

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

WellSpan Health  
Years Ended June 30, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

# WellSpan Health

## Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2017 and 2016

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## Report of Independent Auditors

The Board of Directors  
WellSpan Health

We have audited the accompanying consolidated financial statements of WellSpan Health, 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

## **Opinion**

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

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating and combining details appearing in conjunction with the consolidated financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

October 13, 2017

# WellSpan Health

## Consolidated Balance Sheets (In Thousands)

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 67,546	\$ 110,419
Assets limited as to use	6,114	5,795
Patient accounts receivable, net of allowance for uncollectible accounts of \$79,163 and \$65,250 in 2017 and 2016, respectively	294,285	272,643
Other receivables	23,261	20,824
Inventories	21,885	21,928
Prepaid expenses	31,143	27,787
Total current assets	444,234	459,396
Investments limited as to use:		
Board-designated	1,081,104	945,493
Self-insurance trust	14,161	13,032
Temporarily restricted investments	11,814	8,942
Permanently restricted investments	5,334	5,936
Beneficial interest in perpetual trusts	18,983	17,837
Total investments limited as to use	1,131,396	991,240
Pledges receivable, net	4,967	5,853
Property and equipment, net	771,540	735,718
Investments in joint ventures	10,464	10,157
Notes receivable	1,461	2,522
Other assets	111,230	67,349
Total assets	\$ 2,475,292	\$ 2,272,235

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 337	\$ 2,171
Current portion of long-term debt	9,806	8,131
Accounts payable and accrued expenses	94,773	67,706
Accrued interest payable	1,937	1,936
Accrued salaries and wages	102,594	127,341
Advances from third-party payors	5,986	4,877
Current portion of self-insurance reserves and accrued retirement benefits	43,823	28,965
Third-party payor settlements	9,039	16,177
Total current liabilities	<u>268,295</u>	<u>257,304</u>
Self-insurance reserves, less current portion	72,936	74,313
Capital lease obligations, less current portion	259	1,002
Long-term debt, less current portion	640,622	545,111
Accrued retirement benefits, less current portion	203,036	266,354
Interest rate swap agreements	50,003	70,126
Other non-current liabilities	1,511	1,511
Total liabilities	<u>1,236,662</u>	<u>1,215,721</u>
Net assets:		
Unrestricted	1,183,888	1,005,226
Temporarily restricted	25,585	23,195
Permanently restricted	24,317	23,093
WellSpan Health net assets	<u>1,233,790</u>	<u>1,051,514</u>
Non-controlling interests	4,840	5,000
Total net assets	<u>1,238,630</u>	<u>1,056,514</u>
Total liabilities and net assets	<u>\$ 2,475,292</u>	<u>\$ 2,272,235</u>

*See accompanying notes.*

# WellSpan Health

## Consolidated Statements of Operations (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 2,075,163	\$ 1,965,017
Provision for uncollectible accounts	(80,913)	(77,295)
Net patient service revenue less provision for uncollectible accounts	1,994,250	1,887,722
Other revenue	82,312	75,260
Net assets released from restrictions used for operations	2,179	3,001
Total revenues, gains, and other support	2,078,741	1,965,983
<b>Expenses</b>		
Salaries and wages	998,045	883,892
Employee benefits	289,603	292,070
Professional fees	50,848	30,365
Supplies and other	598,666	578,782
Depreciation and amortization	86,357	84,573
Interest	21,866	18,795
Loss on debt refinancing	–	975
Total operating expenses	2,045,385	1,889,452
Operating income	33,356	76,531
<b>Other income (expense)</b>		
Contributions	2,413	1,509
Investment income, net	107,334	(23,082)
Equity gain on joint ventures	582	968
(Loss) gain on sale of assets/other	(5,788)	13,837
Contributions received in the acquisitions	–	58,358
Other (expense) income, net	(982)	2,925
Change in fair value of interest rate swap agreements	20,123	(20,569)
Total other income	123,682	33,946
Excess of revenues over expenses before non-controlling interest	157,038	110,477
Non-controlling interests	(831)	(702)
Excess of revenues over expenses	156,207	109,775
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	(566)	375
Net assets released from restrictions for purchase of property and equipment	857	1,586
Other change in accrued retirement benefits	22,164	(10,593)
Increase in unrestricted net assets	\$ 178,662	\$ 101,143

See accompanying notes.

## WellSpan Health

### Consolidated Statements of Changes in Net Assets (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 156,207	\$ 109,775
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	(566)	375
Net assets released from restrictions for purchase of property and equipment	857	1,586
Other change in accrued retirement benefits	22,164	(10,593)
Increase in unrestricted net assets	178,662	101,143
<b>Temporarily restricted net assets</b>		
Net realized and unrealized gains and losses on restricted investments	939	(124)
Net investment income	206	279
Contribution received in the acquisition	–	6,888
Contributions	4,281	3,243
Net assets released from restrictions	(3,036)	(4,587)
Increase in temporarily restricted net assets	2,390	5,699
<b>Permanently restricted net assets</b>		
Net investment income	313	850
Contribution received in the acquisition	–	1,284
Net realized and unrealized gains and losses on restricted investments	1,188	(836)
Contributions	20	529
Net assets released from restrictions	(297)	(603)
Increase in permanently restricted net assets	1,224	1,224
Increase in WellSpan Health net assets	182,276	108,066
<b>Non-controlling interests</b>	(160)	(215)
Increase in net assets	182,116	107,851
<b>Net assets</b>		
Beginning of year	1,056,514	948,663
End of year	\$ 1,238,630	\$ 1,056,514

*See accompanying notes.*

# WellSpan Health

## Consolidated Statements of Cash Flows (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Increase in net assets	\$ 182,116	\$ 107,851
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in the acquisition	–	(66,530)
Loss (gain) on disposal of fixed assets	5,788	(13,837)
Depreciation and amortization	86,357	84,573
Net realized and unrealized gains and losses on assets limited as to use and investments	(90,867)	41,641
Change in fair value of interest rate swap agreements	(20,123)	20,569
Amortization of bond premium and discount	(560)	(550)
Undistributed loss of investments in joint ventures	(307)	824
Change in beneficial interest in perpetual trusts	(1,146)	25
Provision for bad debts	80,913	77,295
Loss of extinguishment of debt	–	975
Temporarily restricted net contributions and investment income received	(4,487)	(2,301)
Change in cash due to changes in assets and liabilities:		
Patient accounts receivable and other receivables	(103,931)	(99,098)
Inventories, pledges receivable, prepaid expenses, and other assets	(17,540)	(3,184)
Accounts payable and accrued expenses and accrued interest payable	27,068	(5,803)
Accrued salaries and wages	(24,747)	17,326
Advances from third-party payors	1,109	(136)
Estimated third-party payor settlements	(7,138)	1,126
Self-insurance reserves	13,481	24,327
Accrued retirement benefits	(63,318)	10,242
Net cash provided by operating activities before change in trading securities	62,668	195,335
Increase in investments designated as trading securities, net	(40,456)	(15,665)
Net cash provided by operating activities	22,212	179,670

## WellSpan Health

### Consolidated Statements of Cash Flows (continued) (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Investing activities</b>		
Purchases of property, equipment, and capitalized software	\$ (157,818)	\$ (160,486)
Proceeds on sale of property and equipment	1,203	17,122
Cash received in the acquisitions	–	2,885
Increase in assets limited as to use and investments designated as other than trading securities	(8,006)	(6,552)
Change in investments in joint ventures	–	(1,253)
Net cash used in investing activities	(164,621)	(148,284)
<b>Financing activities</b>		
Temporarily restricted net contributions and investment income received	4,487	2,301
Principal repayments on long-term debt	(10,870)	(81,298)
Proceeds from issuance of long-term debt	105,919	1,839
Deferred financing costs	–	(1,012)
Net cash provided by (used in) financing activities	99,536	(78,170)
Decrease in cash and cash equivalents	(42,873)	(46,784)
Cash and cash equivalents, beginning of year	110,419	157,203
Cash and cash equivalents, end of year	\$ 67,546	\$ 110,419
<b>Supplemental cash flow information</b>		
Cash paid for interest, net of capitalized interest	\$ 21,865	\$ 18,780
Cash paid for income taxes	\$ 192	\$ 239

*See accompanying notes.*

# WellSpan Health

## Notes to Consolidated Financial Statements

(In Thousands)

June 30, 2017

### 1. Organization

WellSpan Health (WSH) is a not-for-profit corporation and has the following sole-member corporations, equity investments, and other affiliates as of June 30, 2017:

<b>Entity</b>	<b>WSH Relation to Entity</b>	<b>Date Entity Was Formed</b>	<b>Purpose of Entity</b>
<b>Consolidated hospitals</b>			
Ephrata Community Hospital (ECH)	Sole member	May 1940	A not-for-profit corporation that operates a hospital.
Gettysburg Hospital (GH)	Sole member	March 1919	A not-for-profit corporation that operates a hospital.
Good Samaritan Hospital (GSH)	Sole member	November 1891	A not-for-profit corporation that operates a hospital. This entity was acquired effective July 1, 2015.
WellSpan Philhaven (WPH)	Sole member	May 1949	A not-for profit corporation that operates a psychiatric mental health hospital. This entity was acquired effective January 1, 2016.
WellSpan Specialty Services (WSS)	Sole member	April 1997	A not-for-profit corporation that operates a hospital and other operations.
York Hospital (YH)	Sole member	January 1880	A not-for-profit corporation that operates a hospital.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Consolidated foundations</b>			
Gettysburg Hospital Foundation (GHF)	GH is the sole member of GHF	July 1983	A not-for-profit foundation formed to raise funds to further support the operations of GH and affiliated exempt entities.
Good Samaritan Health Services Foundation (GSHSF)	GSH is the sole member of GSHSF	June 1985	A not-for-profit foundation formed to raise funds to further support the operations of GSH and affiliated exempt entities.
Ephrata Community Health Foundation (ECHF)	ECH is the sole member of ECHF	June 2013	A not-for-profit foundation formed to raise funds to further support the operations of ECH and affiliated exempt entities.
York Health Foundation (YHF)	Sole member	March 2000	A not-for-profit foundation formed to raise funds to further support the operations of YH and affiliated exempt entities.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Consolidated other not-for-profit organizations engaged in health services</b>			
Apple Hill Surgical Center, Inc. (AHSCI)	WHCS is the sole member of AHSCI	May 1987	A not-for-profit corporation that serves as general partner of AHSCP.
Good Samaritan Physician Services (GSPS)	GSHSF is the sole member of GSPS	June 1999	A not-for-profit corporation that operates medical practices. This entity was acquired effective July 1, 2015.
Good Samaritan Real Estate, Inc. (GSRE)	GSH was the sole member of GSRE. GSRE was merged into WP effective June 30, 2017	December 1986	A not-for-profit corporation that leases non-residential real estate to exempt affiliates. This entity was acquired effective July 1, 2015.
Healthy Community Pharmacy, Inc. (HCP)	WHCS is the sole member of HCP	December 2003	A not-for-profit corporation that dispenses pharmaceuticals to the uninsured population (ceased operations October 31, 2015).
Northern Lancaster County Medical Group (NLCMG)	ECH is the sole member of NLCMG	July 2005	A not-for-profit corporation that operates medical practices.
Physician Specialists of Northern Lancaster County Medical Group (PSNLCMG)	NLCMG is the sole member of PSNLCMG	June 2011	A not-for-profit corporation that operates medical practices.
VNA Community Services (VNACS) (Inactive)	WSS is the sole member of VNACS	August 1984	A not-for-profit corporation that provides home personal care services.
VNA Home Health Services (VNAHHS)	WSS is the sole member of VNAHHS	February 1911	A not-for-profit corporation that provides home health services.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Consolidated other not-for-profit organizations engaged in health services (continued)</b>			
WellSpan Health Care Services (WHCS)	Sole member	January 1986	A not-for-profit corporation that engages in health-related activities in the service area.
WellSpan Medical Group (WMG)	Sole member	June 1993	A not-for-profit corporation that operates medical practices.
WellSpan Properties, Inc. (WP)	WHCS is the sole member of WP	April 1987	A not-for-profit corporation that developed the ancillary centers and other outpatient facilities that are leased to affiliates of WellSpan Health.
<b>Taxable corporations engaged in taxable activities that support WSH's mission</b>			
Apple Hill Condominium Association (AHCA)	WP and AHSCP own 55.0% and 15.0% interest in AHCA, respectively	March 1988	A homeowners' association that oversees the Apple Hill Medical Center building.
Apple Hill Surgical Center Partners (AHSCP)	WSH has 68.01% ownership in the partnership units	February 1988	A limited partnership that operates a surgical center.
Cherry Tree Cancer Center (CTCC)	WHCS has a 50% partnership interest in CTCC	April 1997	A limited liability partnership that operates a radiation therapy center.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Taxable corporations engaged in taxable activities that support WSH's mission (continued)</b>			
GSH Home Med Care, LLC (GSHMC)	GSS owned 100% of GSHMC's outstanding stock. Effective January 1, 2017, GSHMC converted to a single member LLC, with WHCS as the single member	March 1977	A corporation that leases and sells medical equipment. This entity was acquired effective July 1, 2015.
GSH Realty, Inc. (GSR)	GSS owned 100% of GSR's outstanding stock. GSS merged into GSR effective June 30, 2017	December 1986	A corporation that leases real estate to affiliates. This entity was acquired effective July 1, 2015.
GSH Services, Inc. (GSS)	GSHSF owned 100% of GSS's outstanding stock. Effective January 1, 2017, GSS shares were transferred to WHCS. GSS merged into GSR effective June 30, 2017	July 1985	A corporation that provides accounting and management services for two subsidiaries (GSHMC and GSR). This entity was acquired effective July 1, 2015.
Littlestown Health Care Partnership (LHCP)	WHCS has a 50% interest in LHCP	September 1996	A Pennsylvania partnership that leases outpatient medical facilities.
WellSpan Pharmacy, Inc. (WRx)	WHCS owns 100% of WRx's outstanding stock	April 1985	A corporation that dispenses pharmaceuticals and provides intravenous therapy services.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Taxable corporations engaged in taxable activities that support WSH's mission (continued)</b>			
WellSpan Provider Network (WPN)	Sole member	February 1997	A not-for-profit corporation that coordinates managed care risk contracting and care management activities within WSH. WPN had no accounting transactions through June 30, 2017.
WellSpan Reciprocal Risk Retention Group (WRRRG)	Sole member	June 2003	A risk retention group that provides coverage for the primary layer of professional and general liability, beginning July 1, 2003.
York Health Plan d/b/a WellSpan Population Health Services (WPHS)	Sole member	November 1991	A not-for-profit corporation that administers a preferred provider organization.
<b>Other joint ventures accounted for on the equity method</b>			
Advanced Management Services, LLC (AMS)	Philhaven has a 22.375% interest	2012	An LLC partnership operating as a software company.
AllSpire Health Group Purchasing Organization, LLC (AHGPO)	WSH has a 20% interest in AHGPO	June 2016	A Delaware LLC Group Purchasing Organization that promotes quality health care and assists providers in efficiently managing expenses.
AllSpire Health Partners, LLC (AHP)	WSH has a 20% interest in AHP	July 2013	A limited liability company that operates to advance the charitable, community development, scientific, and educational purposes of its members.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Other joint ventures accounted for on the equity method (continued)</b>			
Central Pennsylvania Alliance Laboratory (CPAL)	WSH has a 30% membership interest in CPAL	March 1997	A limited liability corporation that operates a regional reference laboratory.
Central Pennsylvania Healthcare Alliance (CPHA)	WPH has a 30% membership interest in CPHA	March 1997	A not-for-profit corporation that provides the infrastructure for overseeing the joint operation of health services in Central Pennsylvania.
Downtown Renaissance Fund, LLC (DRF)	WSH has a 33.33% interest in DRF	December 2009	A limited liability company that operates to advance the charitable, community development, scientific, and educational purposes of its members.
Ephrata Medical Office Condominium Association (EMOCA)	ECH has a 33.47% interest in EMOCA	September 1988	A corporation that oversees a medical office building in Ephrata, PA.
Good Samaritan Physician Hospital Organization (GSPHO)	GSH has a 50% interest in GSPHO	March 1995	A not-for-profit corporation that educates and provides a health network for managed care.
KE, LLC (KE)	Philhaven is a 50% partner in KE	January 2007	An LLC partnership that leases non-residential properties.
Northern Lancaster County Physician Alliance (NLCPA)	ECH has a 50% interest in NLCPA	July 1986	A not-for-profit corporation that educates and provides a health network for managed care.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Was Formed	Purpose of Entity
<b>Other joint ventures accounted for on the equity method (continued)</b>			
Quest Behavioral Health, Inc. (QUEST)	WSH has a 30% membership interest in QUEST	March 1997	A not-for-profit corporation that provides behavioral health managed care services.
The Rehab Center (ERC)	ECH has a 51% interest in ERC	June 1992	A limited partnership that operates a rehab center.
<b>Other joint ventures accounted for at cost</b>			
Cassatt Insurance Company, Ltd (CA)	ECH has a 3.59% interest in CA	June 1991	A risk retention group that provides coverage for the primary layer of professional and general liability, beginning July 1, 1991. WSH filed to withdraw from CA effective June 30, 2014.
Community Hospital Alternative for Risk Transfer (CHART)	GSH has a 6.55% interest in CHART	January 2002	A risk retention group that provides coverage for the primary layer of professional and general liability. Effective January 1, 2016 WSH filed to withdraw from CHART effective January 1, 2016.

