>23,972</u>
Required reserve as of July 1, 2017 (10%)	\$	<u><u>2,397</u></u>

The principal and interest due in the next 12-month period for long-term financing of The Highlands, which is the greater of the two options and is calculated as follows:

Principal due	\$	1,522
Interest due		<u>1,144</u>
Required reserve as of July 1, 2017	\$	<u><u>2,666</u></u>

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

In addition, The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires that the provider establish an interest-bearing escrow account with a bank, trust company or other escrow agent approved by the commissioner for any entrance fees or payments that are in excess of 5% of the then existing entrance fee for the unit, which are received by the provider prior to the date the resident is permitted to occupy the living unit in the facilities. As of June 30, 2017 and 2016, respectively, The Highlands maintains an escrow account of \$371 and \$296 and is included in prepaid expenses and other current assets on the accompanying consolidated balance sheets.

(g) *Investments and Investment Income*

Investment income earned on securities (interest and dividends) is reported in the nonoperating gains (losses) section of the consolidated statements of operations within investment income. Realized gains or losses related to the sale of investments, impairment losses on other than trading investments, and unrealized gains or losses on alternative investments, are included in the nonoperating gains (losses) section of the consolidated statements of operations in investment income unless the income or loss is restricted by donor or law.

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. These securities have been classified as other than trading, and changes in unrealized gains on these instruments are included in the consolidated statements of changes in net assets. Unrealized losses are included in the consolidated statements of operations within nonoperating gains (losses) as other than temporary impairment on other than trading investments.

The fair value option for financial assets and liabilities permits the System to elect to measure eligible items at fair value on an instrument by instrument basis. If elected, this option requires the System to report the unrealized gains and losses on these instruments as part of the performance indicator. Once elected, the fair value option is irrevocable for that instrument. Alternative investments include investments in managed funds, which include hedge funds, private equities, limited partnerships, and other investments that do not have readily determinable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private equities, limited partnerships, and other investments in managed funds (collectively Alternative Investments) are accounted for using the fair value option. The unrealized gains or losses from these Alternative Investments are included in the consolidated statements of operations as part of nonoperating gains (losses) within investment income.

(h) *Fair Value Measurements*

The System follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value using valuation techniques such as the market approach, cost approach, and income approach, and making disclosures about fair value measurements.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

ASC 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 an asset or liability. As a basis for considering market participant assumption in fair value measurements, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs utilized quoted market prices in active markets for identical assets or liabilities that the System has the ability to access.

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices) such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the Level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest Level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Where quoted prices are available in an active market, investments are classified in Level 1 of the valuation hierarchy. Investments in Level 1 include cash, exchange-traded equity securities, and mutual funds with a published daily net asset value or its equivalent (NAV). Investments in Level 2 include financial instruments valued based on quoted market prices for identical securities in markets that are not active, quoted prices for similar securities in markets that are active, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. If quoted prices are not available, other accepted valuation methodologies, such as interest rates, observable yield curves and spreads may be used to determine fair value. Level 2 includes state and municipal government securities, corporate and foreign bonds, U.S. Government securities, and certain mutual and fixed income funds that permit daily redemptions but whose NAV is not published. Auction rate securities are estimated using the income approach. This approach uses estimation techniques to determine the estimated future cash flows of the respective asset or liability expected by a market participant and discounts those cash flows back to present value.

The fair values of Alternative Investments have been estimated by management based on all available data, including information provided by third-party pricing vendors, fund managers and general partners. Alternative Investments are recorded at fair value based on the NAV as a practical expedient, as provided by the respective general partner or fund administrator of the individual Alternative Investment funds. The System believes the fair value of Alternative Investments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the Alternative Investment funds. As part of the System's

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the System believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date.

(i) Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable asset. Useful lives range as follows:

Land improvements	5–25 years
Buildings and building improvements	10–40 years
Fixed equipment	5–10 years
Movable equipment (including software and hardware)	3–10 years

Gains and losses resulting from the retirement or sale of property, plant and equipment are included in the consolidated statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted contributions and are excluded from the performance indicator unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Management has reviewed the carrying amount of these assets and has determined that they are not currently impaired.

(j) Deferred Financing Costs

Deferred financing costs are amortized over the period the debt is outstanding using the straight-line method, which approximates the effective interest method. Amortization of deferred financing costs totaled \$285 and \$193 for the years ended June 30, 2017 and 2016, respectively. Accumulated amortization totaled \$1,154 and \$869 as of June 30, 2017 and 2016, respectively.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(k) Estimated Self-Insurance Costs

The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System self-insures its medical malpractice, general liability, and workers' compensation risks. Reserve estimates are subject to the impact of changes in claim trends as well as prevailing social, economic, and legal conditions. The ultimate net cost of settling these liabilities may vary from the estimated amounts. Accordingly, reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in the performance indicator.

(l) Accrued Vacation

The System records a liability for amounts due to employees for future paid leave, which are attributable to services performed in the current and prior periods.

(m) Bond Premium and Discounts

Bond premiums and discounts are amortized to interest and expensed as direct additions or reductions of the carrying values of the related debt instruments from which the discounts or premiums arose. Bond premiums and discounts are amortized to interest expense over the period during which the debt is outstanding using the straight-line method, which approximates the effective interest method.

(n) Derivative Instruments

The System follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow and for designating a derivative as a hedge includes the assessments of the instruments effectiveness in risk reduction, matching the derivative instrument to its underlying transactions and the assessment of the probability that the underlying transaction will occur. All of the System's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayments, and market risk in excess of the amounts recognized on the consolidated balance sheets. Such risks involved the possibility that there will be no liquid market for these arrangements, the counterparty to these arrangements may default on its obligations to perform, and there may be unfavorable changes in interest rates. The System does not hold derivative instruments for the purpose of managing credit risk and enters into derivative transactions with high quality counterparties.

The interest rate swap agreements entered into by the System are adjusted to market value based upon quotations from the counterparties and a credit valuation adjustment is applied to the valuations of the swaps which takes into consideration counterparty risk of default. The change in market value is recorded in the consolidated statements of operations within excess of revenues, gains (losses), and other support over expenses.

(o) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(p) Residential Revenue and Deferred Revenue

Entrance fees paid by residents of The Highlands' independent living units are recorded as deferred revenue. Entrance fees are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident for amounts nonrefundable. In addition, for all contracts entered into prior to January 1, 2005, a portion equal to 30% of the entrance fee, referred to as the health fund is reserved to be accounted for individually for each resident/couple and is refundable to the extent not amortized. Amortization of the health fund occurs when a resident utilizes health services (nursing or personal care).

The Highlands' entrance fees are refundable for a period of time up to 50 months. During this time, for refund purposes only, a resident's entrance fee is amortized at the rate of 2% per month for 50 months beginning on the date of occupancy. The Highlands has deferred revenue pertaining to entrance fees of \$37,568 and \$36,533 at June 30, 2017 and 2016, respectively. The amount of entrance fees, which is refundable to residents at June 30, 2017 and 2016 under contractual refund provisions, was approximately \$15,556 and \$14,950, respectively.

(q) Other Revenue

Significant components of other revenue include rental income on leased properties, tuition revenue for The Reading Hospital School of Health Sciences, and cafeteria revenues.

(r) Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital and RHF are reported at estimated fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at estimated fair value at the date the gift is received.

Contributions are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations.

(s) Income Taxes

The System is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such a basis, the exempt entities do not incur liability for federal income taxes, except in the case of unrelated business income.

The System evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the consolidated financial statements were required as a result of this evaluation.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(t) *Uncompensated Care and Community Service*

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, family size, and ability to pay. Individuals who qualify for charity care do not have insurance or other coverage.

The System maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services, and supplies furnished under its charity care, community service policies, and the estimated cost of those services.

Charges foregone for uncompensated care as determined in accordance with the System's policies were approximately \$9,244 and \$11,613 in the years ended June 30, 2017 and 2016, respectively. Direct and indirect costs to provide these services were approximately \$3,005 and \$4,183 for the years ended June 30, 2017 and 2016, respectively. The estimated costs were based on a calculation, which multiplied the cost to charge ratio by the gross charges associated with providing uncompensated care to patients. The cost to charge ratio was obtained from our most recently filed Medicare cost report.

