

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

WellSpan Health
Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP



WellSpan Health

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2018 and 2017

Contents

Report of Independent Auditors.....	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
Supplementary Information (2018 Only)	
Consolidating Balance Sheet	66
Consolidating Statement of Operations	68
Consolidating Statement of Changes in Net Assets.....	69
Combining Balance Sheet – York, Gettysburg, and Ephrata Community Hospital (Obligated Group).....	70
Combining Statement of Operations – York, Gettysburg, and Ephrata Community Hospital (Obligated Group).....	72



Ernst & Young LLP
One Commerce Square
Suite 700
2005 Market Street
Philadelphia, PA 19103

Tel: +1 215 448 5000
Fax: +1 215 448 5500
ey.com

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, 2018 and 2017, and the related consolidated statements of operations, and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the 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 at June 30, 2018 and 2017, and the consolidated results of its operations, and changes in net assets 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 statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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 9, 2018

WellSpan Health

Consolidated Balance Sheets (In Thousands)

	June 30	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,644	\$ 67,546
Assets limited as to use	6,650	6,114
Patient accounts receivable, net of allowance for uncollectible accounts of \$71,672 and \$79,163 in 2018 and 2017, respectively	293,049	294,285
Other receivables	26,622	23,261
Inventories	24,490	21,885
Prepaid expenses	30,232	31,143
Total current assets	422,687	444,234
Investments limited as to use:		
Board-designated	1,073,492	1,081,104
Self-insurance trust	13,864	14,161
Temporarily restricted investments	10,209	11,814
Permanently restricted investments	5,780	5,334
Beneficial interest in perpetual trusts	19,503	18,983
Total investments limited as to use	1,122,848	1,131,396
Pledges receivable, net	5,053	4,967
Property and equipment, net	781,571	771,540
Investments in joint ventures	11,386	10,464
Notes receivable	1,367	1,461
Capitalized software costs, net	66,234	63,210
Goodwill and intangible assets, net	17,755	19,170
Estimated insurance recoveries	18,814	20,088
Other assets	7,104	8,762
Total assets	\$ 2,454,819	\$ 2,475,292

	June 30	
	2018	2017
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 42,061	\$ 10,143
Accounts payable and accrued expenses	76,038	94,773
Accrued interest payable	2,001	1,937
Accrued salaries and wages	111,846	102,594
Advances from third-party payors	5,052	5,986
Current portion of self-insurance reserves and accrued retirement benefits	32,941	43,823
Third-party payor settlements	9,624	9,039
Total current liabilities	<u>279,563</u>	<u>268,295</u>
Self-insurance reserves, less current portion	70,908	72,936
Long-term debt and capital lease obligation, less current portion	624,384	640,881
Accrued retirement benefits, less current portion	114,764	203,036
Interest rate swap agreements	36,743	50,003
Other non-current liabilities	1,511	1,511
Total liabilities	<u>1,127,873</u>	<u>1,236,662</u>
Net assets:		
Unrestricted	1,276,245	1,183,888
Temporarily restricted	20,895	25,585
Permanently restricted	25,283	24,317
WellSpan Health net assets	<u>1,322,423</u>	<u>1,233,790</u>
Non-controlling interests	4,523	4,840
Total net assets	<u>1,326,946</u>	<u>1,238,630</u>
Total liabilities and net assets	<u><u>\$ 2,454,819</u></u>	<u><u>\$ 2,475,292</u></u>

See accompanying notes.

WellSpan Health

Consolidated Statements of Operations (In Thousands)

	Year Ended June 30	
	2018	2017
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 2,176,704	\$ 2,075,163
Provision for uncollectible accounts	(85,358)	(80,913)
Net patient service revenue less provision for uncollectible accounts	2,091,346	1,994,250
Other revenue	80,326	82,312
Net assets released from restrictions used for operations	7,573	2,179
Total revenues, gains, and other support	2,179,245	2,078,741
Expenses		
Salaries and wages	1,079,759	998,045
Employee benefits	328,286	289,603
Professional fees	67,402	50,848
Supplies and other	602,797	598,666
Depreciation and amortization	96,222	86,357
Interest	24,222	21,866
Total operating expenses	2,198,688	2,045,385
Operating (loss) income	(19,443)	33,356
Other income (expense)		
Contributions	1,880	2,413
Investment income, net	68,277	107,334
Equity gain on joint ventures	1,673	582
Gain (loss) on sale of assets/other	375	(5,788)
Loss on debt refinancing	(6,271)	-
Other expense, net	(2,372)	(982)
Change in fair value of interest rate swap agreements	13,260	20,123
Total other income	76,822	123,682
Excess of revenues over expenses before non-controlling interests	57,379	157,038
Non-controlling interests	(496)	(831)
Excess of revenues over expenses	56,883	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	(496)	(566)
Net assets released from restrictions for purchase of property and equipment	7,421	857
Other change in accrued retirement benefits	28,549	22,164
Increase in unrestricted net assets	\$ 92,357	\$ 178,662

See accompanying notes.