Certain board members of YH, GH, ECH, GSH, WPH, WMG, WHCS, and WSS also serve as board members of WSH.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of WSH and its sole member corporations and equity investments, with the exception of the joint ventures where WSH has less than 50% control or does not exercise meaningful control. Joint ventures where WSH has 50% control or more and total management responsibilities are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### **2. Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

Financial instruments consist of cash equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable, accounts payable and accrued expenses, interest rate swap agreements, and long-term debt. The carrying amounts reported on the consolidated balance sheets for financial instruments (except investments in certain limited partnerships and long-term debt) approximate fair value. As prescribed by GAAP, long-term debt is carried at historical cost and investments in limited partnerships are carried at equity method or at cost depending upon the extent of WSH's influence and control.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The carrying amount approximates fair value because of the short maturity of these instruments. Cash balances are principally uninsured and are subject to normal credit risks. At June 30, 2017 and 2016, and at various times during the year, WSH maintained cash-in-bank balances in excess of the \$250 general deposit federally insured limits.

#### **Net Patient Accounts Receivable**

Net patient accounts receivable and net patient service revenue, less the provision for bad debts, are recorded at estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### **2. Significant Accounting Policies (continued)**

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts.

There have been no significant changes in the current year to the underlying assumptions used by WSH to estimate the allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patients themselves have been exhausted, WSH may place certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by WSH. Patient accounts receivable are written off after collection efforts have been followed in accordance with WSH policies. Overall, the total write-offs of uncollectible accounts and allowances on self-pay patient accounts have not changed significantly since June 30, 2016.

### **Assets Limited as to Use and Investments**

Assets limited as to use primarily include assets held by trustees under bond indenture agreements included within board-designated, self-insurance trust, and designated assets set aside by the Board of Directors. Investment income from these assets is available for current operations of WSH. Certain bond indentures require funds to be deposited with a trustee for future debt service requirements. The assets have been classified as current or long-term to match the designation of the obligation they are intended to satisfy. Investments in debt and equity securities, mutual funds, and money market funds, with readily determinable fair values are measured at fair value based on quoted market prices. WSH and the WSH retirement plans also hold investments in limited partnerships (LPs) as a conduit for investing that are not actively traded. Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at cost if the ownership percentage is less than 5% and are reported based upon net asset values derived from the application of the equity method of accounting if the ownership percentage is greater than 5%. The equity method reflects WSH's share of the net asset value of the funds. Investments held by the retirement plan are stated at fair value based upon, as a practical expedient, net asset values which is based on the unit values of the interests as determined by the issuer sponsoring such interests dividing the fund's net assets at fair value by its units outstanding at the valuation dates. When an investment converts from cost to the equity method, WSH records the difference between the fair

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

value and cost on the consolidated statement of operations at the time this decision is made. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Notes 5 and 12.

WSH's board-designated and other unrestricted investments are designated as a trading portfolio in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Entities* (the Guide). The Guide requires that changes in unrealized gains and losses on marketable securities designated as trading be reported within excess of revenues over expenses.

Investment income, realized gains and losses, unrealized gains and losses on trading securities, and other-than-temporary losses on investment transactions (for other-than-trading securities) are included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law. Realized gains and losses for all investments sold are determined on a specific-identification basis. Unrealized gains and losses on other-than-trading investments and assets limited as to use are excluded from the excess of revenues over expenses, and are included as a component of other changes in unrestricted net assets, to the extent that such losses are considered temporary. Investments designated as other-than-trading are periodically reviewed for impairment conditions, including the magnitude and duration of the decline that indicate the occurrence of an other-than-temporary decline. If such conditions exist, the investment's cost is then written down to its current market value. WSH did not identify the occurrence of other-than-temporary declines in fair value for the years ended June 30, 2017 or 2016.

Investment securities and limited partnerships, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risks associated with certain investment securities and limited partnerships, it is reasonably possible that changes in the value of investments could occur in the short-term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

#### Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value and are composed of the following:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Pharmaceutical drugs	\$ 9,130	\$ 8,649
Medical supplies	12,455	13,137
Computer supplies	300	142
	<u>\$ 21,885</u>	<u>\$ 21,928</u>

#### Property and Equipment

Property and equipment acquisitions are recorded at cost. Net 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.

Costs associated with the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are expensed when incurred. WSH removes the cost and the related accumulated depreciation from the accounts for assets sold or retired, and resulting gains or losses are included on the accompanying consolidated statements of operations.

Donated assets are recorded at their fair value at the date of donation. 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.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

Depreciation and amortization is provided over the estimated useful life of each class of depreciable asset and is computed by the straight-line method. Equipment under capital leases is amortized on a straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

#### Capitalized Software Costs

Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and the nature of the costs. Capitalized software costs include software in process of \$46,766 and \$16,384 as of June 30, 2017 and 2016, respectively. Capitalized software costs consist of:

	June 30	
	2017	2016
Capitalized software costs	\$ 63,418	\$ 16,384
Less accumulated amortization	(208)	—
Net capitalized software costs	<u>\$ 63,210</u>	<u>\$ 16,384</u>

Capitalized software costs are amortized over its expected useful life of ten years. Amortization expense related to capitalized software was \$208 and \$0 in 2017 and 2016, respectively.

Capitalized software costs of \$16,384 as of June 30, 2016 were reclassified from property, plant, and equipment to other assets in the June 30, 2017 consolidated balance sheet.

#### Deferred Financing Costs

Financing costs incurred in connection with long-term financing have been deferred and are being amortized on a straight-line basis over the life of the related debt. Deferred financing costs are recorded as a reduction of long-term debt in the consolidated financial statements.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### **2. Significant Accounting Policies (continued)**

#### **Self-Insurance Costs**

The provision for estimated medical malpractice, workers' compensation, and employee health claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

#### **Derivative Financial Instruments**

The interest rate swap agreements are used by WSH to manage interest rate exposures and to hedge the changes in cash flows on variable rate revenue bonds. These types of derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from interest rate movements is expected to offset the market risk of the liability being hedged.

WSH recognizes the interest rate swap agreements on the consolidated balance sheets at fair value. Management has determined that WSH's interest rate swap agreements do not qualify as hedges for financial reporting purposes. Consequently, the changes in the fair value of WSH's interest rate swap agreements are included as a component of excess of revenues over expenses on the consolidated statements of operations.

#### **Temporarily and Permanently Restricted Investments and Net Assets**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support 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 the purpose for the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported on 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 financial statements.

Permanently restricted net assets represent WSH's beneficial interest in perpetual trusts recorded at fair value. Beneficial interests in perpetual trusts are reported at fair value, with WSH's share determined by its interest percentage in the trust. Annual changes in fair value are reported as increases or decreases in permanently restricted net assets.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

#### Endowments

WSH's endowments consist of individual funds established for specific purposes and consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions.

WSH classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization. WSH considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of WSH and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of WSH
- The investment policies of WSH

WSH has adopted investment policies for its endowment assets that are consistent with the policies and objectives of its overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor requires WSH to maintain in perpetual duration. Deficiencies of this nature are reported in unrestricted net assets in accordance with U.S. generally accepted accounting principles.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Excess of Revenues Over Expenses**

The consolidated statements of operations include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on other-than-trading assets limited as to use and investments to the extent losses are deemed temporary, 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) and changes in accrued retirement benefits.

##### **Other Revenue**

Other revenue for the years ended June 30, 2017 and 2016, consists primarily of WRx's prescription sales of \$41,867 and \$39,670, respectively. GSHMC had other revenue of \$7,438 and \$5,251 for the years ended June 30, 2017 and 2016, respectively. Investment income from assets limited as to use under bond indenture agreements, cafeteria sales, grant revenues, electronic health record (EHR) incentive revenues, and other non-patient service revenue are also included in other revenue.

##### **Charity Care**

For patients who meet certain criteria under its charity care policy, WSH provides care without charge or at amounts less than its established rates. Because WSH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

##### **Federal and State Income Taxes**

WSH, the six hospitals (ECH, GH, GSH, WPH, WSS, and YH), the four foundations (ECHF, GHF, GSHSF, and YHF), and the ten other not-for-profits engaged in health services (AHSCI, GSPS, HCP, NLCMG, PSNLCMG, VNACS, VNAHHS, WHCS, WMG, and WP) are tax-exempt organizations under Section 501(c)(3), and GSRE is tax-exempt under 501(c)(2), of the Internal Revenue Code. Therefore, these entities will not incur any liability for federal income tax, except for possible unrelated business income.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### **2. Significant Accounting Policies (continued)**

WRx, GSS, GSHMC, GSR, AHCA, EHPCA, WPHS, and WPN are subject to federal and state income taxes. The estimated taxes for the taxable income are not significant and are provided for on the consolidated statements of operations. At June 30, 2017, it was more likely than not that WSH taxable entities' net operating loss and carryovers would be utilized before expiring. The net deferred tax asset as of June 30, 2017 was \$3,542.

No federal or state income taxes have been provided for AHSCP, CTCC, and LHCP, in the accompanying consolidated financial statements, as they are not payable by these entities. The partners are to include their respective share of these entities' profits or losses in their individual tax returns.

WRRRG is a reciprocal risk retention group formed under the federal Liability Risk Retention Act of 1986. WRRRG qualifies as an insurance company for federal income tax purposes. WRRRG is domiciled in Vermont (VT), and operates within the states of Pennsylvania (PA) and Maryland (MD). VT, PA, and MD do not impose a corporate income tax on insurance companies.

Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by WSH. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken. WSH has recognized no interest or penalties related to uncertain tax positions. WSH is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that WSH is no longer subject to income tax examinations for years prior to 2013.