Additionally, the System sponsors certain other service programs and charity services, which provide substantial benefit to the broader community. Such programs include services to needy populations requiring special services and support, community service programs and charity services, as well as health promotion and education.

The System's community service includes the Medical Assistance program, which makes payment for services provided to families with dependent children, the aged, the blind, and the permanently and totally disabled, whose income and resources are insufficient to meet the costs of necessary medical services. Payments from the Medical Assistance program are generally less than the System's cost of providing the service.

In addition, community service represents the cost to deliver services to the community, net of any payment received for those services. Included in these services are the System's subsidies of outpatient clinics, education of medical professionals who work with various health care providers in the community upon graduation and community mental health programs. The System also sponsors health fairs and other wellness programs throughout the community.

(u) *Excess of Revenue, Gains and Other Support over Expenses*

The consolidated statements of operations include the excess of revenues, gains and other support over expenses. Changes in unrestricted net assets that are excluded from this performance indicator, consistent with industry practice, include changes in unrealized gains (losses) on marketable securities classified as other than trading securities, adjustments for defined benefit and other postretirement benefits, and contributions of long-lived assets (including assets acquired using contributions, which by donor-restriction were to be used for the purposes of acquiring such assets).

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(v) Future Service Obligations

The Highlands' annually calculates the present value of the net cost of future services using a discount rate of 5.5% and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As a result of the calculation, the present value of the net cost of future services did not exceed deferred revenue; accordingly, no obligation was recorded at June 30, 2017 and 2016.

(w) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, (ASU 2014-09) which changes the requirements for recognizing revenue when entities enter into contracts with customers. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is not permitted. The System is still evaluating the effect, if any, ASU 2014-09 will have on the System's consolidated financial condition and results of operations.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, (ASU 2015-03). This ASU requires an entity to present debt issuance costs as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The adoption of ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. This ASU requires retrospective application to all prior periods presented in the financial statements. The adoption of ASU 2015-03 during the reporting period ended June 30, 2017 resulted in a decrease in deferred financing costs, net and long-term debt, net of current portion of \$4,980 and \$5,265 as of June 30, 2017 and 2016, respectively.

In January 2016, the FASB issued ASU No 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which changes the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The adoption of ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2017. The System is currently assessing the impact of the adoption of ASU 2016-01 and the impact it will have on the System's consolidated financial condition and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

adoption of ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The System is currently assessing the impact of the adoption of ASU No. 2016-02, which is expected to have a material impact on the System's consolidated financial condition and results of operations.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, which will require not-for-profit entities to revise financial presentation to include: net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. ASU 2016-02 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The System is currently assessing the impact ASU 2016-14 will have on its consolidated financial condition and results of operations.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. This new guidance is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. The guidance allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The System early adopted the provisions of ASU 2017-07 for the reporting period ended June 30, 2017 and the provisions were retrospectively applied using the practical expedient, resulting in a (decrease) increase to salaries and benefits of (\$3,952) and \$1,415 for the years ended June 30, 2017 and 2016, respectively.

(x) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation due to retrospective application of ASU 2015-03 and ASU 2017-07 described in note 2(w).

(3) Pending Transactions

On May 30, 2017, the System and subsidiaries of Community Health Systems signed an Asset Purchase Agreement for the System to acquire five Pennsylvania hospitals. The five hospitals include: Brandywine Hospital in Coatesville; Phoenixville Hospital in Phoenixville; Pottstown Memorial Medical Center in Pottstown; Jennersville Regional Hospital in West Grove; and Chestnut Hill Hospital in Philadelphia. The

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

transaction is expected to close during the year ended June 30, 2018, subject to customary regulatory approvals and closing conditions.

On June 19, 2017, the System and The Highlands signed an Agreement of Sale and Purchase of Controlling Interest for the Highlands to spin-off and operate independently of the System. The transaction is expected to close during the year ended June 30, 2018, subject to customary regulatory approvals and closing conditions.

On September 14, 2017, the System announced that it is currently evaluating a plan to access the tax-exempt municipal securities market through the issuance of revenue bonds in a principal amount not to exceed \$625,000 by the Berks County Industrial Development Authority in the quarter ended December 31, 2017.

(4) Net Patient Service Revenue

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

(a) Medicare and Managed Medicare

Inpatient acute care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed by Medicare under the Ambulatory Payment Classification System. The System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to medical necessity reviews by independent organizations under contract with the Center for Medicare and Medicaid Services (CMS). The System has received settlements on Medicare cost reports through June 30, 2014.

(b) Medicaid and Managed Medicaid

On December 29, 2010, the Pennsylvania Department of Human Services (DHS) received approval from the Centers for Medicare & Medicaid Services for the state plan amendments pursuant to Act 49 of 2010, passed by the Pennsylvania General Assembly on July 3, 2010, which established a new inpatient hospital fee for service payment system, new supplemental payments and the waiver to establish the statewide Quality Care Assessment. DHS also received approval on final language for the DHS contracts with managed care organizations. The estimated net impact on the System for the years ended June 30, 2017 and 2016, was \$9,479 and \$7,506, respectively, (based on total payment increases of \$25,117 and \$23,156, offset by assessments of \$15,638 and \$15,650), respectively.

(c) Nongovernmental Payors

Inpatient services rendered by nongovernmental payors are reimbursed at negotiated rates. The System continues to be reimbursed for outpatient services at a negotiated percentage of covered charges.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(d) Workers' Compensation

The payment method by which all employers and/or insurers of workers' compensation policies will pay for the services provided by health care providers to employees covered by workers' compensation is a percentage of the Medicare payment for these services.

(e) Other Contractual Arrangements

The System has various payment agreements with preferred provider organizations and health maintenance organizations. The basis for payment under these agreements includes discounts from established charges.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(5) Assets Whose Use is Limited and Investments

Assets whose uses are limited and that are required for obligations classified as current liabilities are reported as current assets. The composition of assets whose uses are limited at June 30, is set forth in the following tables.

	2017	2016
Self-insurance funding arrangements:		
Cash and cash equivalents	\$ 142	26
U.S. government securities	8,980	9,088
Corporate bonds	9,713	9,622
Equity mutual funds	451	383
Total assets whose use is limited under self-insurance funding arrangements	\$ 19,286	19,119
By board for capital improvements and under regulatory requirements:		
Cash and cash equivalents	\$ 20,657	8,402
State, municipal government, and auction rate securities	8,158	8,216
Common, foreign, and preferred stock	11,694	26,482
Equity mutual funds	375,114	305,704
Fixed income mutual funds	276,961	243,259
Hedge, private equity, common collective trust funds	168,054	186,318
Total assets whose use is limited by the board for capital improvements and under regulatory requirements	\$ 860,638	778,381

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

	2017	2016
Temporarily restricted investments:		
Cash and cash equivalents	\$ 302	366
Total temporarily restricted funds	\$ 302	366
Restricted investments		
Cash and cash equivalents	\$ 27	526
U.S. government securities	2,492	1,951
Corporate and foreign bonds	1,220	989
Common, foreign, and preferred stock	6,544	6,090
Equity mutual funds	2,257	1,493
Beneficial interest in trusts	15,609	14,591
Total restricted investments	\$ 28,149	25,640

A summary of the System's total investment return for the years ended June 30 as reflected in the consolidated statements of operations and consolidated statements of changes in net assets is as follows:

	2017	2016
Interest, dividends, and realized gains on investments, net	\$ 32,054	18,943
Change in unrealized losses on nonalternative investments, net	39,236	(32,345)
Change in unrealized gains on Alternative Investments, net	12,341	10,368
Other-than-temporary impairment losses	(4,111)	(9,228)

The System's investments include a variety of financial instruments; the related values as presented in the consolidated financial statements are subject to various market fluctuations, which include changes in the equity markets, interest rate environment and general economic conditions.

The System performs an annual impairment analysis of its investments. On June 30 2017 and 2016, nonalternative investments with a fair value of \$186,326 and \$133,097, respectively, were in an unrealized loss position totaling \$4,111 and \$9,228, respectively. The unrealized losses on these investments were caused by general market conditions particularly in the commodities and emerging markets sectors. These investments were written down and shown as other-than-temporary impairment losses on investments in the consolidated statements of operations.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table presents cost and fair value of assets whose use is limited and investments for June 30, 2017:

	Fair value	Cost
Cash and cash equivalents	\$ 21,128	21,128
State, municipal government, and auction rate securities	8,158	8,588
Corporate and foreign bonds	10,933	10,957
Common, preferred, and foreign stock	18,238	14,556
U.S. government securities	11,472	11,481
Equity mutual funds	377,822	307,235
Fixed income mutual funds	276,961	272,667
Hedge, private equity, and common collective trust funds	168,054	139,548
Beneficial interest in trusts	15,609	13,370
Total	\$ 908,375	799,530

The following table presents cost and fair value of assets whose use is limited and investments for June 30, 2016:

	Fair value	Cost
Cash and cash equivalents	\$ 9,320	9,320
State, municipal government, and auction rate securities	8,216	8,542
Corporate and foreign bonds	10,611	10,556
Common, preferred, and foreign stock	32,572	28,759
U.S. government securities	11,039	10,917
Equity mutual funds	307,580	278,045
Fixed income mutual funds	243,259	240,193
Hedge, private equity, and common collective trust funds	186,318	168,189
Beneficial interest in trusts	14,591	13,370
Total	\$ 823,506	767,891

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table represents the fair value measurement levels for all assets and liabilities, which the System has recorded at fair value on a recurring basis:

	<u>Fair value June 30, 2017</u>	<u>2017</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant other unobservable inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 21,128	21,128	—	—
State, municipal government, and auction rate securities	8,158	—	8,158	—
Corporate and foreign bonds	10,933	—	10,933	—
Common, preferred, and foreign stock	18,238	18,238	—	—
U.S. government securities	11,472	—	11,472	—
Equity mutual funds	377,822	369,600	8,222	—
Fixed income funds	276,961	269,196	7,765	—
Hedge, private equity, and common collective trust funds (1)	168,054	—	—	—
Beneficial interest in trusts	15,609	—	—	15,609
Total investments	<u>\$ 908,375</u>	<u>678,162</u>	<u>46,550</u>	<u>15,609</u>
Liabilities:				
Swap contracts	\$ 40,790	—	40,790	—

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table represents the fair value measurement levels for all assets and liabilities, which the System has recorded at fair value on a recurring basis:

	Fair value June 30, 2016	2016		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 9,320	9,320	—	—
State, municipal government, and auction rate securities	8,216	—	8,216	—
Corporate and foreign bonds	10,611	—	10,611	—
Common, preferred, and foreign stock	32,572	32,572	—	—
U.S. government securities	11,039	—	11,039	—
Equity mutual funds	307,580	302,511	5,069	—
Fixed income funds	243,259	230,463	12,796	—
Hedge, private equity, and common collective trust funds (1)	186,318	—	—	—
Beneficial interest in trusts	14,591	—	—	14,591
Total investments	<u>\$ 823,506</u>	<u>574,866</u>	<u>47,731</u>	<u>14,591</u>
Liabilities:				
Swap contracts	\$ 59,134	—	59,134	—

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Following is the summary of the inputs and valuation techniques as of and for the years ended 2017 and 2016 for valuing Level 2 financial instruments:

Financial instrument	Input	Valuation technique
State, municipal government, and auction rate securities	Broker/dealer	Income
Corporate and foreign bonds	Broker/dealer	Market
U.S. government securities	Broker/dealer	Market
Equity mutual funds and fixed income funds	NAV	Market/income
Swap contracts	Broker/dealer	Market

The following table represents the change in fair value for which fair value was measured under Level 3:

	Beneficial interests in trust
Fair value at June 30, 2015	\$ 15,524
Net change in unrealized losses	<u>(933)</u>
Fair value at June 30, 2016	14,591
Net change in unrealized gains	<u>1,018</u>
Fair value at June 30, 2017	\$ <u><u>15,609</u></u>

Transfers between levels occur when there is a change in the observability of significant inputs. A transfer between Level 1 and Level 2 generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. Transfers between levels are recognized on the date they occur. For the years ended June 30, 2017 and 2016, no transfers were made between any Levels.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The System holds instruments that calculate net asset value per share (or its equivalent) and do not have a readily determinable value are as follows as of June 30:

<u>2017</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if eligible)</u>	<u>Redemption notice period</u>
	(In millions)			
a – Equity long/short hedge funds	\$ 11.3	—	Monthly, quarterly, annually	45–65 days
b – Event driven hedge funds	8.7	—	Quarterly, annual rolling	60–65 days
c – Global opportunities hedge fund	7.8	—	Monthly	5–45 days
d – Multi-strategy hedge funds	47.2	—	Quarterly, semi-annually, annually, on anniversary, biannually	45–70 days
e – Real assets	12.4	0.8	Annually	90 days
f – Real estate funds	38.8	22.4	N/A	N/A
g – Private equity funds	41.9	13.3	N/A	N/A
Total	\$ <u>168.1</u>	<u>36.5</u>		

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

<u>2016</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if eligible)</u>	<u>Redemption notice period</u>
	(In millions)			
a – Equity long/short hedge funds	\$ 9.7	—	Monthly, quarterly, annually	45–65 days
b – Event driven hedge funds	9.2	—	Quarterly, annual rolling	60–65 days
c – Global opportunities hedge fund	5.7	—	Monthly	5–45 days
d – Multi-strategy hedge funds	64.4	—	Quarterly, semi-annually, annually, on anniversary, biannually	45–70 days
e – Real assets	12.9	1.7	Annually	90 days
f – Real estate funds	45.6	11.4	N/A	N/A
g – Private equity funds	38.8	25.7	N/A	N/A
Total	<u>\$ 186.3</u>	<u>38.8</u>		

- a. This class includes investments in hedge funds that invest both long and short in U.S. and foreign common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- b. This class includes investments in hedge funds that invest in equities and bonds to profit from economic, political and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- c. This class includes investments in hedge funds that hold investments in U.S. and non-U.S. common stocks in the health care, energy, information technology, utilities and telecommunications sectors. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- d. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient. The remaining restriction period for these investments ranges from quarterly to biannually.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

- e. This class includes funds with direct investments in global and energy infrastructure as well as in base and precious metals and investment securities of miners and associated mining equipment. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- f. This class includes real estate funds that invest in U.S. and non-U.S. residential and commercial properties as well as distressed real estate. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient. As of June 30, 2017 and 2016, certain investments in these funds have a 90-day redemption notice, but the fund manager can only accommodate redemption requests as liquid assets allow, approximately \$8,500 and \$16,600, respectively. The remaining funds will receive distributions from each fund as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of these funds will be liquidated over the next 7 to 10 years, although these funds may liquidate early in the event of purchase by a third party or initial public offering.
- g. This class includes private equity funds. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. These funds are managed by two of the System's advisors with particular private equity experience in secondary market dealing. These funds could be subject to redemption to a third party buyer, but at June 30, 2017 and 2016, no funds were currently being evaluated this way. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient.

(6) Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation at June 30 consists of the following:

	2017	2016
Land and land improvements	\$ 75,226	69,581
Buildings and improvements	771,378	603,609
Fixed equipment	405,037	275,846
Movable equipment (includes software and hardware)	531,043	478,587
Construction in progress	24,978	294,359
Property, plant and equipment before depreciation	1,807,662	1,721,982
Less accumulated depreciation	(973,516)	(894,718)
Property, plant and equipment, net	\$ 834,146	827,264

Depreciation expense was \$84,039 and \$78,385 for the years ended June 30, 2017 and 2016, respectively.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

In August 2013, the Board of Directors of the System approved construction of a clinical building. The building sets forth plans for capital expenditures of more than \$343,000 over a three year period, and includes significant capital improvements to the Reading Hospital's West Reading campus, 24 surgical suites, including six hybrid operating rooms; eight minor procedure rooms; and reception and recovery areas for individuals. At June 30, 2017 and 2016, the remaining commitments on construction contracts are approximately \$15,000 and \$100,000, respectively.