### **Good Samaritan Hospital Acquisition**

On July 1, 2015 (the GSH Acquisition Date), WSH acquired GSH, GSHSF, GSPS, GSRE, GSR, GSHMC, GSS, and GSPHO, which is composed of a 189-bed, acute care hospital; two real estate companies; physician practice organization; durable medical equipment company; foundation; and a physician hospital alliance located in and around Lebanon, Pennsylvania. WSH acquired by means of an inherent contribution where no consideration was transferred by WSH. WSH accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the GSH Acquisition Date. The results of the operations have been included in the consolidating financial statements since the GSH Acquisition Date.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 2. Significant Accounting Policies (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the GSH Acquisition Date, July 1, 2015:

<b>Assets</b>	
Cash and cash equivalents	\$ 2,885
Patent accounts receivable	24,373
Other receivable	1,739
Inventories	1,934
Prepaid expenses	3,580
Board-designed investments	29,438
Pledge receivables	2,083
Property and equipment, net	92,282
Investments in joint ventures	5,853
Other assets	19,204
Total assets acquired	<u>\$ 183,371</u>
 <b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 25,072
Accrued salaries and wages	8,803
Third-party payor settlements	3,591
Accrued retirement benefits	43,016
Self-insurance reserves	5,147
Long-term debt	67,767
Total liabilities assumed	<u>153,396</u>
Excess of assets acquired over liabilities assumed	<u>\$ 29,975</u>
 <b>Net assets acquired</b>	
Unrestricted	\$ 23,105
Temporary restricted	6,182
Permanently restricted	688
Excess of assets acquired over liabilities assumed	<u>\$ 29,975</u>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 2. Significant Accounting Policies (continued)

Other assets include the following intangible assets:

	<b>Fair Value as of Acquisition Date</b>	<b>Estimated Life</b>
Medical records	\$ 3,302	10 years
Trade name	3,370	20 years
	\$ 6,672	

The following table summarizes amounts attributable to GSH, GSHSF, GSPS, GSRE, GSR, GSHMC, GSS, and GSPHO since the GSH Acquisition Date, period from July 1, 2015 to June 30, 2016, that are included in the accompanying consolidated financial statements:

Total revenues, gains, and other support	\$ 209,988
Total operating expenses	225,860
Operating loss	(15,872)
Total other income	1,009
Deficiency of revenues over expenses	\$ (14,863)
Change in net assets:	
Unrestricted net assets	\$ (14,863)
Temporarily restricted net assets	569
Permanently restricted net assets	28
Total change in net assets	\$ (14,266)

#### WellSpan Philhaven Hospital Acquisition

On January 1, 2016 (the WPH Acquisition Date), WSH acquired WPH, a mental and behavioral health inpatient and outpatient provider located in and around Lebanon, Pennsylvania. WSH agreed to contribute a total of \$7,260 to the Lancaster Mennonite Conference to create an unrelated charitable foundation. WSH acquired by WPH means of an inherent contribution where no other consideration was transferred by WSH. WSH accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 2. Significant Accounting Policies (continued)

received, all assets acquired and liabilities assumed were measured at fair value as of the WPH Acquisition Date. The results of the operations have been included in the consolidating financial statements since the WPH Acquisition Date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the WPH Acquisition Date, January 1, 2016:

<b>Assets</b>	
Patent accounts receivable	\$ 11,633
Other receivable	2,436
Inventories	11
Prepaid expenses	1,297
Board-designed investments	6,368
Pledge receivables	349
Note receivable	340
Property and equipment, net	30,775
Investments in joint ventures	890
Deferred financing cost	3
Other assets	3,197
Total assets acquired	<u>\$ 57,299</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 8,437
Accrued salaries and wages	3,634
Advances from third-party payors	46
Accrued retirement benefits	13
Self-insurance reserves	1,197
Long-term debt	7,417
Total liabilities assumed	<u>20,744</u>
Excess of assets acquired over liabilities assumed	<u>\$ 36,555</u>
<b>Net assets acquired</b>	
Unrestricted	\$ 35,253
Temporary restricted	706
Permanently restricted	596
Excess of assets acquired over liabilities assumed	<u>\$ 36,555</u>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 2. Significant Accounting Policies (continued)

Other assets include the following intangible assets:

	<b>Fair Value as of Acquisition Date</b>	<b>Estimated Life</b>
Medical records	\$ 571	10 years
Trade name	2,626	20 years
	<u>\$ 3,197</u>	

The following table summarizes amounts attributable to WPH since the WPH Acquisition Date, period from January 1 to June 30, 2016, that are included in the accompanying consolidated financial statements:

Total revenues, gains, and other support	\$ 32,251
Total operating expenses	32,382
Operating loss	(131)
Total other income	274
Excess of revenues over expenses	<u>\$ 143</u>
Change in net assets:	
Unrestricted net assets	\$ 143
Temporarily restricted net assets	(95)
Permanently restricted net assets	(7)
Total change in net assets	<u>\$ 41</u>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 2. Significant Accounting Policies (continued)

The following table represents unaudited pro forma financial information, assuming the acquisition of WPH had taken place July 1, 2016. The pro forma information includes adjustments for amortization of intangible assets. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the WPH Acquisition Date.

	<u>2016</u>
Total revenues, gains, and other support	\$ 1,997,640
Total operating expenses	<u>1,921,682</u>
Operating income	75,958
Total other income	<u>33,494</u>
Excess of revenues over expenses	<u>\$ 109,452</u>
Change in net assets:	
Unrestricted net assets	\$ 100,820
Temporarily restricted net assets	5,838
Permanently restricted net assets	<u>1,224</u>
Total change in net assets	<u>\$ 107,882</u>

#### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for WSH for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. WSH has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. ASU 2015-07 amends the disclosures required for investments for which fair value is measured at net asset value using the practical expedient. Under ASU 2015-07, these investments are no longer required to be disclosed in the fair value hierarchy table. WSH adopted ASU 2015-07 in the first quarter of fiscal year 2017 and applied it retrospectively to all periods presented. The adoption of ASU 2015-07 did not have an effect on the consolidated financial statements other than disclosures in the notes to the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, that requires management of public and non-public companies to evaluate and disclose where there is substantial doubt about an entity’s ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Early application is permitted. WSH adopted the provisions of this standard for the year ended June 30, 2017. This adoption had no impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset. This change will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected. The provisions of ASU 2015-03 are effective for WSH for annual reporting periods beginning after December 15, 2015, with retrospective application to all periods presented. WSH adopted ASU 2015-03 in fiscal year 2017. As a result, \$3,011 of debt issuance costs have been reclassified from other assets to long-term debt on the accompanying 2016 consolidated balance sheet.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If certain criteria are met, an entity may account for such an arrangement under the internal use software guidance included in ASC 350-40, *Internal-Use Software*, whereby amounts are capitalized. If such criteria are not met, the cloud computing

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

arrangement is considered a service contract and the related costs are expensed as incurred. ASU 2015-05 is effective for public business entities for fiscal years beginning after December 15, 2015 with the option to apply the guidance prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. WSH adopted ASU 2015-05 prospectively as of July 1, 2016 with no material impact to the 2017 consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, WSH will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other than trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. WSH has not completed the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for WSH for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted, and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets,

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

investment expenses, and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for WSH for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for WSH for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for WSH for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost on the income statement. Employers will be required to present the service cost component of net periodic benefit cost in

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 2. Significant Accounting Policies (continued)

the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for WSH for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require WSH to present the components of net periodic benefit cost related to its defined benefit plan other than service cost (in aggregate, approximately \$17,350 for the year ended June 30, 2017) as a separate line item excluded from the subtotal for operating income on the consolidated statements of operations. The service cost component will be presented in the salaries and wages line, which represents approximately \$10,300 for the year ended June 30, 2017. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of operations.

### 3. Net Patient Service Revenue

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

- **Medicare and Medicaid** – Net revenue from the Medicare and Medicaid programs accounted for approximately 40% and 43% of WSH's net patient service revenue for each of the years ended June 30, 2017 and 2016, respectively. Inpatient acute care services provided to Medicare and Medicaid 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. WSH is reimbursed for certain cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by WSH and audits thereof by Medicare. WSH's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with WSH. Medicare reimburses for most outpatient services on the Outpatient Prospective Payment System. Medicaid outpatient services are paid based on a fee schedule. YH, GH, WSS, ECH, and GSH Medicare cost reports have been audited by the Medicare fiscal intermediary for the periods ending June 30, 2014 and prior. YH, GH, WSRH, ECH, and GSH Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2014. 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.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 3. Net Patient Service Revenue (continued)

- **Blue Cross** – Net revenue for services provided under Blue Cross/Blue Shield contracts accounted for approximately 31% and 32% of WSH net patient service revenues for the years ended June 30, 2017 and 2016. Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed primarily on a discount from established charge basis.

WSH has also entered into payment agreements with certain other commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment to WSH under these agreements is primarily on a discount from established charges but also includes a prospectively determined per-member per-month rate and prospectively determined fee schedules.

For patient receivables associated with self-pay patients, including patients with deductible and co-payment balances, for which third-party coverage provides for a portion of the services provided, WSH records an estimate for uncollectible accounts in the year of service. Overall, the total write-offs of uncollectible accounts and allowances as a percentage of accounts receivable on self-pay patient accounts have not changed significantly since June 30, 2016.

WSH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Medicare	<b>34%</b>	35%
Medicaid	<b>18</b>	19
Blue Cross/Blue Shield	<b>12</b>	12
Other third-party payors	<b>27</b>	22
Self-pay	<b>9</b>	12
	<b>100%</b>	<b>100%</b>

# WellSpan Health

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

### **4. Charity Care and Community Service**

WSH's tax-exempt organizations' patient acceptance policies are based upon their mission statements and charitable purposes. Accordingly, WSH accepts all patients regardless of their ability to pay. For patients who meet the criteria of its charity service policy, WSH provides services 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. This policy results in WSH's assumption of higher-than-normal patient receivable credit risk. To the extent that WSH realizes additional losses resulting from such higher credit risks and patients are not identified or do not meet WSH's defined charity care policy, such additional losses are included in the provision for bad debts.

WSH maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges forgone based on established rates for services and supplies furnished under its charity care and community service policies and the estimated cost of those services. The amount of charity care provided based on WSH's direct and indirect costs, offset by revenue received from indigent care pools and other subsidies, was approximately \$15,782 and \$16,201 for the years ended June 30, 2017 and 2016, respectively. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

Additionally, WSH sponsors certain other service programs and charity services which provide substantial benefit to the greater community. Such programs include patient visits in outpatient clinics, mental health services, other outpatient clinical services, and health care education programs. These programs serve a large portion of the indigent, elderly, diabetic, and other underserved patient populations. The estimated unreimbursed cost of providing these programs and services was approximately \$30,795 and \$25,152 for the years ended June 30, 2017 and 2016, respectively.

WSH participates in the Medicare program. Medicare is a federally funded program which provides health insurance coverage for individuals who are 65 or older, or who meet other special criteria. Payments from Medicare as described in Note 3 are generally less than WSH's costs of providing the service to Medicare beneficiaries. Unpaid costs in excess of payments received for the Medicare program were approximately \$187,403 and \$151,849 for the years ended June 30, 2017 and 2016, respectively. The unpaid costs are estimated by utilizing an entity wide ratio of operating costs against gross patient revenues applied to the payor level.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 4. Charity Care and Community Service (continued)

WSH also participates in the Pennsylvania Medical Assistance (PMA) 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 PMA are generally less than WSH's costs of providing the service. Unpaid costs in excess of payments received for the PMA program were approximately \$150,578 and \$123,378 for the years ended June 30, 2017 and 2016, respectively. The unpaid costs are estimated by utilizing an entity wide ratio of operating costs against gross patient revenues applied to the payor level.

#### 5. Investments

##### Assets Limited as to Use and Investments

The composition of assets limited as to use is set forth in the following table.

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Board-designated:		
WSH Master Trust	\$ 936,828	\$ 812,344
Money market fund	91,692	74,297
Mutual funds	17,390	17,692
Investment contract	–	7,623
Land investment, at cost	6,987	6,987
Government-sponsored enterprise mortgage-backed securities	5,908	1,112
Corporate debt securities	10,758	12,320
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	11,541	13,118
	\$ 1,081,104	\$ 945,493
Self-insurance trust:		
Corporate debt securities	\$ 9,321	\$ 7,314
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	10,954	11,512
Less: Trustee-held assets for current self-insurance	(6,114)	(5,794)
	\$ 14,161	\$ 13,032

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 5. Investments (continued)

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Temporarily restricted investments:		
Cash and short-term investments	\$ 1,073	\$ 880
Mutual funds	2,219	474
WSH Master Trust	8,522	7,588
	\$ 11,814	\$ 8,942
 Permanently restricted investments:		
Mutual funds	\$ 1,136	\$ 2,113
WSH Master Trust	4,198	3,823
	\$ 5,334	\$ 5,936
 Beneficial interest in perpetual trusts:		
Mutual funds held by other trustees	\$ 18,983	\$ 17,837

#### WSH Master Trust

WSH maintains the WSH Master Trust for certain funds classified in investments and assets limited as to use on the accompanying consolidated balance sheets. The WSH Master Trust is composed of the following, by restriction category:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Board-designated	\$ 936,828	\$ 812,344
Temporarily restricted	8,522	7,588
Permanently restricted	4,198	3,823
	\$ 949,548	\$ 823,755

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 5. Investments (continued)

A summary of the assets of the WSH Master Trust is as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Investments, at fair value</b>		
Commodities/real return	\$ 35,293	\$ 34,058
Equity securities	177,377	122,636
Stock index fund	61,261	50,785
Collective mutual funds and investment trusts	569,135	513,392
	<b>843,066</b>	<b>720,871</b>
 <b>Alternative investments, recorded under the equity method</b>		
Real estate, limited partnerships	38,165	39,799
Private equity, limited partnership	2,348	—
	<b>40,513</b>	<b>39,799</b>
 <b>Alternative investments, recorded at cost</b>		
Absolute return, limited partnerships	45,263	42,427
Real estate, limited partnerships	2,130	1,938
Private equity, limited partnership	18,576	18,720
	<b>65,969</b>	<b>63,085</b>
	<b>\$ 949,548</b>	<b>\$ 823,755</b>

Certain real estate, private equity, and absolute return limited partnership investments are adjusted to and are carried at cost because WSH does not have a controlling interest in the related partnerships and the fair value is not readily determinable. The unaudited fair value of these limited partnership investments exceeded the cost basis of these investments by \$1,862 and \$1,718 as of June 30, 2017 and 2016, respectively.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 5. Investments (continued)

Interest and dividend income, net of investment expenses and gains (losses) for assets limited as to use, cash equivalents, and investments are composed of the following:

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Investment income (loss)</b>		
Interest and dividend income	\$ 16,099	\$ 19,213
Change in net unrealized gains and losses on trading securities	72,980	(44,610)
Net realized gain on sales of securities	18,255	2,315
	<b>\$ 107,334</b>	<b>\$ (23,082)</b>
 <b>Other changes in unrestricted net assets</b>		
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	<b>\$ (566)</b>	<b>\$ 375</b>

#### 6. Fair Value Measurements

As of June 30, 2017, WSH held certain assets that are required to be measured at fair value on a recurring basis. These include certain board-designated, restricted, trustee, and other investments and derivatives. WSH's alternative investments are measured using either the cost or equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, include:

- Level 1 – Quoted prices for identical assets or liabilities in active markets
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations whose inputs are observable or whose significant value drivers are observable
- Level 3 – Instruments which have unobservable inputs that are supported by little to no market activity and are significant to the fair value of the assets or liabilities

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 6. Fair Value Measurements (continued)

Other investments measured at fair value represent funds included on the balance sheet that are reported using the net asset value (NAV) practical expedient as prescribed by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to the balance sheet date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, WSH uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers non-performance risk in its assessment of fair value. Financial assets carried at fair value are classified in the table below in one of the three categories described above.