(7) Long-term Debt

Long-term debt at June 30, 2017 consists of the following:

	Carrying value	Fair value (Level 2)
Berks County Municipal Authority Hospital Revenue Bond Series of 2012, net of unamortized discount and premium	\$ 300,998	308,544
Berks County Municipal Authority Hospital Revenue Bond Series of 2009, net of unamortized discount	102,280	112,054
Term loans	176,221	176,221
Total long-term debt	579,499	\$ 596,819
Less: amounts due within one year	(5,719)	
Less: deferred financing costs, net	(4,980)	
Long-term debt, net of current portion	\$ 568,800	

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Long-term debt at June 30, 2016 consists of the following:

	<u>Carrying value</u>	<u>Fair value (Level 2)</u>
Berks County Municipal Authority Hospital Revenue Bond Series of 2012, net of unamortized discount and premium	\$ 302,126	317,846
Berks County Municipal Authority Hospital Revenue Bond Series of 2009, net of unamortized discount	106,477	121,386
Term loans	<u>176,559</u>	<u>176,559</u>
Total long-term debt	585,162	\$ <u><u>615,791</u></u>
Less: amounts due within one year	(5,529)	
Less: deferred financing costs, net	<u>(5,265)</u>	
Long-term debt, net of current portion	\$ <u><u>574,368</u></u>	

Under the terms of the various debt agreements, the System is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the consolidated balance sheets.

Scheduled principal repayments on long-term debt are as follows for the year ending June 30:

2018	\$ 5,719
2019	6,472
2020	6,588
2021	6,577
2022	6,202
Thereafter	<u>543,861</u>
Total long-term debt	575,419
Plus: unamortized net premium/discounts	4,080
Less: deferred financing costs, net	<u>(4,980)</u>
Long term-debt, net of unamortized premiums/discount and deferred financing costs	\$ <u><u>574,519</u></u>

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The Parent and the Hospital (the Obligated Group) have borrowed funds through revenue bonds issued by the Berks County Municipal Authority (Authority). The proceeds originally were used in part to finance certain facilities of the Obligated Group. The revenue bonds are secured by a pledge of revenue of the Obligated Group. For accounting purposes, the revenue bonds are treated as though they are the debt of the entity which received the proceeds.

(a) Berks County Municipal Authority Hospital Revenue Bond Series of 2012

On June 28, 2012, the Authority issued \$473,275 of Revenue Bonds in four series, 2012 A, B, C, and D.

The Authority issued \$160,065 of Fixed Rate Serial Revenue Bonds (2012 A) for the purpose of refunding the Dauphin Country General Authority Hospital Revenue Bond Series 1994A, Berks County Bond Series 1998 and 2008. Mandatory annual principal redemptions by the System for the 2012 A bonds due November 1, 2039 through November 1, 2044, range from \$7,590 to \$33,555 with final maturity on November 1, 2044. Effective interest rate of the bonds range from 4.23% to 4.50%.

The Authority issued \$91,775 of Variable Rate Serial Revenue bonds (2012 B) for the purpose of refunding the Authority Series 2009 A-5. Mandatory annual principal redemptions by the System for the 2012 B bonds due November 1, 2035 through November 1, 2039, range from \$3,225 to \$24,955 with final maturity on November 1, 2039. Interest on these bonds is calculated on a SIFMA Municipal Index rate plus a fixed spread of 1.50%. The SIFMA Municipal Index rate at June 30, 2017 and 2016, was 0.91% and 0.41%, respectively.

The Authority issued a \$47,235 Floating Rate Bond (2012 C) used to refund the Series 2009 A-4 and a \$174,000 Floating Rate Bond (2012 D) used to Refund the Series 2009 A-1 and A-2. Both Series 2012 C and 2012 D were privately placed with commercial banks. Mandatory monthly principal redemptions by the System for the 2012 C bonds commenced on August 1, 2012 through July 1, 2022, and range from \$39 to \$129 with final maturity date on July 1, 2022. Interest on these bonds is calculated using a one-month London Interbank Offered Rate Index rate (LIBOR) plus a fixed spread of 1.20% with the sum multiplied by a factor of 70.0%. The one-month LIBOR rate at June 30, 2017 and 2016, was 1.23% and 0.45%, respectively.

(b) Berks County Municipal Authority Hospital Revenue Bond Series of 2009

The 2009 A-3 bonds were issued on July 15, 2009. The Authority issued \$133,665 of Fixed Rate Revenue Bonds, Series 2009 A-3 for the primary purpose of redeeming \$115,520 of 2001 Bonds and \$14,965 for major renovation projects.

The 2009 A-3 bonds are comprised of \$44,285 of serial bonds and \$89,380 of term bonds. The serial bonds are due in installments payable November 1, 2009, through 2019, with payments ranging from \$120 to \$4,895. The term bonds are due on November 1 of 2024, 2031, and 2039, with payments ranging from \$820 to \$9,380. The effective interest rate on the serial bonds ranges from 3% to 5% and 5.25% to 5.75% for the term bonds.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(c) Term Loans

Effective May 16, 2016, the System refinanced 2012 D bonds by the securing term bank loans in four series, 2016 A, B, C, and D with a notional amount of \$175,165. All 2016 series nonsyndicate bank loans are direct bank loans with a maturity of seven years.

Series 2016A with a notional amount of \$50,165 has an interest rate calculated at 67% of 1-month LIBOR plus a fixed spread of 0.58%. Principal installments of \$2,485 begin in November 1, 2022 followed by a full redemption of the balances in May 2023.

Series 2016B with a notional amount of \$50,000 has an interest rate calculated at 70% of 1-month LIBOR plus a fixed spread of 0.65%. Principal installments of \$2,475 begin November 1, 2022 followed by a full redemption of the balance in May 2023.

Series 2016C with a notional amount of \$25,000 has an interest rate calculated at 70% of 1-month LIBOR plus a fixed spread of 0.84%. Principal installments of \$1,240 begin November 1, 2022 followed by a full redemption of the balance in May 2023.

Series 2016D with a notional amount of \$50,000 has an interest rate calculated at 67% of 1-month LIBOR plus a fixed spread of 0.675%. Principal installments of \$2,475 begin in November 1, 2022 followed by a full redemption of the balance in May 2023.

The one-month LIBOR rate at June 30, 2017 and 2016, was 1.23% and 0.45%, respectively.

Effective retroactive to January 1, 2004, the Hospital replaced NMG Limited Partnership as the borrower on three promissory notes (NMG Loans). The Hospital was previously the guarantor for the notes. Mandatory annual principal redemptions by the Hospital for the notes for the 2016-2020 period range from \$309 to \$276 in 2020. The interest rate is calculated based upon the one-month LIBOR plus a spread of 1.70%.

(d) Line of Credit

At June 30, 2017 and 2016, the Hospital has an unused line of credit in the amount of \$10,000. Letter of credit draws or direct borrowings from this facility are charged an interest rate of 1-month LIBOR plus 1.50%. Total combined open and undrawn letters of credit at June 30, 2017 and 2016 amounted to \$3,095 and \$3,095, respectively. During 2017, no new letters of credit were opened.

(e) Covenants

The various agreements also place limits on the incurrence of additional borrowings and require that the System satisfy certain measures of financial performance as long as the debt is outstanding. These covenants apply to the Obligated Group and include, but not limited to: a long-term debt service coverage ratio of 1.1 (measured quarterly) and 80 days cash on hand (measured annually at June 30).

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(8) Interest Rate Swaps

The System utilizes derivative instruments, such as interest rate swaps, to manage certain interest rate exposures. Derivative instruments are viewed as risk management tools by the System and are not used for trading and speculative purposes.

When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each leg of the derivative. This analysis reflects the contractual terms of the derivatives, including interest rate curves and implied volatilities. The estimates of fair value valuation are made by swap counterparties using a standardized methodology based on observable market inputs. As part of the System's overall valuation process, management evaluates this counterparty valuation methodology to ensure that it is representative of exit prices in the principal markets. These future net cash flows, however, are susceptible to change primarily due to fluctuations in interest rates. As a result, the estimated values of these derivatives will change over time as cash is received and paid and as interest rates change. As these changes occur, they may have a positive or negative impact on estimated valuations.

The System has classified its interest rate swaps in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data. For over-the-counter derivatives that trade in liquid markets such as interest rate swaps, model inputs (i.e., contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

The fair market value of the swap contracts were as follows as of June 30:

Classification of derivatives included in liabilities on the consolidated balance sheets	Fair market value	
	2017	2016
Derivatives not designated as hedging instrument:		
2008 bond issuance	\$ (1,787)	(755)
2005 bond issuance	2,685	4,229
2002 bond issuance	17,665	24,039
2001 bond issuance	21,331	30,139
1997 bond issuance	17	74
1992 bond issuance	791	1,221
Term loans	88	187
Total swap contracts	<u>\$ 40,790</u>	<u>59,134</u>

Changes in fair value of swap contracts on the consolidated balance sheets totaled a gain of \$18,344 and a loss of \$10,431 as of June 30, 2017 and 2016, respectively. The net amount paid or received under the swap contracts is recorded in the consolidated statements of operations as net cash settlement payments. Net payments totaled \$8,746 and \$9,741 for the years ended June 30, 2017 and 2016, respectively.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

No new swaps were initiated in or closed the fiscal years ending June 30, 2017 and 2016.

In connection with the 2008 bond issuance, the System entered into two interest rate basis swap agreements with a third party by which the System pays SIFMA and receives an average of 0.85% of three-month LIBOR with a third party. Notional amounts of these basis swaps are \$157,320 and \$162,180, respectively, and the three-month LIBOR rate at June 30, 2017 and 2016, was 1.298% and 0.65%, respectively.

In connection with the 2005 bond issuance, the System entered into an interest rate swap agreement with a third party. The swap economically converts the variable rate obligation of the 2005 bonds to a fixed rate of 3.584%. Notional amount of the swap is \$27,000.

In connection with the 2001 and 2002 bonds issuances, the System entered into two interest rate swap agreements with a third party. The swaps economically convert the variable rate obligations of the 2001 and 2002 bonds to a fixed rate of 4.30% and 4.69%, respectively. Notional amounts of the swaps are \$115,845 and \$65,225.

On June 26, 2006, the System entered into an interest rate swap agreement with a third party on the 2001, 2002, and 2005 bond issuances, which were effective as of August 4, 2006. The swap has a variable effective interest rate at 68% of the LIBOR.

In connection with the 2002 bond issuance, the System entered into two interest rate swap agreements with a third party. The swaps effectively convert the variable rate obligation of the Series A and B bonds to fixed rates of 4.69% and 6.28%, respectively. Notional amounts of the swaps are \$1,855 and 3,985.

In connection with the 1997 bond issuance, the System entered into an interest rate swap agreement with a third party that was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the bonds to a fixed rate of 3.397%. Notional amount of the swap is \$1,200.

In connection with the 1992 bond issuance, the System entered into an interest rate swap agreement with a third party, which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the bonds to a fixed rate of 3.607%. Notional amount of the swap is \$6,300.

In connection with the NMG Loans, the System assumed two interest rate swap agreements with a third party. The swaps effectively convert the variable obligations to fixed rates of 9.13% for the \$2,100 note and 9.06% for the \$2,000 note. The fair value of the interest rate swap agreements is the amount at which they would be settled based on estimates of market rates, which was a liability of \$88 and \$187 at June 30, 2017 and 2016, respectively.

The change in the fair value of the interest rate swap agreements and the net settlement payments associated with these swaps are recorded in nonoperating gains (losses) on the consolidated statements of operations.

(9) Retirement Plans

Prior to June 30, 2016, substantially all employees of the System were covered under a qualified noncontributory defined benefit pension plan (the Plan). Pension costs are funded as accrued except when not permitted by regulations, such as full funding limitations. Unfunded prior service costs are amortized over an initial term of thirty years.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The System has effectively transitioned the Plan into a defined contribution plan as of June 30, 2016. Employees hired on or after July 1, 2013 have been enrolled in the defined contribution plan. Previous defined benefit participants hired on or before June 30, 2013, continued to accrue benefits in the existing defined benefit plan until June 30, 2016. As of July 1, 2016, all vested participant defined benefits remain accrued, but all current employees have now converted to and began to accumulate funds under the defined contribution plan. This action has effectively frozen the defined benefit plan as of June 30, 2016.

Obligations and funded status at June 30 for the Plan:

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 692,973	557,349
Service cost	—	16,167
Interest cost	26,026	27,587
Actuarial gain	(27,526)	131,604
Benefits paid	<u>(19,065)</u>	<u>(39,734)</u>
Benefit obligation at end of year	\$ <u>672,408</u>	<u>692,973</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 367,061	384,964
Actual return on assets	48,604	(9,084)
Employer contributions	23,552	30,915
Benefits paid	<u>(19,065)</u>	<u>(39,734)</u>
Fair value of plan assets at end of year	\$ <u>420,152</u>	<u>367,061</u>

Amounts recognized in the consolidated balance sheets at June 30 consist of:

	<u>2017</u>	<u>2016</u>
Accrued pension	\$ <u>252,256</u>	<u>325,912</u>
Total accrued liability	\$ <u>252,256</u>	<u>325,912</u>
Amounts recognized in net assets consist of:		
Net actuarial loss	\$ <u>264,340</u>	<u>318,396</u>
Pension cost charged to net assets	\$ <u>264,340</u>	<u>318,396</u>

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Net periodic benefit cost components at June 30 include the following:

	<u>2017</u>	<u>2016</u>
Service cost – benefits earned during the period	\$ —	16,167
Interest cost on projected benefit obligation	26,026	27,587
Expected return on plan assets	(29,533)	(31,851)
Amortization of net loss	<u>7,459</u>	<u>2,849</u>
Net periodic pension cost	\$ <u>3,952</u>	<u>14,752</u>

In connection with the System's adoption of ASU 2017-07, the service cost component of the net periodic pension cost are included in salaries and benefits in the accompanying statement of operations and the remaining components are included in nonoperating gains (losses) for the years ended June 30, 2017 and June 30, 2016.

Other changes in plan assets and benefit obligations recognized in unrestricted net assets as of June 30:

	<u>2017</u>	<u>2016</u>
Net loss	\$ (46,597)	175,995
Amortization of net loss	<u>(7,459)</u>	<u>(2,849)</u>
Total recognized in unrestricted net assets	\$ <u>(54,056)</u>	<u>173,146</u>
Total recognized in net periodic benefit cost and unrestricted net assets	\$ (43,090)	187,898

The amount expected to be amortized from unrestricted net asset to net periodic pension cost in nonoperating gains (losses) during fiscal year 2018 is \$6,049.

Weighted average assumptions used to determine benefit obligations at June 30:

	<u>2017</u>	<u>2016</u>
Discount rate	3.94 %	3.80 %
Rate of compensation increase	N/A	N/A
Measurement date	6/30/2017	6/30/2016

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:

	<u>2017</u>	<u>2016</u>
Discount rate	3.80 %	4.93 %
Expected long-term return on plan assets	8.00 %	8.00 %
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

(a) Plan Assets

The Plan's weighted average actual asset allocations and target allocations as of June 30 by asset category are as follows:

	<u>2017</u>	
	<u>Target</u>	<u>Actual</u>
Asset category:		
Cash and cash equivalents	— %	1.3 %
Equity mutual funds	45.0	19.4
Fixed income, including mutual funds, state, municipal government, and auction rate securities	32.5	21.0
Equities	—	2.4
Alternative investments 1)	22.5	55.9
	<u>100.0 %</u>	<u>100.0 %</u>

	<u>2016</u>	
	<u>Target</u>	<u>Actual</u>
Asset category:		
Cash and cash equivalents	— %	1.7 %
Equity mutual funds	40.0	17.4
Fixed income, including mutual funds, state, municipal government, and auction rate securities	32.5	24.6
Equities	—	1.6
Alternative investments 1)	27.5	54.7
	<u>100.0 %</u>	<u>100.0 %</u>

1) Note: Long/Short Equity and Private Equity are classified as Alternative Investments.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The overall investment objective of the Plan is to provide a return on investment consistent with the Plan's spending needs and to prevent erosion of purchasing power by inflation. Achievement of the return will be sought from an investment strategy that provides an opportunity for superior returns within acceptable levels of risk and volatility of returns. The following tables represent the fair value measurement levels for all assets and liabilities, which the System has recorded at fair value:

	Fair value June 30, 2017	2017		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Cash and cash equivalents	\$ 5,366	5,366	—	—
State, municipal government, and auction rate securities	5,880	—	5,880	—
Equity mutual funds	81,645	81,645	—	—
Equities	10,280	10,280	—	—
Fixed income mutual funds	82,154	82,154	—	—
Hedge, private equity, and common collective trust funds (1)	234,827	—	—	—
Total investments \$	<u>420,152</u>	<u>179,445</u>	<u>5,880</u>	<u>—</u>

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

	2016			
	Fair value June 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Cash and cash equivalents	\$ 6,307	6,307	—	—
State, municipal government, and auction rate securities	6,020	—	6,020	—
Equity mutual funds	64,016	64,016	—	—
Equities	5,993	5,993	—	—
Fixed income mutual funds	83,835	83,835	—	—
Hedge, private equity, and common collective trust funds (1)	200,890	—	—	—
Total investments \$	<u>367,061</u>	<u>160,151</u>	<u>6,020</u>	<u>—</u>

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Transfers between levels occur when there is a change in the observability of significant inputs. A transfer between Level 1 and Level 2 generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. Transfers between levels are recognized on the date they occur. For the years ended June 30, 2017 and 2016, no transfers were made between Levels.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The Plan holds investments that calculate net asset value per share (or its equivalent) and do not have a readily determinable value are as follows as of June 30:

<u>2017</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if eligible)</u>	<u>Redemption notice period</u>
	(In millions)			
a - Equity long/short hedge funds	\$ 49.5	—	Quarterly, annually	45–90 days
b - Global opportunities hedge fund	13.2	—	Quarterly, annually	60–120 days
c - Multi-strategy hedge funds	33.9	—	Annually, biannually	30–90 days
d - Real assets	25.8	3.8	Weekly, Monthly	5–30 days
e - Long Only funds	83.4	—	Monthly	15–30 days
f - Real estate funds	9.7	6.7	N/A	N/A
g - Private equity funds	19.3	12.8	N/A	N/A
Total	<u>\$ 234.8</u>	<u>23.3</u>		

<u>2016</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if eligible)</u>	<u>Redemption notice period</u>
	(In millions)			
a - Equity long/short hedge funds	\$ 36.8	—	Quarterly, annually	45–90 days
b - Global opportunities hedge fund	26.3	5.8	Quarterly, annually	60–120 days
c - Multi-strategy hedge funds	29.6	—	Annually, biannually	30–90 days
d - Real assets	23.3	—	Weekly, Monthly	5–30 days
e - Long Only funds	64.3	—	Monthly	15–30 days
f - Real estate funds	10.3	6.4	N/A	N/A
g - Private equity funds	10.3	9.8	N/A	N/A
Total	<u>\$ 200.9</u>	<u>22.0</u>		

- a. This class includes investments in hedge funds that invest both long and short in U.S. and foreign common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- b. This class includes investments in hedge funds that hold investments in U.S. and non-U.S. common stocks in the health care, energy, information technology, utilities and telecommunications sectors. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

- c. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient. The remaining restriction period for these investments ranges from quarterly to biennially.
- d. This class includes funds with direct investments in commodities and energy master limited partnerships. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- e. This class invests in domestic and international hedge funds that pursue a long only equity bias. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- f. This class includes real estate funds that invest in U.S. and non-U.S. residential and commercial properties as well as distressed real estate. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient. It is estimated that the underlying assets of these funds will be liquidated over the next 7 to 10 years, although these funds may liquidate early in the event of purchase by a third party or initial public offering.
- g. This class includes private equity funds. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. These funds could be subject to redemption to a third party buyer, but at June 30, 2017 and 2016, no funds were currently being evaluated this way. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient.

(b) Contributions

The System expects to contribute the minimum required contribution during the fiscal year 2018 to the Plan, which is estimated to be \$14,330. For the years ended June 30, 2017 and 2016, the System contributed \$23,552 and \$30,915, respectively to the Plan. For the years ended June 30 2017 and 2016, the System contributed \$10,866 and \$4,659, respectively to the defined contribution plan and \$1,504 and \$1,408, respectively to the nonqualified deferred compensation plan.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(c) Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

Years ending June 30:	
2018	21,640
2019	22,967
2020	24,797
2021	26,493
2022	27,842
Thereafter	160,265

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Various health care services	\$ 1,667	366

Permanently restricted net assets at June 30 are restricted to:

	<u>2017</u>	<u>2016</u>
Permanent endowment funds, the interest and dividend income from which is expendable to support health care services	\$ 12,842	8,762
Funds held in trust by others	<u>15,609</u>	<u>14,591</u>
Total permanently restricted net assets	<u>\$ 28,451</u>	<u>23,353</u>

(11) Insurance Arrangements

The System participates in the Pennsylvania Medical Care Availability and Reduction of Error Fund or Mcare Fund established under the Commonwealth of Pennsylvania. The Mcare Fund presently provides coverage excess of up to \$500 to the System's primary per occurrence retention (which is currently \$500) with annual aggregate coverage of \$1,500.

The System established a self-insurance trust fund to provide protection against professional liability claims. The trust is actuarially funded on an annual basis to provide single limit professional liability coverage of \$500 per occurrence and \$4,500 in the annual aggregate for the Hospital and certain employees. For incidents occurring since April 30, 2009, the System purchased commercial insurance to provide coverage on a claims-made basis in an amount up to \$25,000 in excess of a total retention of \$3,000, \$500 primary; \$500 Mcare excess and a \$2,000 self-insured buffer. Claim liabilities are presented gross of any insurance recoveries. Claim liabilities are discounted at an interest rate of 3% for years ended June 30, 2017 and 2016,

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

and decreased the undiscounted liability as of June 30, 2017 and 2016 by \$2,885 and \$3,236, respectively. For the years ended June 30, 2017 and 2016, the insurance recoverable amount was \$3,500 and \$8,393, respectively, which is included in other receivables and other assets on the consolidated balance sheets. Funding requirements of the plan are subject to increase depending on the plan's claim experience. Premium payments for the Mcare Fund are based upon each individually licensed healthcare provider's rating with the Joint Underwriters Association and the amount of the surcharge to be assessed is determined by the Mcare Fund on an annual basis. The System's annual surcharge premium for participation in the Mcare Fund was \$1,729 and \$1,077 for the years ended June 30, 2017 and 2016, respectively.

Additionally, the System self-insures its workers' compensation and minor general liability risks. The System's self-insurance plan has been reviewed and approved by the Commissioner of Insurance of Pennsylvania. The System purchases excess workers' compensation insurance for all controlled entities of the hospital with statutory limits over a self-retention of \$1,000 per occurrence subject to a policy maximum of \$1,000 for the policy period. Workers' compensation liabilities are discounted at an interest rate of 3% for years ended June 30, 2017 and 2016, and decreased the undiscounted liability as of June 30, 2017 and 2016 by \$2,421 and \$2,624, respectively. The System had established a trust fund for the payment of workers' compensation benefits and in the year ended June 30, 2016 the assets in this trust fund were replaced with a surety bond providing liability coverage and all fund assets previously held by the trust were returned to the System.

Reserves for self-insurance claims at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Professional liability claims payable	\$ 36,400	49,101
Workers' compensation	<u>11,984</u>	<u>12,097</u>
Total self-insurance claims reserve	48,384	61,198
Less: current portion	<u>(10,885)</u>	<u>(13,243)</u>
Self-insurance claims reserve, net of current portion	<u>\$ 37,499</u>	<u>47,955</u>

(12) Commitment and Contingencies

(a) Operating Leases

The System leases equipment and facilities under operating leases expiring at various dates. Total rental expense under all operating leases was \$13,716 and \$7,492 for the years ended June 30, 2017 and 2016, respectively.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table summarizes future minimum rental commitments under noncancelable operating leases with initial or remaining terms of more than one year for the fiscal year:

Years ending June 30:		
2018	\$	8,701
2019		6,099
2020		5,729
2021		3,657
2022		2,106
Thereafter		11,277

(b) Litigation

The System and its controlled entities are involved in certain litigation, which involves professional and general liability. In the opinion of management and legal counsel, the ultimate liability, if any, will not have a material effect on the consolidated financial condition of the Parent and its subsidiaries.