	<b>June 30, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>WSH Master Trust</b>				
Commodities/real return	\$ 35,293	\$ 35,293	\$ —	\$ —
Domestic equity securities	177,377	177,377	—	—
Stock index fund	61,261	61,261	—	—
Collective mutual funds and investment trusts:				
International equity	210,466	—	210,466	—
Emerging markets	42,693	—	42,693	—
Fixed income funds	223,607	—	223,607	—
Emerging market debt	38,673	—	38,673	—
Global asset allocation	47,483	—	47,483	—
Cash and cash equivalents	6,213	6,213	—	—
Total collective mutual funds and investment trusts	569,135	6,213	562,922	—
		\$ 280,144	\$ 562,922	\$ —
Alternative investments, recorded under the equity method:				
Real estate, limited partnerships <sup>(1)(2)</sup>	38,165			
Private equity, limited partnership <sup>(4)</sup>	2,348			
Total WSH Master Trust	\$ 883,579			

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 6. Fair Value Measurements (continued)

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
<b>Other assets</b>				
Cash and cash equivalents agencies	\$ 160,311	\$ 160,311	\$ –	\$ –
Mutual funds	20,745	16,677	4,068	–
Beneficial interest in perpetual trusts*	18,983	–	–	18,983
Government-sponsored enterprise mortgage-backed securities	5,908	–	5,908	–
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	22,495	–	22,495	–
Corporate debt securities	20,079	–	20,079	–
Total other assets	248,521	176,988	52,550	18,983
	1,132,100	457,132	615,472	18,983
<b>Liabilities</b>				
Interest rate swap agreements	(50,003)	–	(50,003)	–
	\$ 1,082,097	\$ 457,132	\$ 565,469	\$ 18,983

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 6. Fair Value Measurements (continued)

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>WSH Master Trust</b>				
Commodities/real return	\$ 34,058	\$ 34,058	\$ —	\$ —
Domestic equity securities	122,636	122,636	—	—
Stock index fund	50,785	50,785	—	—
Collective mutual funds and investment trusts:				
International equity	158,715	—	158,715	—
Emerging markets	33,976	—	33,976	—
Fixed income funds	209,128	—	209,128	—
Emerging market debt	34,782	—	34,782	—
Global asset allocation	42,145	—	42,145	—
Cash and cash equivalents	34,646	34,646	—	—
Total collective mutual funds and investment trusts	513,392	34,646	478,746	—
		\$ 242,125	\$ 478,746	\$ —
Alternative investments, recorded under the equity method:				
Real estate, limited partnerships <sup>(1)(2)</sup>	39,799			
Total WSH Master Trust	\$ 760,670			
<b>Other assets</b>				
Cash and cash equivalents agencies	\$ 185,596	\$ 185,596	\$ —	\$ —
Investment contract <sup>(3)</sup>	7,623	—	—	7,623
Mutual funds	20,279	15,348	4,931	—
Beneficial interest in perpetual trusts*	17,837	—	—	17,837
Government-sponsored enterprise mortgage-backed securities	1,112	—	1,112	—
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	24,630	—	24,630	—
Corporate debt securities	19,634	—	19,634	—
Total other assets	276,711	200,944	50,307	25,460
	1,037,381	443,069	529,053	25,460
<b>Liabilities</b>				
Interest rate swap agreements	(70,126)	—	(70,126)	—
	\$ 967,255	\$ 443,069	\$ 458,927	\$ 25,460

\*Beneficial interest in perpetual trusts consists of investments in various securities not under WSH control.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 6. Fair Value Measurements (continued)

- <sup>(1)</sup>This asset is an investment in Siguler Guff Distressed Real Estate Opportunities Fund, LP (Siguler Guff). The estimated fair market value of this investment is determined by the total net assets of the fund attributable to common shares, divided by the number of common shares outstanding. The total net asset value of the fund is determined by the market value of the underlying investments if they are securities listed on a national securities exchange or traded over the counter. For those securities not openly traded, the investment manager generally utilizes the most recent relevant information or performance reports of such managed account or investment partnership, unless the investment manager determines some other valuation is more appropriate. On an annual basis, Siguler Guff provides audited financial statements from independent audit firms for review. This company has an unfunded commitment of \$1,500. This investment has redemption restrictions at the discretion of the general partner. There is no redemption notice period.
- <sup>(2)</sup>This asset is an investment in Guggenheim Real Estate Commingled Trust (Guggenheim). The investment includes interests in a collection of publicly traded securities, property funds, direct property investments, and mezzanine financings. The publicly traded securities and property funds are valued at the last reported sales price on the last day of the period. The direct property investments are initially recorded at the total cost to acquire the properties and subsequently these values are adjusted based on the opinions of value obtained quarterly from independent real estate investment managers. The mezzanine financings are valued based on fair market values determined by the Guggenheim Real Estate Commingled Trust based upon an estimate of realized proceeds from the hypothetical liquidation. On an annual basis, the Guggenheim Real Estate Commingled Trust provides a copy of its audited financial statements from an independent audit firm for review. There is no redemption notice period.
- <sup>(3)</sup>A portion of the proceeds from the debt issuance on November 11, 2014, were deposited into a project fund under an investment contract dated December 19, 2014, for purposes of financing capital projects. The investment agreement provider is contractually obligated to pay interest on the balance in the project fund at 0.66%. The investment contract terminated on November 1, 2016. Draws from the project fund were processed through the debt trustee. The balance in the project fund at June 30, 2016 was \$7,623. The project fund was recorded at contract value, which approximated fair value.
- <sup>(4)</sup>This asset is an investment in Private Advisors Small Company Coinvestment Fund, LP (Private Advisors). WSH's investment in Private Advisors exceeds 5% ownership interest. The estimated fair market value of this investment is determined by the total net assets of the fund attributable to common shares, divided by the number of common shares outstanding. The total net asset value of the fund is determined by the market value of the underlying investments if they are securities listed on a national securities exchange or traded over the counter. For those securities not openly traded, the investment manager generally utilizes the most recent relevant information or performance reports of such managed account or investment partnership, unless the investment manager determines some other valuation is more appropriate. On an annual basis, Private Advisors provides audited financial statements from independent audit firms for review. This company has an unfunded commitment of \$6,714. This investment has redemption restrictions at the discretion of the general partner. There is no redemption notice period.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 6. Fair Value Measurements (continued)

On an annual basis, WSH assesses the fair value hierarchy for each asset or liability measured at fair value. From time to time, assets or liabilities will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies.

WSH's Level 1 securities primarily consist of commodities/real return, equities, equity mutual funds, money market funds, and cash. WSH determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

WSH's Level 2 securities primarily consist of debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, government-sponsored enterprise mortgage-backed securities, corporate debt, and collective mutual funds and investment trusts. WSH determines the estimated fair value for its Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time), inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves volatilities, default rates), and inputs that are derived principally from or corroborated by other observable market data.

There were no material transfers between Levels 1 and 2 during the years ended June 30, 2017 or 2016.

The following table sets forth a summary of changes in the fair value of the Level 3 assets:

Balance at June 30, 2015	\$ 76,047
Realized and unrealized gains and losses	(25)
Sales, issuances, and settlements	<u>(50,562)</u>
Balance at June 30, 2016	25,460
Realized and unrealized gains and losses	<b>1,146</b>
Sales, issuances, and settlements	<b><u>(7,623)</u></b>
Balance at June 30, 2017	<b><u><u>\$ 18,983</u></u></b>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 6. Fair Value Measurements (continued)

The fair value of investments carried at cost excluding land are the following:

	Total Fair Value		Unfunded Commitments	Redemption	
	June 30 2017	2016		June 30, 2017	Frequency
<b>Absolute return</b>					
Multi-strategy <sup>(a)</sup>	\$ 46,180	\$ 41,571	\$ –	Quarterly	65 days
<b>Real estate</b>					
Opportunistic <sup>(b)</sup>	2,248	2,124	–	N/A	N/A
<b>Private equity<sup>(c)</sup></b>	<b>19,403</b>	21,107	<b>15,754</b>	N/A	N/A
	<b>\$ 67,831</b>	\$ 64,802	<b>\$ 15,754</b>		

<sup>(a)</sup> This class includes investments in hedge fund of funds that invest in multiple strategies, including long and short equity, other non-directional, distressed securities, convertible arbitrage, and fixed income arbitrage. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

<sup>(b)</sup> This class includes real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of WSH's ownership interest in the partners' capital. Distributions from the fund will be received as the underlying investments of the funds are liquidated and distributed by the fund manager. It is estimated that the underlying assets of the fund will be liquidated over seven to ten years from the inception of the fund.

<sup>(c)</sup> This class includes several private equity funds that invest primarily in domestic companies. Distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the fund will be liquidated over five to ten years from the fund's inception.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 7. Property and Equipment

The following is a summary of property and equipment:

	<b>Estimated Useful Life</b>	<b>June 30 2017</b>	<b>2016</b>
Land		\$ 25,813	\$ 24,068
Land improvements	5 to 25 years	23,160	22,936
Buildings and building equipment	10 to 40 years	911,756	869,436
Fixed equipment	5 to 25 years	72,657	70,983
Major movable equipment	3 to 20 years	631,706	594,934
Construction-in-progress		30,999	35,418
		<b>1,696,091</b>	1,617,775
Less accumulated depreciation		<b>(924,551)</b>	(882,057)
Property and equipment, net		<b>\$ 771,540</b>	\$ 735,718

Depreciation expense for the years ended June 30, 2017 and 2016, was \$84,623 and \$83,385, respectively.

WSH has outstanding purchase commitments related to various construction projects of approximately \$11,071 and \$12,786 at June 30, 2017 and 2016, respectively.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 8. Long-Term Debt

Long-term debt consists of the following:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Fixed rate debt</b>		
2008 General Authority of South Central Pennsylvania Revenue Refunding Bonds, Series A, fixed rate interest, maturing in June 2037, collateralized by certain assets and gross receipts of YH, GH, and ECH, net of unamortized discount of \$1,672 and \$1,757 at June 30, 2017 and 2016, respectively	<b>\$ 61,237</b>	\$ 63,624
2014 General Authority of South Central Pennsylvania Revenue Refunding Bonds, Series A, fixed rate interest, maturing in June 2044, collateralized by certain assets and gross receipts of YH, GH, and ECH, net of unamortized premium of \$17,322 and \$17,967 at June 30, 2017 and 2016, respectively	<b>223,192</b>	226,492
2017 bank loan dated March 14, 2017, fixed rate interest	<b>100,000</b>	–
GSH Small Business Administration loan, secured by mortgage on real property, fixed rate interest, maturing in November 2018	<b>227</b>	429
ECH bank loan dated December 21, 2015, fixed rate interest, maturing in June 2032, uncollateralized	<b>740</b>	925
<b>Variable rate debt</b>		
2008 General Authority of South Central Pennsylvania Revenue Bonds, Series B1-D, variable rate demand bond interest, collateralized by certain assets and gross receipts of YH, GH, and ECH	<b>211,701</b>	211,701
2015 Lancaster Municipal Authority Revenue Bonds, Series A, variable rate demand bond interest, maturing in June 2041, collateralized by certain assets and gross receipts of YH, GH, and ECH	<b>33,727</b>	35,134

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 8. Long-Term Debt (continued)

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Variable rate debt (continued)</b>		
2015 Lancaster Municipal Authority Revenue Bonds, Series B, variable rate demand bond interest, maturing in June 2041, collateralized by certain assets and gross receipts of YH, GH, and ECH	\$ 4,841	\$ 5,044
GSH bank loan, dated January 10, 2008, secured by mortgage on real property, variable interest rate, due January 2020	1,668	1,758
WPH Eastern Mennonite Missions promissory note, shared first mortgage on real property, variable interest due June 2020	1,039	1,368
WPH Everence Financial Credit Union dated June 5, 2005, secured by mortgage on real property, variable interest due June 2017	–	93
WPH bank loan, secured by mortgage on real property, interest at 4.25%, due January 2022	271	326
WPH bank loan, secured by mortgage on real property, interest at 4.55%, due November 2028	494	526
AHSCP bank loan, variable interest rate, dated August 15, 2000, collateralized by certain assets	1,021	1,270
WP/ECH bank loan, variable interest rate, dated March 28, 2011, uncollateralized	11,072	5,153
WP bank loan, variable interest rate, dated June 20, 2014, uncollateralized	694	694
GH bank loan, variable interest rate, dated March 30, 2007, collateralized by certain assets	–	231
GH bank loan, variable interest rate, due December 2022, dated December 7, 2012, uncollateralized	1,395	1,485
	<b>653,319</b>	<b>556,253</b>
Less current portion	<b>(9,806)</b>	<b>(8,131)</b>
Less deferred financing cost, net	<b>(2,891)</b>	<b>(3,011)</b>
	<b>\$ 640,622</b>	<b>\$ 545,111</b>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 8. Long-Term Debt (continued)

Long-term capital lease obligations consist of the following:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
WSH capital lease obligations, fixed interest rates, collateralized by leased property	\$ <b>596</b>	\$ 3,173
Less current portion	<b>(337)</b>	(2,171)
	<b>\$ 259</b>	\$ 1,002

WSH uses quoted market prices in estimating the fair value of the revenue bonds and the carrying values of the other long-term obligations' approximate fair value. The fair value of WSH's long-term debt, excluding capital lease obligations, was \$673,865 and \$592,739 at June 30, 2017 and 2016, respectively.

On March 14, 2017, the Obligated Group (consisting of YH, GH, and ECH) obtained a taxable term loan in the amount of \$100,000 and secured by a master note. The master note is a fixed rate loan. The interest rate on the term loan is 3.33%. The amount outstanding at June 30, 2017, was \$100,000.

On November 10, 2014, the General Authority of South Central Pennsylvania (General Authority) issued the Revenue Refunding Bonds, Series 2014A to a borrower group of WP, WSS, and the Obligated Group. The proceeds from this bond issuance were \$213,430. The Series 2014A Bonds were issued by the General Authority of South Central Pennsylvania pursuant to a loan agreement dated as of November 1, 2014, with Manufacturers and Traders Trust Company, as trustee. The Series 2014A Bonds will be paid by YH, GH, ECH, WSS, and WP based on their allocated amounts; however, the payments are secured equally by the borrower group pursuant to a Master Trust Indenture dated as of June 15, 2001, as amended and supplemented by a Supplemental Master Indenture No. 17 dated as of November 1, 2014, between the Obligated Group Members and Manufacturers and Traders Trust Company, as trustee. The Series 2014A Bonds are fixed rate bonds with interest rates ranging from 2.75%–5.00%.

On November 12, 2008, the General Authority issued the Revenue Refunding Bonds, Series 2008A-D Bonds to a borrower group of WP and an Obligated Group consisting of YH and GH. The proceeds from this bond issuance were \$412,230. The 2008 Series were issued by the General Authority pursuant to a trust indenture dated as of November 1, 2008, with Manufacturers and

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 8. Long-Term Debt (continued)

Traders Trust Company, as trustee. The 2008 Series A-D Bonds will be paid by YH, GH, and WP based on their allocated amounts; however, the payments are secured equally by the borrower group pursuant to a loan agreement dated as of November 1, 2007, among the issuer, the borrower group, and a Series 2008 Master Note issued by the members of the borrower group under a master trust indenture dated as of June 15, 2001, between the borrower group and Manufacturers and Traders Trust Company, as Master Trustee. The Series 2008A Bonds are fixed rate bonds with interest rates ranging from 5.63%–6.00%. Effective November 1, 2014, \$91,535 of the Series 2008A Bonds was refinanced as part of the November 1, 2014, debt issuance. The interest rate for the Series 2008B-D Variable Rate Demand Obligations for any week may not exceed the lesser of 12% per annum or the maximum rate of interest on the obligation permitted by applicable law.

On February 1, 2011, the Series 2008B-D Bonds were restructured through an amendment to the master trust indenture. Under the terms of the restructuring, these bonds are now nonbank-qualified loans and letters of credit are not required. During the 2014 year, the Series 2008B-C Bonds issued continuing covenant agreements with various banks. Interest is paid monthly and terms range from five to ten years as follows:

- Series B was split into Series B-1 and B-2.
  - On December 1, 2012, WSH issued Series 2008B-1 in the amount of \$40,025 for a term of seven years. The interest rate ranged from 1.01% to 1.40% in 2017. The rate at June 30, 2017 and 2016, was 1.40% and 1.01%, respectively.
  - On June 1, 2013, WSH issued Series 2008B-2 in the amount of \$34,000 for a term of seven years. The interest rate ranged from .95% to 1.38% in 2017. The rate at June 30, 2017 and 2016, was 1.38% and 0.95%, respectively.
  - On December 1, 2012, WSH issued Series 2008C in the amount of \$56,740 for a term of seven years. The interest rate ranged from 1.01% to 1.40% in 2017. The rate at June 30, 2017 and 2016, was 1.40% and 1.01%, respectively.
  - On October 1, 2015, WSH issued Series 2008D in the amount of \$80,935 for a term of ten years. The interest rate ranged from 1.06% to 1.45% in 2017. The rate at June 30, 2017 and 2016, was 1.45% and 1.06%, respectively.

A minimum of 365 days' notice of non-renewal is required by the banks prior to end of the term.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### **8. Long-Term Debt (continued)**

The 2014 and 2008 bond indentures and related agreements contain certain restrictive covenants which, among other things, require the Obligated Group to maintain debt service coverage of 110% on all long-term indebtedness. The Obligated Group has complied with all financial covenants at June 30, 2017 and 2016.

On August 14, 2013, GSH obtained a Small Business Administration loan financing in the amount of \$989 to rehabilitate or replace property damaged or destroyed by disaster in September 2011. The promissory note is fixed interest at 3.25% and is secured by real property. Final maturity is on November 14, 2018. The amount outstanding at June 30, 2017 was \$227.

On December 21, 2015, ECH obtained bank financing for purposes of funding construction of a facility. The loan is interest only for a period of 18 months, after which the principal will amortize over the remaining 180 months. The interest rate is fixed at 5.25%. The loan is uncollateralized. The amount outstanding at June 30, 2017 was \$740.

On May 22, 2015, the Lancaster Municipal Authority (the Authority) issued to the Obligated Group, consisting of YH, GH, and ECH, tax-exempt \$36,572 Revenue Bonds, Series 2015A, and its federally taxable \$5,250 Revenue Bonds, Series 2015B to finance a project consisting of all or a portion of the following: (a) the refunding of certain outstanding bonds issued on behalf of Ephrata Community Hospital, including the Lancaster Municipal Authority Revenue Note, Series of 2009 (Ephrata Community Hospital Project), the Lancaster Municipal Authority Revenue Note, Series A of 2010 (Ephrata Community Hospital Project), and the Lancaster Municipal Authority Revenue Note, Series of 2013 (Ephrata Community Hospital Project); (b) the funding of any required reserves for the bonds; and (c) the payment of costs of issuance of the bonds and related costs. The bonds were issued pursuant to a trust indenture dated as of May 1, 2015, by and between the Authority and Manufacturers and Traders Trust Company, as bond trustee. The 2015 Series A and B bonds are variable rate bonds with interest rates at June 30, 2017 of 1.39% and 1.91%, respectively. The interest rates for the 2015 Series A and B bonds at June 30, 2016 were 0.96% and 1.32%, respectively.

On January 10, 2008, GSH obtained bank financing in the amount of \$2,300. The promissory note is variable rate loan secured by real property. Final maturity is January 10, 2020. The interest rate at June 30, 2017, was 2.98%. The amount outstanding at June 30, 2017, was \$1,668.

On May 5, 2005, WPH entered into a bank loan with Eastern Mennonite Missions. The security interest on the loan is certain real property. The interest rate on the loan is variable and matures on June 5, 2020. The interest rate was 4.00% at June 30, 2017.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### **8. Long-Term Debt (continued)**

On June 5, 2005, WPH entered into a bank loan with Mennonite Financial Federal Credit Union. The security interest on the loan was real property. Final maturity was on June 5, 2017. The loan was paid off in 2017.

On January 17, 2007, WPH obtained bank financing in the amount of \$700. The promissory note is fixed for a period of 60 months at 7.10% and variable thereafter. The note is secured by real property. Final maturity is on January 17, 2022. The interest rate was 4.25% at June 30, 2017.

On August 15, 2013, WPH obtained bank financing in the amount of \$604. The promissory note is fixed for a period of 60 months at 4.55% and variable thereafter. The note is secured by real property. Final maturity is on November 15, 2028. The interest rate was 4.55% at June 30, 2017.

On August 15, 2000, AHSCP obtained a mortgage in the amount of \$5,000 from a bank for the construction of the surgery center expansion and other capital equipment. The interest rate is variable, and the rates at June 30, 2017 and 2016, were 1.87% and 1.10%, respectively. Repayment is in monthly payments through June 1, 2020. All principal and interest payments on the loan have been collateralized by AHSCP assets.

WHS has an available line of credit to finance real estate acquisitions. The total available line is \$15,000. The amount outstanding under the line was at June 30, 2017 and 2016, was \$11,072 and \$5,153, respectively. The interest rate is variable and the rate at June 30, 2017 and 2016, was 2.75% and 2.00%, respectively. The note is uncollateralized and is due on demand.

WP has an additional available line of credit to finance real estate acquisition and construction. The total available line is \$20,000. The amount outstanding under the line at June 30, 2017 and 2016, was \$694. The interest rate is variable and was 3.91% and 3.35% at June 30, 2017 and 2016, respectively. The note is uncollateralized.

On March 30, 2007, GH obtained bank financing in the amount of \$2,750. The interest was equal to the one-month London Interbank Offered Rate (LIBOR) plus 1.40%. The interest rate at June 30, 2016, was 2.90%. Repayment was in monthly payments through April 2017. The note was secured by substantially all of the GH's assets. The loan was paid off in 2017.

On December 7, 2012, GH obtained financing in the amount of \$1,800 from M&T Bank. The interest rate is variable and the rate was 3.46% and 2.90% at June 30, 2017 and 2016, respectively. The note is uncollateralized and has a final maturity of December 2022.

# WellSpan Health

## Notes to Consolidated Financial Statements (continued) (In Thousands)

### 8. Long-Term Debt (continued)

On November 12, 2013, ECH entered into a master lease agreement and tax-exempt financing arrangement with a third party for various equipment. The interest rate on the lease is 3.4% and the amount outstanding at June 30, 2017 and 2016, was \$319 and \$564, respectively. ECH has accounted for this transaction as a capital lease in accordance with ASC 840, *Leases*.

On August 1, 2010, WSH, YH, and GH entered into a master lease agreement and tax-exempt financing arrangement with a third party. Through the master lease agreement, WSH, YH, and GH will lease equipment from Adams County Industrial Development Authority, a third party, which in turn serves as the lessee. The master lease agreement is composed of four groups of equipment, for which WSH, YH, and GH will receive title at the end of the respective lease terms. WSH, YH, and GH may also receive title to the equipment at an earlier date if they exercise their purchase rights per the terms of the master lease agreement. The lease was paid off during 2017. The amount outstanding at June 30, 2016, was \$1,845. WSH has accounted for this transaction as a capital lease in accordance with ASC 840.

### Maturities of Long-Term Debt

Maturities of the long-term debt outstanding, including capital leases, as of June 30, 2017, net of \$15,650 in unamortized discount and premium, are as follows:

2018	\$ 10,143
2019	10,336
2020	10,982
2021	12,129
2022	11,003
2023 and thereafter	599,322
	<u>\$ 653,915</u>

### Swap Contracts

WSH has entered into interest rate swap agreements with the intent of mitigating cash flow risk relating to change in the variable interest rates. Under the swap agreements, WSH pays interest at fixed rates and receives interest at variable rates. The swap settles on a monthly basis. The following schedule outlines the terms and fair market values of the interest rate swap agreements that are included in interest rate swap agreements on the accompanying consolidated balance sheets.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 8. Long-Term Debt (continued)

	Series 2006	Series 2005	Series 2007	Bank Note
<b>June 30, 2017</b>				
Notional amount	\$ 8,725	\$ 89,600	\$ 140,000	\$ –
Effective date	2/10/2006	6/05/2007	6/05/2007	9/21/2007
Termination date	1/01/2031	5/15/2031	6/01/2037	4/03/2007
Fixed rate	3.583%	3.600%	3.636%	5.000%
Variable rate basis	USD-LIBOR- BBA-1MT *.68	USD-LIBOR-BBA- 1MT *.624+.0029	USD-LIBOR-BBA- 1MT *.617+.0031	USD-LIBOR- BBA-1MT *.617
Recorded liability	\$ 1,301	\$ 13,862	\$ 34,840	\$ –
<b>June 30, 2016</b>				
Notional amount	\$ 9,190	\$ 93,050	\$ 140,000	\$ 255
Effective date	2/10/2006	6/05/2007	6/05/2007	9/21/2007
Termination date	1/01/2031	5/15/2031	6/01/2037	4/03/2017
Fixed rate	3.583%	3.600%	3.636%	5.000%
Variable rate basis	USD-LIBOR- BBA-1MT *.68	USD-LIBOR-BBA- 1MT *.624+.0029	USD-LIBOR-BBA- 1MT *.617+.0031	USD-LIBOR- BBA-1MT *.617
Recorded liability	\$ 1,930	\$ 20,201	\$ 47,990	\$ 5

WSH is required to post collateral when the market value of the Series 2005 and 2007 interest rate swaps as determined by the counterparty exceeds a specified threshold as defined in the Credit Support Annex to the interest rate swap agreements. The specified threshold of \$50,000 and \$60,000 at June 30, 2017 and 2016, respectively, is calculated based on WSH's credit ratings. At June 30, 2017, WSH market value of the interest rate swaps as determined by the counterparty was \$50,000 which did not exceed the threshold and no collateral was posted. At June 30, 2016, WSH market value of the interest rate swaps as determined by the counterparty was \$71,800, exceeding the threshold. WSH posted collateral of \$11,800 at June 30, 2016.

#### 9. Amounts Available Under Line and Letters of Credit

At June 30, 2017 and 2016, WSH collectively maintained four lines of credit totaling \$95,000 of which \$66,820 was unused at June 30, 2017, and \$95,000 of which \$70,021 was unused at June 30, 2016. At June 30, 2017 and 2016, WSH had unused, unsecured standby letters of credit with a bank totaling \$17,534 and \$20,254, respectively.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Health care services</b>		
Professional education	\$ 1,391	\$ 1,312
Health care promotion	<b>24,194</b>	21,883
	<b>\$ 25,585</b>	\$ 23,195

For the years ended June 30, 2017 and 2016, \$3,036 and \$4,587 of net assets were released from donor restrictions, respectively, by incurring expenses satisfying the restricted purposes relating to the purchase of property and equipment, providing professional education and health care promotion.