(c) Regulatory Compliance

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations through the years ended June 30, 2017 and 2016. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(13) Concentrations of Credit Risk

Financial instruments, which potentially subject the System to concentrations of credit risk, consist primarily of cash, cash equivalents, investments, and accounts receivable.

Management periodically evaluates the credit standing of the financial institutions with which they maintain their cash, cash equivalents, and investments. Amounts held in its accounts often exceed the federally insured levels.

The fair value of the System's investments is subject to various market fluctuations, which include changes in the interest rate environment and general economic conditions.

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The System grants credit to its patients and other third-party payors, primarily Medicare, Medical Assistance, Blue Cross, and various commercial insurance companies. The System maintains reserves for potential credit losses and such losses have historically been within management's expectations. The mix of receivables from patients and third-party payors as of June 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	25 %	24 %
Medical assistance	18	16
Blue Cross	24	24
Commercial insurance	19	22
Self-pay	12	10
Other	2	4
	100 %	100 %

The activity in the allowance for uncollectible accounts is summarized as follows for the years ended June 30:

	2017	2016
Beginning balance	\$ 38,194	33,770
Provision for uncollectible accounts, net of recoveries	47,592	51,468
Write offs	(51,146)	(47,044)
Ending balance	\$ 34,640	38,194

(14) Functional Expenses

The System considers health program services and general/administrative to be its primary functional categories for purposes of expense classification. General/administrative includes information systems, general corporate management, advertising and marketing. Functional categories of expenses for the years ended June 30 are as follows:

	2017	2016
Health program services	\$ 977,133	907,019
General/administrative	65,498	60,700
Total functional expenses	\$ 1,042,631	967,719

READING HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(15) Certain Significant Risks and Uncertainties

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, Health Care Reform), enacted in March 2010, has changed and will continue to make broad-based changes to the U.S. health care system which could significantly affect the U.S. economy and which the System expects will continue to impact the System's business operations and financial results. Since its enactment in 2010, key components of Health Care Reform have been phased in, including health insurance exchanged (Public Exchanges), new Medicare products, and the individual coverage mandate. Although Health Care Reform is to be phased in through 2018, many significant changes occurred in 2014. The System is dedicating material resources to monitor the potential impacts of Health Care Reform as well as state level health care reform. While the federal government has issued a number of regulations implementing Health Care Reform, certain significant parts of Health Care Reform, including aspects of Public Exchanges, Medicaid expansion, enforcement related reporting for the individual and employer mandates, and the implementation of Medicare Advantage, require further guidance and clarification at the federal level and/or in the form of regulations and actions by state legislatures to implement the law. The federal government also has announced significant changes to and/or delays in effective dates of various aspects of Health Care Reform, and it is likely that further changes will be made at the federal and/or state level based on implementation experience. As a result, key aspects and impacts of Health Care Reform will not be known for several years, and given the inherent difficulty of foreseeing how individuals and businesses will respond to the choices afforded them by Health Care Reform, the System cannot predict the full effect Health Care Reform will have on the System. It is reasonably possible that Health Care Reform, in the aggregate, could have an adverse effect on the System's business operations and financial results.

Federal budget negotiations, ongoing regulatory changes to Health Care Reform, pending efforts in the U.S. Congress to amend or restrict funding for various aspects of Health Care Reform and litigation challenging aspects of the law continue to create uncertainty about the ultimate impact of Health Care Reform.

In addition, the federal and state governments continue to enact or seriously consider many other broad-based legislative and regulatory proposals that have impacted or could materially impact various aspects of the health care system. The System cannot predict whether pending or future federal or state legislation, will change various aspects of the health care system or Health Care Reform or the impact those changes will have on the System's business operations or financials results, but the effects could be adverse.

(16) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through September 27, 2017, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2017

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading Health System consolidated
Current assets:								
Cash and cash equivalents	\$ —	54,055	—	8	—	1,472	—	55,535
Patient accounts receivable, less allowance for uncollectible accounts of \$34,640	—	107,932	—	12,024	—	3,597	—	123,553
Other receivables	20	1,796	—	3,644	—	—	—	5,460
Receivable from affiliates	153,113	(144,788)	—	(2)	(1,043)	(378)	(6,902)	—
Inventories	—	14,859	—	—	—	175	—	15,034
Estimated third-party payor receivables	—	7,262	—	—	—	—	—	7,262
Prepaid expenses and other current assets	—	14,301	—	560	—	240	—	15,101
Assets whose use is limited – required for current liabilities:								
Self-insurance funding arrangements	—	7,482	—	—	—	—	—	7,482
Total current assets	153,133	62,899	—	16,234	(1,043)	5,106	(6,902)	229,427
Assets whose use is limited:								
Self-insurance funding arrangements	—	11,804	—	—	—	—	—	11,804
Under regulatory requirements	—	—	—	—	—	2,666	—	2,666
By board for capital improvements	802,460	54	—	—	—	55,458	—	857,972
Total assets whose use is limited, net of current portion	802,460	11,858	—	—	—	58,124	—	872,442
Restricted investments	—	28,149	—	—	—	—	—	28,149
Temporarily restricted investments	—	249	—	—	—	53	—	302
Long-term receivables from affiliates	499,111	—	—	—	—	—	(499,111)	—
Property, plant and equipment, net	38,654	736,730	1,659	6,147	—	50,956	—	834,146
Investments in joint ventures	11,252	1,065	—	—	—	—	—	12,317
Other assets	—	5,329	—	111	—	(53)	—	5,387
Total assets	\$ 1,504,610	846,279	1,659	22,492	(1,043)	114,186	(506,013)	1,982,170

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2017

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading Health System consolidated
Current liabilities:								
Current installments of long-term debt	\$ 5,380	339	—	—	—	—	—	5,719
Accounts payable	(3)	51,907	95	1,509	—	1,248	—	54,756
Estimated third-party settlements	—	4,112	—	—	—	—	—	4,112
Current portion of estimated self-insurance costs	—	10,845	—	—	—	40	—	10,885
Accrued expenses	3,701	12,296	96	13,153	—	467	—	29,713
Accrued vacation	—	19,088	81	10,447	—	544	—	30,160
Current installments of long-term affiliated payables	—	5,380	—	—	—	1,522	(6,902)	—
Other current liabilities	—	8,567	262	44	—	33	—	8,906
Total current liabilities	9,078	112,534	534	25,153	—	3,854	(6,902)	144,251
Long-term debt, net of current portion and unamortized discount/premium	568,125	675	—	—	—	—	—	568,800
Accrued pension liabilities	—	252,256	—	—	—	—	—	252,256
Deferred revenue	—	4,494	—	—	—	38,317	—	42,811
Other liabilities	—	2,173	20	114	11	376	—	2,694
Estimated self-insurance costs, net of current portion	—	37,499	—	—	—	—	—	37,499
Swap contracts	40,702	88	—	—	—	—	—	40,790
Long-term affiliates payables, net of current portion	—	467,140	—	—	—	31,971	(499,111)	—
Total liabilities	617,905	876,859	554	25,267	11	74,518	(506,013)	1,089,101
Net assets (deficit):								
Unrestricted	886,705	(60,645)	1,105	(2,775)	(1,054)	39,615	—	862,951
Temporarily restricted	—	1,614	—	—	—	53	—	1,667
Permanently restricted	—	28,451	—	—	—	—	—	28,451
Total net assets (deficit)	886,705	(30,580)	1,105	(2,775)	(1,054)	39,668	—	893,069
Total liabilities and net assets (deficit)	\$ 1,504,610	846,279	1,659	22,492	(1,043)	114,186	(506,013)	1,982,170

See accompanying independent auditors' report.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2017