Permanently restricted net assets were restricted to:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Permanent endowment funds, the income of which was permitted to be used to support health care services	\$ 5,334	\$ 5,936
Funds held in trust by others	<b>18,983</b>	17,157
	<b>\$ 24,317</b>	\$ 23,093

WSH is named as a beneficiary under several perpetual trusts. WSH's beneficiary interest allocation in each of these trusts varies by trust.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 11. Self-Insurance Reserves

The estimated liability for professional and general liability reserves consists of:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Professional liability	\$ 73,653	\$ 75,296
Health benefits	29,894	15,932
Short-term disability	700	449
Workers' compensation	11,545	10,735
	<b>115,792</b>	102,412
Less current portion	<b>(42,856)</b>	(28,099)
	<b>\$ 72,936</b>	\$ 74,313

For the years ended June 30, 2017 and 2016, malpractice claims up to \$500 were paid through WRRRG and CA. WSH obtains excess occurrence based coverage from the Medical Care Availability and Reduction of Error Fund (MCARE Fund) for claims between \$500 and \$1,000. Claims between \$1,000 and \$5,000 in 2017 and 2016 were self-insured by WSH, excluding ECH, NLCMG, and PSNLCMG. Excess coverage of losses between \$5,000 and \$35,000 was commercially insured excluding ECH, NLCMG, and PSNLCMG. ECH, NLCMG, and PSNLCMG malpractice claims between \$1,000 and \$20,000 were paid through CA. At June 30, 2017 and 2016, estimated professional liability reserve requirements for WSH have been discounted at 3%. The reserves established by WSH are inclusive of both incurred and incurred but not reported claims at June 30, 2017 and 2016.

As noted above, WSH participates in the MCARE Fund to purchase excess medical malpractice insurance coverage since 2002. The MCARE Fund levies health care provider surcharges to pay claims and pay administrative expenses on behalf of MCARE Fund participants. These surcharges are recognized as expenses in the period incurred. The MCARE Act provides for the gradual phaseout of MCARE Fund coverage. The actuarially computed liability for all health care providers (hospital, physicians, and others) participating in the MCARE Fund at December 31, 2012 (the latest date for which such information is available), was \$1.13 billion. Even though the MCARE Fund coverage will be phased out, the commonwealth has indicated that the unfunded liability will be funded through assessments in future years as MCARE Fund-covered claims are eventually settled and paid.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### **11. Self-Insurance Reserves (continued)**

WSH's annual premiums for participation in the MCARE Fund were \$2,567 and \$1,940 for the years ended June 30, 2017 and 2016, respectively. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as WSH's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

WSH is self-insured for workers' compensation and most employee health benefit claims up to program-specific limitations. Claims in excess of these limitations are covered by a comprehensive insurance policy on an occurrence basis. At June 30, 2017 and 2016, the reserve for workers' compensation claims, discounted at 3%, was \$11,545 and \$10,735, respectively. At June 30, 2017 and 2016, the reserve for medical claims incurred but not reported was \$29,894 and \$15,932, respectively.

The self-insurance liabilities are presented gross on the consolidated balance sheets of the professional and general liability reinsurance agreements discussed above, comprising \$20,088 and \$21,960 of estimated insurance recoveries included as a component of other assets as of June 30, 2017 and 2016, respectively. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### **12. Retirement Benefits**

##### **Defined Benefit Plan**

WSH has two qualified defined benefit pension plans (the WSH Plan and GSH Plan) with a measurement date of June 30. WSH had a third plan (ECH Plan) which covered all eligible ECH employees.

The WSH Plan covers all eligible WSH employees hired prior to August 19, 2007. The GSH Plan offers benefits to eligible GSH employees under a traditional pension formula or a cash balance formula. GSH employees hired before January 1, 2005, were entitled to make an election to remain covered under the traditional pension formula or became covered under the cash balance formula. GSH employees hired on or after January 1, 2015, are covered under the cash balance formula. WSH makes contributions to both the WSH Plan and GSH Plan as determined by the actuary.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### **12. Retirement Benefits (continued)**

WSH amended the WSH Plan and GSH Plan to fully freeze all service and compensation components of participant benefits effective December 31, 2016. The effect of the curtailment in pension benefits was measured as of June 30, 2016 resulting in a decrease in the benefit obligation of approximately \$128,000. There was no direct effect on the 2016 pension expense due to the curtailment.

In conjunction with the WSH and GSH Plans' valuations at June 30, 2016, the method used to estimate the interest and service cost component of net periodic benefit expense for the plans was changed on a prospective basis. Historically, WSH estimated the interest and service cost components utilizing a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. WSH has elected to utilize an approach that discounts the individual expected cash flows underlying the interest cost using the applicable spot rates derived from the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change in the methodology did not affect the measurement of the total benefit obligations at June 30, 2016, but did reduce the interest cost and service cost for the plans for the year ended June 30, 2017, by approximately \$7,000 based on current economic conditions. WSH has accounted for this change in 2016 as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly has accounted for it prospectively.

Retired employees of WSH and GSH, who have met the requirements to become vested under the terms of the WSH Plan and GSH Plan, respectively, and are over 55 years of age at the time of their retirement, are provided certain health and life insurance benefits (other benefits). The measurement date of the other benefits is June 30.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

The following table summarizes information about the plans:

	June 30, 2017			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
<b>Change in benefits obligations</b>				
Benefits obligation at beginning of year	\$ 1,016,155	\$ 134,009	\$ 1,150,164	\$ 34,131
Service cost, net	8,525	245	8,770	1,512
Interest cost	33,258	4,388	37,646	881
Actuarial gain	(10,067)	(519)	(10,586)	(326)
Benefits paid	(27,524)	(3,778)	(31,302)	(746)
Other	-	(114)	(114)	672
Benefits obligation at end of year	<u>\$ 1,020,347</u>	<u>\$ 134,231</u>	<u>\$ 1,154,578</u>	<u>\$ 36,124</u>
<b>Accumulated benefits obligation</b>	<u>\$ 1,020,347</u>	<u>\$ 134,231</u>	<u>\$ 1,154,578</u>	<u>\$ 11,008</u>
<b>Changes in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 827,993	\$ 89,098	\$ 917,091	\$ -
Actual return on plan assets	61,850	5,770	67,620	-
Contributions by WSH and GSH	29,875	3,415	33,290	746
Benefits and expenses paid	(27,524)	(3,778)	(31,302)	(746)
Fair value of plan assets at end of year	<u>\$ 892,194</u>	<u>\$ 94,505</u>	<u>\$ 986,699</u>	<u>\$ -</u>
Funded status at end of year	<u>\$ (128,153)</u>	<u>\$ (39,726)</u>	<u>\$ (167,879)</u>	<u>\$ (36,124)</u>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

	June 30, 2016			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
<b>Change in benefits obligations</b>				
Benefits obligation at beginning of year	\$ 975,748	\$ —	\$ 975,748	\$ 26,749
Service cost, net	21,305	363	21,668	1,268
Interest cost	45,928	5,471	51,399	1,341
Plan merger	—	128,336	128,336	1,646
Gain due to curtailment	(127,866)	—	(127,866)	(9)
Actuarial loss	125,663	3,124	128,787	4,261
Benefits paid	(24,623)	(3,285)	(27,908)	(1,125)
Benefits obligation at end of year	<u>\$ 1,016,155</u>	<u>\$ 134,009</u>	<u>\$ 1,150,164</u>	<u>\$ 34,131</u>
<b>Accumulated benefits obligation</b>	<u>\$ 1,008,940</u>	<u>\$ 133,701</u>	<u>\$ 1,142,641</u>	<u>\$ 8,992</u>
<b>Changes in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 788,725	\$ —	\$ 788,725	\$ —
Plan merger	—	86,848	86,848	—
Actual return on plan assets	31,791	1,253	33,044	—
Contributions by WSH	32,100	4,282	36,382	1,125
Benefits and expenses paid	(24,623)	(3,285)	(27,908)	(1,125)
Fair value of plan assets at end of year	<u>\$ 827,993</u>	<u>\$ 89,098</u>	<u>\$ 917,091</u>	<u>\$ —</u>
Funded status at end of year	<u>\$ (188,162)</u>	<u>\$ (44,911)</u>	<u>\$ (233,073)</u>	<u>\$ (34,131)</u>

WellSpan Health

Notes to Consolidated Financial Statements (continued)  
(In Thousands)

**12. Retirement Benefits (continued)**

	June 30, 2017			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
<b>Amounts recognized in accumulated unrestricted net assets consist of</b>				
Prior service cost	\$ -	\$ -	\$ -	\$ 901
Net actuarial loss	290,763	47,238	338,001	2,091
	<b>\$ 290,763</b>	<b>\$ 47,238</b>	<b>\$ 338,001</b>	<b>\$ 2,992</b>
<b>Components of net periodic benefits (income) cost</b>				
Service cost	\$ 8,525	\$ 245	\$ 8,770	\$ 1,512
Interest cost	33,258	4,388	37,646	881
Expected return on assets	(59,082)	(6,412)	(65,494)	-
Amortization of prior service cost	-	-	-	343
Amortization of unrecognized net actuarial loss	7,946	1,054	9,000	426
Net periodic benefit (income) cost	<b>\$ (9,353)</b>	<b>\$ (725)</b>	<b>\$ (10,078)</b>	<b>\$ 3,162</b>
<b>Other changes in retirement benefits recognized in unrestricted net assets</b>				
	<b>\$ (20,781)</b>	<b>\$ (1,059)</b>	<b>\$ (21,840)</b>	<b>\$ (324)</b>

WellSpan Health

Notes to Consolidated Financial Statements (continued)  
(In Thousands)

12. Retirement Benefits (continued)

	June 30, 2016			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
<b>Amounts recognized in accumulated unrestricted net assets consist of</b>				
Prior service cost	\$ —	\$ 13	\$ 13	\$ 1,292
Net actuarial loss	311,544	48,284	359,828	2,024
	<u>\$ 311,544</u>	<u>\$ 48,297</u>	<u>\$ 359,841</u>	<u>\$ 3,316</u>
<b>Components of net periodic benefits cost</b>				
Service cost	\$ 21,305	\$ 363	\$ 21,668	\$ 1,267
Interest cost	45,928	5,471	51,399	1,341
Expected return on assets	(59,606)	(6,949)	(66,555)	—
Amortization of prior service cost	—	13	13	245
Amortization of unrecognized net actuarial loss	24,849	2,958	27,807	29
Net periodic benefit cost	<u>\$ 32,476</u>	<u>\$ 1,856</u>	<u>\$ 34,332</u>	<u>\$ 2,882</u>
<b>Other changes in retirement benefits recognized in unrestricted net assets</b>				
	\$ 763	\$ 5,849	\$ 6,612	\$ 3,979

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

The estimated amounts of net actuarial loss and the prior service cost that are expected to be amortized from other changes in unrestricted net assets into net periodic benefit cost for the next fiscal year are as follows:

	<b>Pension Benefits</b>	<b>Other Benefits</b>	<b>Total</b>
Prior service cost	\$ —	\$ 428	\$ 428
Net loss	8,482	293	8,775
<b>Total</b>	<b>\$ 8,482</b>	<b>\$ 721</b>	<b>\$ 9,203</b>

	<b>2017</b>		
	<b>GSH Plan</b>	<b>WSH Plan</b>	<b>Other Benefits</b>
<b>Assumptions</b>			
<b>Weighted average assumptions used to determine benefit obligation at June 30</b>			
Discount rate	<b>4.06%</b>	<b>4.04%</b>	<b>4.04%</b>
Rate of increase in future compensation levels	<b>N/A</b>	<b>N/A</b>	<b>4.00%</b>
<b>Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30</b>			
Discount rate	<b>4.01%</b>	<b>3.99%</b>	<b>3.92%</b>
Rate of increase in future compensation levels	<b>3.00%</b>	<b>4.00%</b>	<b>4.00%</b>
Expected long-term rate of return on assets	<b>7.25%</b>	<b>7.25%</b>	<b>N/A</b>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

	2016	
	WSH Plan	Other Benefits
<b>Assumptions</b>		
<b>Weighted average assumptions used to determine benefit obligation at June 30</b>		
Discount rate	3.99%	3.92%
Rate of increase in future compensation levels	4.00%	4.00%
<b>Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30</b>		
Discount rate	4.77%	4.77%
Rate of increase in future compensation levels	4.00%	4.00%
Expected long-term rate of return on assets	7.50%	N/A

To develop the expected long-term rate of return on assets assumption, WSH 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.

The Pension Plans' Master Trust weighted average asset allocations by asset category are as follows:

Asset category	Asset Allocation			June 30	
	Minimum	Target	Maximum	2017	2016
Equity securities	28%	34%	48%	<b>38%</b>	28%
Debt securities	17	44	67	<b>47</b>	44
Other	0	22	45	<b>15</b>	28
				<b>100%</b>	<b>100%</b>

The above allocation reflects policies that are established to ensure that the portfolio is invested according to modern portfolio theory. The asset allocation is developed to generate growth in asset value by utilizing higher-returning asset classes and proper diversification.

The health care cost trend rate for purposes of determining the net periodic benefit cost and disclosure was 5% in 2017 and 2016.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

##### Cash Flows

###### Contributions

WSH expects to contribute during the 2018 fiscal year approximately \$49,875 related to the WSH and GSH pension plans and \$967 related to the other benefits.

##### Fair Value Measurements

During fiscal 2017 the GSH pension assets were transferred to the WSH Plan Master Trust. The following tables set forth by level, within the fair value hierarchy, the WSH Pension Plan's Master Trust assets carried at fair value as of June 30.

	June 30, 2017				
	Total Fair Value	Level 1	Level 2	Level 3	NAV
Stock index fund	\$ 43,652	\$ —	\$ 43,652	\$ —	\$ —
Alternative investments – private equity, limited partnerships <sup>(1)</sup>	56,478	—	—	—	56,478
Alternative investments – real estate partnerships <sup>(2)(3)</sup>	36,618	—	—	—	36,618
Collective mutual funds and investment trusts:					
International equity	123,421	—	123,421	—	—
Emerging markets	56,985	—	56,985	—	—
Fixed income funds	460,107	—	460,107	—	—
Global asset allocation	50,506	—	50,506	—	—
Cash and cash equivalents	3,491	3,491	—	—	—
Total collective mutual funds and investment trusts	694,510	3,491	691,019	—	—
Guaranteed annuity contracts	3,874	—	3,874	—	—
Domestic equity securities	151,567	151,567	—	—	—
	<b>\$ 986,699</b>	<b>\$ 155,058</b>	<b>\$ 738,545</b>	<b>\$ —</b>	<b>\$ 93,096</b>

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

	June 30, 2016				
	Total Fair Value	Level 1	Level 2	Level 3	NAV
Stock index fund	\$ 33,122	\$ —	\$ 33,122	\$ —	\$ —
Alternative investments – private equity, limited partnerships <sup>(1)</sup>	48,316	—	—	—	48,316
Alternative investments – real estate partnerships <sup>(2)(3)</sup>	34,331	—	—	—	34,331
Collective mutual funds and investment trusts:					
International equity	78,514	—	78,514	—	—
Emerging markets	39,795	—	39,795	—	—
Fixed income funds	401,206	—	401,206	—	—
Global asset allocation	77,427	—	77,427	—	—
Cash and cash equivalents	26,996	26,996	—	—	—
Total collective mutual funds and investment trusts	623,938	26,996	596,942	—	—
Guaranteed annuity contracts	3,979	—	3,979	—	—
Equity securities:					
Consumer discretionary and services	11,095	11,095	—	—	—
Consumer staples	2,797	2,797	—	—	—
Financial services	17,578	17,578	—	—	—
Health care	12,636	12,636	—	—	—
Materials and processing	8,259	8,259	—	—	—
Other energy	5,546	5,546	—	—	—
Producer durables	2,585	2,585	—	—	—
Technology	20,278	20,278	—	—	—
Utilities	3,533	3,533	—	—	—
Total equity securities	84,307	84,307	—	—	—
	\$ 827,993	\$ 111,303	\$ 634,043	\$ —	\$ 82,647

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

- <sup>(1)</sup>The plan also maintains investments in private equity, limited partnerships; these include investments in Siguler Guff, Prisma Spectrum, and Portfolio Advisors Secondary Fund LP (Portfolio Advisors). The estimated fair market value of these investments is determined by the total net assets of the fund attributable to common shares, divided by the number of common shares outstanding. The total net asset value of the fund is determined by the market value of the underlying investments if they are securities listed on a national securities exchange or traded over the counter. For those securities not openly traded, the investment manager generally utilizes the most recent relevant information or performance reports of such managed account or investment partnership, unless the investment manager determines some other valuation is more appropriate. On an annual basis, Siguler Guff, Prisma Spectrum, and Portfolio Advisors provide audited financial statements from independent audit firms for review.
- <sup>(2)</sup>The plan's investments in the Guggenheim Real Estate Commingled Trust include interests in a collection of publicly traded securities, property funds, direct property investments, and mezzanine financings. The publicly traded securities and property funds are valued at the last reported sales price on the last day of the period. The direct property investments are initially recorded at the total cost to acquire the properties and subsequently these values are adjusted based on the opinions of value obtained quarterly from independent real estate investment managers. The mezzanine financings are valued based on fair market values determined by the Guggenheim Real Estate Commingled Trust based upon an estimate of realized proceeds from hypothetical liquidation. On an annual basis, the Guggenheim Real Estate Commingled Trust provides a copy of its audited financial statements from an independent audit firm for review.
- <sup>(3)</sup>The plan's investment in AEW Partners, LP (AEW) includes interests in direct property investment, joint ventures, and debt or real-estate-related securities. The investments are initially recorded at the total cost to acquire the properties and related security interests. Annually, the general partner submits a proposal to the limited partners on the method to determine the valuation of each asset. Valuation methods are based on a report by an independent appraiser, a current market price (in the case of marketable securities) or the general partner's good faith estimate of value. On an annual basis, AEW provides a copy of its audited financial statements from an independent audit firm for review.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

##### *Estimated Future Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal year:	<b>Pension Benefits</b>	<b>Other Benefits</b>
2018	\$ 37,531	\$ 967
2019	41,062	3,431
2020	44,574	5,524
2021	48,017	5,083
2022	51,316	3,394
2023 and thereafter	299,536	11,721

#### **Defined Contribution Plans**

WSH also offers a retirement savings plan to eligible active employees who are not eligible for the defined benefit plans. Any existing employee who met certain eligibility requirements and was hired prior to August 19, 2007, had the option to stay within the existing WSH Plan and continue to accrue benefits or opt out and receive benefits under the new defined contribution plan with matching contributions. If an individual opted out of the WSH Plan, any benefits accrued through December 31, 2007, were frozen. All employees hired after August 19, 2007, are automatically enrolled in the defined contribution plan.

WSH sponsors four defined contribution plans: the WellSpan Health 403(b) Plan which is for the benefit of WSH, YH, ECH, WMG, HCP, WSS, VNAHHS, VNACS, and GH; the Good Samaritan Hospital 403(b) Plan which is for the benefit eligible employees of GSF, GSH, and GSPS; the Good Samaritan 401(k) Plan which is for the benefit of eligible employees of GSHMC; and the WellSpan Philhaven 401(k) Plan which is for the benefit of eligible employees of WPH. WSH began matching contributions to these plans on January 1, 2008, and employer contributions are based on a formula as defined by the respective plan documents. The Good Samaritan 403(b) Plan was merged into the WellSpan Health 403(b) Plan effective December 31, 2016. The Good Samaritan 401(k) Plan and the WellSpan Philhaven 401(k) Plan were terminated effective December 31, 2016. Most participants in the Good Samaritan and WellSpan Philhaven 401(k) Plans elected to roll their plan balances into the WellSpan 403(b) Plan.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 12. Retirement Benefits (continued)

The amount of expense related to these plans was \$47,095 and \$32,503 for the years ended June 30, 2017 and 2016, respectively.

#### 13. Commitments and Contingencies

##### Health Care Regulatory Environment and Reliance on Government Programs

The health care industry in general and the services that WSH provides are subject to extensive federal and state laws and regulations. Additionally, a portion of WSH's revenue is from payments by government-sponsored health care programs, principally Medicare and Medicaid, and is subject to audit and adjustments by applicable regulatory agencies. Failure to comply with any of these laws or regulations, the results of regulatory audits and adjustments, or changes in the amounts payable for WSH's services under these programs could have a material adverse effect on WSH's consolidated financial position and results of operations.

##### Operating Leases

WSH leases office space and medical practice sites under operating leases. The following is a summary of future minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017.

2018	\$ 12,422
2019	6,854
2020	4,981
2021	3,227
2022	1,909
2023 and thereafter	1,490
Total minimum payments required	<u>\$ 30,883</u>

Rent expense under operating leases was \$15,526 and \$14,752 for the years ended June 30, 2017 and 2016, respectively, and is included in supplies and other expenses on the accompanying consolidated statements of operations. Some of the rental agreements include clauses for rent escalation.

## WellSpan Health

### Notes to Consolidated Financial Statements (continued) (In Thousands)

#### 13. Commitments and Contingencies (continued)

##### Litigation

WSH is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on WSH's future consolidated financial position or results of operations.

#### 14. Functional Expenses

WSH provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended June 30	
	2017	2016
Program activities	\$ 1,637,715	\$ 1,543,668
General and administrative	407,670	345,784
	<u>\$ 2,045,385</u>	<u>\$ 1,889,452</u>

#### 15. Subsequent Events

WSH has evaluated subsequent events that have occurred for recognition or disclosure through October 13, 2017, the date the accompanying consolidated financial statements were available to be issued.

## Supplementary Information (2017 Only)

WellSpan Health

Consolidating Balance Sheet

(In Thousands)

June 30, 2017

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	Apple Hill Surgical Center Partners	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
<b>Assets</b>													
Current assets:													
Cash and cash equivalents	\$ 23,888	\$ 20,666	\$ 3,035	\$ 3,614	\$ 3,929	\$ 2,985	\$ –	\$ 3,145	\$ –	\$ 9,825	\$ 3,920	\$ (7,461)	\$ 67,546
Due from affiliates	37,494	–	1,211	1,959	–	66	126	64	–	44,162	–	(85,082)	–
Assets limited as to use	–	–	–	–	–	–	–	–	–	–	6,114	–	6,114
Patient accounts receivable, net	156,881	24,384	25,813	22,453	13,360	11,867	29,078	1,268	23	9,158	–	–	294,285
Other receivables	4,602	894	400	837	734	1,483	7,769	39	5,586	528	389	–	23,261
Inventories	6,042	1,302	3,309	2,062	1,459	–	530	447	300	6,434	–	–	21,885
Prepaid expenses	1,988	628	207	800	233	167	283	17	22,356	4,112	352	–	31,143
Total current assets	230,895	47,874	33,975	31,725	19,715	16,568	37,786	4,980	28,265	74,219	10,775	(92,543)	444,234
Investments limited as to use:													
Board-designated	838,632	161,898	17,280	8,381	30,532	4,184	–	–	11,625	6,987	1,585	–	1,081,104
Self-insurance trust	–	–	–	–	–	–	–	–	–	–	14,161	–	14,161
Temporarily restricted investments	1,453	862	–	1,339	1,546	617	–	–	38	–	5,959	–	11,814
Permanently restricted investments	1,023	370	–	492	3,191	258	–	–	–	–	–	–	5,334
Beneficial interest in perpetual trusts	6,960	7,731	689	213	3,065	325	–	–	–	–	–	–	18,983
Total investments limited as to use	848,068	170,861	17,969	10,425	38,334	5,384	–	–	11,663	6,987	21,705	–	1,131,396
Pledges receivable, net	–	68	83	2,756	–	263	–	–	–	–	1,797	–	4,967
Property and equipment, net	226,960	41,194	103,988	69,819	53,835	16,659	18,835	4,234	124,580	110,962	474	–	771,540
Investments in joint ventures	435	86	1,517	5,925	13	835	100	8	6,974	221	–	(5,650)	10,464
Notes receivable	–	–	1,121	–	–	340	–	–	–	–	–	–	1,461
Notes receivable – affiliates	266,169	–	–	–	–	–	–	–	119,785	1,361	–	(387,315)	–
Interest in net assets of foundation	5,959	–	–	–	–	–	–	–	–	–	–	(5,959)	–
Other assets	34	6,582	147	143	–	–	–	195	103,982	147	–	–	111,230
Total assets	\$ 1,578,520	\$ 266,665	\$ 158,800	\$ 120,793	\$ 111,897	\$ 40,049	\$ 56,721	\$ 9,417	\$ 395,249	\$ 193,897	\$ 34,751	\$ (491,467)	\$ 2,475,292

WellSpan Health

Consolidating Balance Sheet (continued)

(In Thousands)

June 30, 2017

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	Apple Hill Surgical Center Partners	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
<b>Liabilities and net assets</b>													
Current liabilities:													
Current portion of capital lease obligations	\$ -	\$ -	\$ 254	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 337
Current portion of long-term debt	1,500	90	1,720	222	-	432	-	250	-	5,592	-	-	9,806
Accounts payable and accrued expenses	25,953	2,978	4,329	8,439	4,644	237	2,922	432	43,548	887	404	-	94,773
Bank payable	-	-	-	-	1,410	-	2,899	-	-	3,152	-	(7,461)	-
Accrued interest payable	1,844	12	71	-	-	8	-	2	-	-	-	-	1,937
Accrued salaries and wages	19,055	3,116	4,719	5,029	2,744	2,825	30,972	613	32,033	719	769	-	102,594
Advances from third-party payors	2,398	494	240	-	645	46	74	-	84	-	2,005	-	5,986
Current portion of self-insurance reserves and accrued retirement benefits	2,617	-	-	438	-	190	-	-	34,464	-	6,114	-	43,823
Third-party payor settlements	4,419	309	6	4,052	253	-	-	-	-	-	-	-	9,039
Due to affiliates	-	1,405	18,612	10,359	374	-	-	-	52,101	1,403	828	(85,082)	-
<b>Total current liabilities</b>	<b>57,786</b>	<b>8,404</b>	<b>29,951</b>	<b>28,622</b>	<b>10,070</b>	<b>3,738</b>	<b>36,867</b>	<b>1,297</b>	<b>162,230</b>	<b>11,753</b>	<b>10,120</b>	<b>(92,543)</b>	<b>268,295</b>
Self-insurance reserves, less current portion	5,006	-	(28)	753	-	369	-	-	54,603	-	12,233	-	72,936
Capital lease obligations, less current portion	-	-	65	194	-	-	-	-	-	-	-	-	259
Long-term debt, less current portion	388,773	34,913	70,297	2,220	61,412	1,372	-	771	12,754	68,110	-	-	640,622
Accrued retirement benefits, less current portion	21,326	-	-	39,726	-	-	-	-	141,984	-	-	-	203,036
Note payable – affiliates	-	-	-	104,093	-	18,506	2,327	-	206,308	56,081	-	(387,315)	-
Interest rate swap agreements	27,753	6,018	1,301	-	-	-	-	-	-	14,931	-	-	50,003
Other non-current liabilities	1,511	-	-	-	-	-	-	-	-	-	-	-	1,511
<b>Total liabilities</b>	<b>502,155</b>	<b>49,335</b>	<b>101,586</b>	<b>175,608</b>	<b>71,482</b>	<b>23,985</b>	<b>39,194</b>	<b>2,068</b>	<b>577,879</b>	<b>150,875</b>	<b>22,353</b>	<b>(479,858)</b>	<b>1,236,662</b>
Net assets:													
Unrestricted	1,057,793	207,580	55,421	(62,703)	32,457	14,864	17,463	7,349	(183,113)	40,533	4,245	(8,001)	1,183,888
Temporarily restricted	4,630	1,649	1,104	7,183	1,702	617	64	-	483	-	8,153	-	25,585
Permanently restricted	7,983	8,101	689	705	6,256	583	-	-	-	-	-	-	24,317
Interest in net assets of foundation	5,959	-	-	-	-	-	-	-	-	-	-	(5,959)	-
<b>WellSpan Health net assets</b>	<b>1,076,365</b>	<b>217,330</b>	<b>57,214</b>	<b>(54,815)</b>	<b>40,415</b>	<b>16,064</b>	<b>17,527</b>	<b>7,349</b>	<b>(182,630)</b>	<b>40,533</b>	<b>12,398</b>	<b>(13,960)</b>	<b>1,233,790</b>
Non-controlling interest	-	-	-	-	-	-	-	-	-	2,489	-	2,351	4,840
<b>Total net assets</b>	<b>1,076,365</b>	<b>217,330</b>	<b>57,214</b>	<b>(54,815)</b>	<b>40,415</b>	<b>16,064</b>	<b>17,527</b>	<b>7,349</b>	<b>(182,630)</b>	<b>43,022</b>	<b>12,398</b>	<b>(11,609)</b>	<b>1,238,630</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,578,520</b>	<b>\$ 266,665</b>	<b>\$ 158,800</b>	<b>\$ 120,793</b>	<b>\$ 111,897</b>	<b>\$ 40,049</b>	<b>\$ 56,721</b>	<b>\$ 9,417</b>	<b>\$ 395,249</b>	<b>\$ 193,897</b>	<b>\$ 34,751</b>	<b>\$ (491,467)</b>	<b>\$ 2,475,292</b>