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading Health System consolidated
Unrestricted revenues and other support:								
Net patient service revenue	\$ —	950,498	—	121,074	—	4,009	(30,250)	1,045,331
Provision for uncollectible accounts	—	(43,713)	—	(3,879)	—	—	—	(47,592)
Net patient service revenue less provision for uncollectible accounts	—	906,785	—	117,195	—	4,009	(30,250)	997,739
Residential revenue	—	—	—	—	—	23,143	—	23,143
Other revenue	(11)	30,018	3,568	3,515	—	1,542	(7,158)	31,474
Total revenues and other support	(11)	936,803	3,568	120,710	—	28,694	(37,408)	1,052,356
Expenses:								
Salaries and benefits	—	452,907	2,514	160,786	469	13,199	(34,433)	595,442
Supplies	—	150,830	9	6,993	2	2,324	—	160,158
Utilities	—	10,946	—	554	—	965	—	12,465
Interest	—	11,327	—	—	—	1,197	—	12,524
Depreciation	—	77,908	830	1,569	—	3,732	—	84,039
Purchased services	—	75,849	611	11,391	2	2,383	(60)	90,176
Repairs and maintenance	—	30,895	100	587	58	491	—	32,131
Other	—	38,530	131	15,336	29	2,364	(2,915)	53,475
Acquisition related expenses	—	2,221	—	—	—	—	—	2,221
Total expenses	—	851,413	4,195	197,216	560	26,655	(37,408)	1,042,631
Income (loss) from operations	(11)	85,390	(627)	(76,506)	(560)	2,039	—	9,725
Nonoperating (losses) gains:								
Investment income	44,020	(2,585)	—	—	—	2,960	—	44,395
Change in fair value of swap contracts and net of settlement payments	9,584	14	—	—	—	—	—	9,598
Other-than-temporary impairment losses on investments	(4,111)	—	—	—	—	—	—	(4,111)
Other (losses) gains	—	(6,976)	—	(403)	(2)	(109)	—	(7,490)
Nonoperating (losses) gains, net	49,493	(9,547)	—	(403)	(2)	2,851	—	42,392
Excess (deficiency) of revenues, (losses) gains, and other support over expenses	\$ 49,482	75,843	(627)	(76,909)	(562)	4,890	—	52,117

See accompanying independent auditors' report.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2016

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading health system consolidated
Current assets:								
Cash and cash equivalents	\$ —	115,960	—	8	—	1,846	—	117,814
Patient accounts receivable, less allowance for uncollectible accounts of \$38,194	—	101,342	—	8,581	—	3,110	—	113,033
Other receivables	25	3,237	—	3,570	—	—	—	6,832
Receivable from affiliates	108,710	(99,503)	(930)	—	(456)	(1,109)	(6,712)	—
Inventories	—	13,958	—	—	—	169	—	14,127
Estimated third-party payor receivables	—	11,404	—	—	—	—	—	11,404
Prepaid expenses and other current assets	1	20,084	6	500	—	403	—	20,994
Assets whose use is limited – required for current liabilities:								
Self-insurance funding arrangements	—	10,711	—	—	—	—	—	10,711
Total current assets	108,736	177,193	(924)	12,659	(456)	4,419	(6,712)	294,915
Assets whose use is limited:								
Self-insurance funding arrangements	—	8,408	—	—	—	—	—	8,408
Under regulatory requirements	—	—	—	—	—	2,719	—	2,719
By board for capital improvements	725,821	53	—	—	—	49,788	—	775,662
Total assets whose use is limited, net of current portion	725,821	8,461	—	—	—	52,507	—	786,789
Restricted investments	—	25,640	—	—	—	—	—	25,640
Temporarily restricted investments	—	314	—	—	—	52	—	366
Long-term receivables from affiliates	506,109	—	—	—	—	—	(506,109)	—
Property, plant and equipment, net	38,654	728,095	2,489	7,529	—	50,497	—	827,264
Investments in joint ventures	9,440	953	—	—	—	—	—	10,393
Other assets	—	9,558	—	93	—	(52)	—	9,599
Total assets	\$ 1,388,760	950,214	1,565	20,281	(456)	107,423	(512,821)	1,954,966

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2016

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading health system consolidated
Current liabilities:								
Current installments of long-term debt	\$ 5,190	339	—	—	—	—	—	5,529
Accounts payable	—	57,617	39	1,427	36	1,280	—	60,399
Estimated third-party settlements	—	7,171	—	—	—	—	—	7,171
Current portion of estimated self-insurance costs	—	13,243	—	—	—	—	—	13,243
Accrued expenses	3,538	17,156	69	17,482	—	732	—	38,977
Accrued vacation	—	17,610	98	9,025	—	512	—	27,245
Current installments of long-term affiliated payables	—	5,190	—	—	—	1,522	(6,712)	—
Other current liabilities	—	7,566	—	2	—	45	—	7,613
Total current liabilities	8,728	125,892	206	27,936	36	4,091	(6,712)	160,177
Long-term debt, net of current portion and unamortized discount/premium	573,313	1,055	—	—	—	—	—	574,368
Accrued pension liabilities	—	325,912	—	—	—	—	—	325,912
Deferred revenue	—	3,673	—	—	—	37,389	—	41,062
Other liabilities	—	2,168	—	—	—	395	—	2,563
Estimated self-insurance costs, net of current portion	—	47,955	—	—	—	—	—	47,955
Swap contracts	58,947	187	—	—	—	—	—	59,134
Long-term affiliates payables, net of current portion	—	472,615	—	—	—	33,494	(506,109)	—
Total liabilities	640,988	979,457	206	27,936	36	75,369	(512,821)	1,211,171
Net assets (deficit):								
Unrestricted	747,772	(52,910)	1,359	(7,655)	(492)	32,002	—	720,076
Temporarily restricted	—	314	—	—	—	52	—	366
Permanently restricted	—	23,353	—	—	—	—	—	23,353
Total net assets (deficit)	747,772	(29,243)	1,359	(7,655)	(492)	32,054	—	743,795
Total liabilities and net assets (deficit)	\$ 1,388,760	950,214	1,565	20,281	(456)	107,423	(512,821)	1,954,966

See accompanying independent auditors' report.

READING HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(Dollars in thousands)

	Parent	Hospital	RHP	RHPN	RHF	Highlands	Consolidating and eliminating entries	Reading Health System consolidated
Unrestricted revenues and other support:								
Net patient service revenue	\$ —	884,795	—	110,813	—	3,605	(23,508)	975,705
Provision for uncollectible accounts	—	(46,958)	—	(4,510)	—	—	—	(51,468)
Net patient service revenue less provision for uncollectible accounts	—	837,837	—	106,303	—	3,605	(23,508)	924,237
Residential revenue	—	—	—	—	—	22,372	—	22,372
Other revenue	(1,183)	30,608	2,524	4,038	—	953	(5,079)	31,861
Total revenues and other support	(1,183)	868,445	2,524	110,341	—	26,930	(28,587)	978,470
Expenses:								
Salaries and benefits	—	413,329	2,339	138,510	320	11,881	(25,994)	540,385
Supplies	—	148,821	9	7,352	53	2,254	—	158,489
Utilities	—	10,666	—	611	—	1,005	—	12,282
Interest	—	9,587	—	—	—	1,253	—	10,840
Depreciation	—	72,333	830	1,569	—	3,653	—	78,385
Purchased services	—	72,054	423	11,348	75	2,274	(40)	86,134
Repairs and maintenance	—	30,691	448	297	—	610	—	32,046
Other	—	38,762	124	10,446	—	2,379	(2,553)	49,158
Total expenses	—	796,243	4,173	170,133	448	25,309	(28,587)	967,719
Income (loss) from operations	(1,183)	72,202	(1,649)	(59,792)	(448)	1,621	—	10,751
Nonoperating gains (losses):								
Investment income	27,775	948	—	—	—	601	—	29,324
Change in fair value of swap contracts and net of settlement payments	(20,142)	(30)	—	—	—	—	—	(20,172)
Other-than-temporary impairment losses on investments	(9,228)	—	—	—	—	—	—	(9,228)
Other gains (losses)	—	1,128	—	—	(2)	74	—	1,200
Nonoperating (losses) gains, net	(1,595)	2,046	—	—	(2)	675	—	1,124
Excess (deficiency) of revenues, (losses) gains, and other support over expenses	\$ (2,778)	74,248	(1,649)	(59,792)	(450)	2,296	—	11,875

See accompanying independent auditors' report.