WellSpan Health

Consolidating Statement of Operations  
(In Thousands)

Year Ended June 30, 2017

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	Apple Hill Surgical Center Partners	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
<b>Unrestricted revenues, gains, and other support</b>													
Net patient service revenue	\$ 1,065,180	\$ 189,180	\$ 202,368	\$ 184,119	\$ 93,807	\$ 61,242	\$ 263,824	\$ 14,063	\$ 76	\$ 1,613	\$ –	\$ (309)	\$ 2,075,163
Provision for uncollectible accounts	(42,181)	(10,379)	(9,064)	(6,765)	(1,137)	(1,506)	(9,566)	(310)	(5)	–	–	–	(80,913)
Net patient service revenue less provision for uncollectible accounts	1,022,999	178,801	193,304	177,354	92,670	59,736	254,258	13,753	71	1,613	–	(309)	1,994,250
Other revenue	9,290	1,555	5,267	3,997	886	3,321	193,935	39	505,136	60,830	21,400	(723,344)	82,312
Net assets released from restrictions used for operations	733	231	238	121	10	205	20	–	621	–	–	–	2,179
Total revenues, gains, and other support	1,033,022	180,587	198,809	181,472	93,566	63,262	448,213	13,792	505,828	62,443	21,400	(723,653)	2,078,741
<b>Expenses</b>													
Salaries and wages	253,992	41,678	58,322	63,405	31,058	43,454	344,485	3,861	143,873	7,099	6,759	59	998,045
Employee benefits	88,182	14,529	19,684	18,412	11,058	11,928	77,091	1,332	248,576	2,389	2,479	(206,057)	289,603
Professional fees	201,258	36,835	27,745	22,867	4,456	4,113	15,021	608	2,638	1,376	613	(266,682)	50,848
Supplies and other	323,415	60,868	82,264	83,104	27,329	13,447	64,671	4,581	134,198	44,534	10,224	(249,969)	598,666
Depreciation and amortization	27,576	4,566	8,761	6,435	4,967	2,465	4,025	576	22,659	4,267	60	–	86,357
Interest	13,156	1,586	2,078	3,238	2,957	328	–	16	6,412	3,206	–	(11,111)	21,866
Total operating expenses	907,579	160,062	198,854	197,461	81,825	75,735	505,293	10,974	558,356	62,871	20,135	(733,760)	2,045,385
Operating income (loss)	125,443	20,525	(45)	(15,989)	11,741	(12,473)	(57,080)	2,818	(52,528)	(428)	1,265	10,107	33,356
<b>Other income (expense)</b>													
Contributions	190	146	277	985	288	280	12	–	1	–	234	–	2,413
Investment income, net	91,114	15,328	2,785	1,337	3,682	226	125	18	3,147	69	614	(11,111)	107,334
Equity gain on joint ventures	2,326	456	733	50	71	70	527	44	1,646	86	–	(5,427)	582
Gain (loss) on sale of assets/other	324	4	(14)	(6,429)	–	187	–	–	44	96	–	–	(5,788)
Other (expense) income	(820)	(30)	(39)	(774)	–	(7)	–	(11)	89	(297)	(97)	1,004	(982)
Change in fair value of interest rate swap agreements	11,495	2,359	632	–	–	–	–	–	–	5,637	–	–	20,123
Total other income (expense)	104,629	18,263	4,374	(4,831)	4,041	756	664	51	4,927	5,591	751	(15,534)	123,682
Excess (deficiency) of revenues over expenses before non-controlling interests	230,072	38,788	4,329	(20,820)	15,782	(11,717)	(56,416)	2,869	(47,601)	5,163	2,016	(5,427)	157,038
Non-controlling interests	–	–	–	–	–	–	–	–	–	88	–	(919)	(831)
Excess (deficiency) of revenues over expenses	230,072	38,788	4,329	(20,820)	15,782	(11,717)	(56,416)	2,869	(47,601)	5,251	2,016	(6,346)	156,207
<b>Other changes in unrestricted net assets:</b>													
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	–	–	–	–	–	–	–	–	–	–	(566)	–	(566)
Net assets released from restrictions for purchase of property and equipment	469	9	73	4	19	279	4	–	–	–	–	–	857
Distributions to partners	–	–	–	–	–	–	–	(2,650)	–	–	(3,455)	6,105	–
Other change in accrued retirement benefits	178	–	–	971	–	–	–	–	21,015	–	–	–	22,164
Transfers with affiliates	(52,000)	(8,600)	(6,400)	(12,738)	(8,000)	–	65,800	–	12,700	7,738	1,500	–	–
Increase (decrease) in unrestricted net assets	\$ 178,719	\$ 30,197	\$ (1,998)	\$ (32,583)	\$ 7,801	\$ (11,438)	\$ 9,388	\$ 219	\$ (13,886)	\$ 12,989	\$ (505)	\$ (241)	\$ 178,662

WellSpan Health

Consolidating Statement of Changes in Net Assets  
(In Thousands)

Year Ended June 30, 2017

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	Apple Hill Surgical Center Partners	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
<b>Unrestricted net assets</b>													
Excess (deficiency) of revenues over expenses	\$ 230,072	\$ 38,788	\$ 4,329	\$ (20,820)	\$ 15,782	\$ (11,717)	\$ (56,416)	\$ 2,869	\$ (47,601)	\$ 5,251	\$ 2,016	\$ (6,346)	\$ 156,207
Other changes in unrestricted net assets:													
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	–	–	–	–	–	–	–	–	–	–	(566)	–	(566)
Net assets released from restrictions for purchase of property and equipment	469	9	73	4	19	279	4	–	–	–	–	–	857
Distributions to partners	–	–	–	–	–	–	–	(2,650)	–	–	(3,455)	6,105	–
Other change in accrued retirement benefits	178	–	–	971	–	–	–	–	21,015	–	–	–	22,164
Transfers with affiliates	(52,000)	(8,600)	(6,400)	(12,738)	(8,000)	–	65,800	–	12,700	7,738	1,500	–	–
Increase (decrease) in unrestricted net assets	178,719	30,197	(1,998)	(32,583)	7,801	(11,438)	9,388	219	(13,886)	12,989	(505)	(241)	178,662
<b>Temporarily restricted net assets</b>													
Net realized and unrealized gains and losses on restricted investments	142	69	–	–	151	–	–	–	5	–	572	–	939
Net investment income	26	75	–	7	25	–	–	–	1	–	72	–	206
Change in net assets of Foundation	644	–	–	–	–	–	–	–	–	–	–	(644)	–
Contributions	1,159	262	1,019	550	59	490	18	–	539	–	185	–	4,281
Net assets released from restrictions	(834)	(240)	(311)	(125)	(29)	(484)	(24)	–	(621)	–	(368)	–	(3,036)
Increase (decrease) in temporarily restricted net assets	1,137	166	708	432	206	6	(6)	–	(76)	–	461	(644)	2,390
<b>Permanently restricted net assets</b>													
Net investment income	14	187	–	1	111	–	–	–	–	–	–	–	313
Net realized and unrealized gains and losses on investments	340	473	21	(12)	372	(6)	–	–	–	–	–	–	1,188
Contributions	7	12	–	–	1	–	–	–	–	–	–	–	20
Net assets released from restrictions	–	(192)	–	–	(105)	–	–	–	–	–	–	–	(297)
Increase (decrease) in permanently restricted net assets	361	480	21	(11)	379	(6)	–	–	–	–	–	–	1,224
Increase (decrease) in WellSpan Health net assets	180,217	30,843	(1,269)	(32,162)	8,386	(11,438)	9,382	219	(13,962)	12,989	(44)	(885)	182,276
Non-controlling interest	–	–	–	–	–	–	–	–	–	(112)	–	(48)	(160)
Increase (decrease) in net assets	180,217	30,843	(1,269)	(32,162)	8,386	(11,438)	9,382	219	(13,962)	12,877	(44)	(933)	182,116
<b>Net assets</b>													
Beginning of year	896,148	186,487	58,483	(22,653)	32,029	27,502	8,145	7,130	(168,668)	30,145	12,442	(10,676)	1,056,514
End of year	\$ 1,076,365	\$ 217,330	\$ 57,214	\$ (54,815)	\$ 40,415	\$ 16,064	\$ 17,527	\$ 7,349	\$ (182,630)	\$ 43,022	\$ 12,398	\$ (11,609)	\$ 1,238,630

York, Gettysburg, and Ephrata Community Hospital (Obligated Group)

Combining Balance Sheet

(In Thousands)

June 30, 2017

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combining Eliminations	Combined Totals
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 23,888	\$ 19,344	\$ 3,035	\$ –	\$ 46,267
Due from affiliates	37,494	–	–	–	37,494
Patient accounts receivable, net	156,881	24,384	25,813	–	207,078
Other receivables	4,602	894	400	–	5,896
Inventories	6,042	1,302	3,309	–	10,653
Prepaid expenses	1,988	628	206	–	2,822
Total current assets	230,895	46,552	32,763	–	310,210
Investments limited as to use:					
Board-designated	838,632	152,286	14,052	–	1,004,970
Temporarily restricted investments	1,453	862	–	–	2,315
Permanently restricted investments	1,023	–	–	–	1,023
Beneficial interest in perpetual trusts	6,960	–	689	–	7,649
	848,068	153,148	14,741	–	1,015,957
Property and equipment, net	226,960	41,194	103,988	–	372,142
Notes receivable – affiliates	266,169	–	1,121	–	267,290
Investments in joint ventures	435	86	1,517	–	2,038
Interest in net assets of foundation	5,959	19,081	3,687	–	28,727
Other assets	34	6,484	147	–	6,665
Total assets	<u>\$ 1,578,520</u>	<u>\$ 266,545</u>	<u>\$ 157,964</u>	<u>\$ –</u>	<u>\$ 2,003,029</u>

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combining Eliminations	Combined Totals
<b>Liabilities and net assets</b>					
Current liabilities:					
Current portion of capital lease obligations	\$ –	\$ –	\$ 254	\$ –	\$ 254
Current portion of long-term debt	1,500	90	1,720	–	3,310
Accounts payable and accrued expenses	25,953	2,973	4,329	–	33,255
Accrued interest payable	1,844	12	71	–	1,927
Accrued salaries and wages	19,055	3,116	4,719	–	26,890
Advances from third-party payors	2,398	422	199	–	3,019
Third-party payor settlements	4,419	309	6		4,734
Current portion of self-insurance reserves and accrued retirement benefits	2,617	–	–	–	2,617
Due to affiliates	–	1,362	17,072		18,434
Total current liabilities	57,786	8,284	28,370	–	94,440
Self-insurance reserves, less current portion	5,006	–	(28)	–	4,978
Capital lease obligations, less current portion	–	–	65	–	65
Long-term debt, less current portion	388,773	34,913	70,297	–	493,983
Accrued retirement benefits, less current portion	21,326	–	–	–	21,326
Interest rate swap agreements	27,753	6,018	1,301	–	35,072
Other non-current liabilities	1,511	–	–	–	1,511
Total liabilities	502,155	49,215	100,005	–	651,375
Net assets:					
Unrestricted	1,057,793	197,043	52,579	–	1,307,415
Temporarily restricted	4,630	1,206	1,004	–	6,840
Permanently restricted	7,983	–	689	–	8,672
Interest in net assets of foundation	5,959	19,081	3,687	–	28,727
Total net assets	1,076,365	217,330	57,959	–	1,351,654
Total liabilities and net assets	\$ 1,578,520	\$ 266,545	\$ 157,964	\$ –	\$ 2,003,029

York, Gettysburg, and Ephrata Community Hospital (Obligated Group)

Combining Statement of Operations

(In Thousands)

Year Ended June 30, 2017

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combining Eliminations	Combined Totals
<b>Unrestricted revenues, gains, and other support</b>					
Net patient service revenue	\$ 1,065,180	\$ 189,180	\$ 202,368	\$ (276)	\$ 1,456,452
Provision for uncollectible accounts	(42,181)	(10,379)	(9,064)	—	(61,624)
Net patient service revenue less provision for uncollectible accounts	1,022,999	178,801	193,304	(276)	1,394,828
Other revenue	9,290	1,555	5,267	(131)	15,981
Net assets released from restrictions used for operations	733	231	238	—	1,202
Total revenues, gains, and other support	1,033,022	180,587	198,809	(407)	1,412,011
<b>Expenses</b>					
Salaries and wages	253,992	41,514	58,151	—	353,657
Employee benefits	88,182	14,472	19,624	—	122,278
Professional fees	201,258	36,835	27,745	—	265,838
Supplies and other	323,415	60,835	82,194	(407)	466,037
Depreciation and amortization	27,576	4,566	8,761	—	40,903
Interest	13,156	1,586	2,078	—	16,820
Total operating expenses	907,579	159,808	198,553	(407)	1,265,533
Operating income	125,443	20,779	256	—	146,478
<b>Other income (expense)</b>					
Contributions	190	146	121	—	457
Investment income, net	91,114	14,298	2,423	—	107,835
Equity gain on joint ventures	2,326	456	733	—	3,515
Gain (loss) on sale of assets/other	324	4	(14)	—	314
Change in fair value of interest rate swap agreements	11,495	2,359	632	—	14,486
Other expense, net	(820)	(256)	(340)	—	(1,416)
Total other income	104,629	17,007	3,555	—	125,191
Excess of revenues over expenses	230,072	37,786	3,811	—	271,669
Other changes in unrestricted net assets:					
Net assets released from restrictions used for purchase of property and equipment	469	9	73	—	551
Other change in accrued retirement benefits	178	—	—	—	178
Transfers with affiliates	(52,000)	(8,600)	(6,400)	—	(67,000)
Increase (decrease) in unrestricted net assets	\$ 178,719	\$ 29,195	\$ (2,516)	\$ —	\$ 205,398

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