WellSpan Health

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended June 30	
	2018	2017
Unrestricted net assets		
Excess of revenues over expenses	\$ 56,883	\$ 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	(496)	(566)
Net assets released from restrictions for purchase of property and equipment	7,421	857
Other change in accrued retirement benefits	28,549	22,164
Increase in unrestricted net assets	92,357	178,662
Temporarily restricted net assets		
Net realized and unrealized gains and losses on restricted investments	516	939
Net investment income	180	206
Contributions	9,608	4,281
Net assets released from restrictions	(14,994)	(3,036)
(Decrease) increase in temporarily restricted net assets	(4,690)	2,390
Permanently restricted net assets		
Net realized and unrealized gains and losses on restricted investments	966	1,188
Net investment income	103	313
Contributions	47	20
Net assets released from restrictions	(150)	(297)
Increase in permanently restricted net assets	966	1,224
Increase in WellSpan Health net assets	88,633	182,276
Non-controlling interests	(317)	(160)
Increase in net assets	88,316	182,116
Net assets		
Beginning of year	1,238,630	1,056,514
End of year	\$ 1,326,946	\$ 1,238,630

See accompanying notes.

WellSpan Health

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended June 30	
	2018	2017
Operating activities		
Increase in net assets	\$ 88,316	\$ 182,116
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	96,222	86,357
Provision for bad debts	85,358	80,913
(Gain) loss on sale of assets/other	(375)	5,788
Net realized and unrealized gains and losses on investments	(50,290)	(90,867)
Change in fair value of interest rate swap agreements	(13,260)	(20,123)
Amortization of bond premium and discount	(624)	(560)
Undistributed loss of investments in joint ventures	(913)	(307)
Change in beneficial interest in perpetual trusts	(520)	(1,146)
Loss on debt refinancing	6,271	-
Temporarily restricted net contributions and investment income received	(9,788)	(4,487)
Change in cash due to changes in other operating assets and liabilities:		
Patient accounts receivable and other receivables	(87,389)	(103,931)
Inventories, pledges receivable, prepaid expenses, and other assets	1,152	(17,540)
Accounts payable and accrued expenses and accrued interest payable	(18,671)	27,068
Accrued salaries and wages	9,252	(24,747)
Advances from third-party payors	(934)	1,109
Third-party payor settlements	585	(7,138)
Self-insurance reserves	(12,910)	13,481
Accrued retirement benefits	(88,272)	(63,318)
Net cash provided by operating activities before change in trading securities	3,210	62,668
Increase (decrease) in investments designated as trading securities, net	63,380	(40,456)
Net cash provided by operating activities	66,590	22,212

WellSpan Health

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

	Year Ended June 30	
	2018	2017
Investing activities		
Purchases of property, equipment, and capitalized software	\$ (108,292)	\$ (157,818)
Proceeds on sale of property and equipment	911	1,203
Increase in assets limited as to use and investments designated as other than trading securities	(4,558)	(8,006)
Change in investments in joint ventures	(9)	—
Net cash used in investing activities	(111,948)	(164,621)
Financing activities		
Temporarily restricted net contributions and investment income received	9,788	4,487
Principal repayments on long-term debt	(12,588)	(10,870)
Refunding of long-term debt	(60,290)	—
Proceeds from issuance of long-term debt	82,716	105,919
Debt issuance costs	(170)	—
Net cash provided by financing activities	19,456	99,536
Decrease in cash and cash equivalents	(25,902)	(42,873)
Cash and cash equivalents, beginning of year	67,546	110,419
Cash and cash equivalents, end of year	\$ 41,644	\$ 67,546
Supplemental cash flow information		
Cash paid for interest, net of capitalized interest	\$ 23,534	\$ 21,865
Cash paid for income taxes	\$ 525	\$ 192

See accompanying notes.

WellSpan Health

Notes to Consolidated Financial Statements (In Thousands)

June 30, 2018

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, 2018:

Entity	WSH Relation to Entity	Date Entity Formed	Purpose of Entity
Consolidated hospitals			
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.
Philhaven (PH)	Sole member	May 1949	A not-for profit corporation that operates a psychiatric mental health hospital.
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 Formed	Purpose of Entity
Consolidated foundations			
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 Formed	Purpose of Entity
Consolidated other not-for-profit organizations engaged in health services			
Apple Hill Surgical Center, Inc. (AHSCI)	WellSpan Health Care Services (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.
Good Samaritan Real Estate, Inc. (GSRE)	GSH was the sole member of GSRE. GSRE was merged into WellSpan Properties, Inc. (WP) effective June 30, 2017	December 1986	A not-for-profit corporation that leases non-residential real estate to exempt affiliates.
Healthy Community Pharmacy, Inc. (HCP) (Inactive)	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. (ceased operations June 30, 2014)

WellSpan Health

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

1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Formed	Purpose of Entity
Consolidated other not-for-profit organizations engaged in health services (continued)			
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 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.
Taxable corporations engaged in taxable activities that support WSH's mission			
Apple Hill Condominium Association (AHCA)	WP and Apple Hill Surgical Center Partners (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 69.01% 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 Formed	Purpose of Entity
Taxable corporations engaged in taxable activities that support WSH's mission (continued)			
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.
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.
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).
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 Formed	Purpose of Entity
Taxable corporations engaged in taxable activities that support WSH's mission (continued)			
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, 2018.
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.
Other joint ventures accounted for on the equity method			
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 Formed	Purpose of Entity
Other joint ventures accounted for on the equity method (continued)			
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)	WSH 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 Health Pavilion Condominium Association (EHPCA)	ECH has an 83% interest in EHPCA	October 2015	A corporation that oversees a medical office building in Ephrata, PA
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.

WellSpan Health

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

1. Organization (continued)

Entity	WSH Relation to Entity	Date Entity Formed	Purpose of Entity
Other joint ventures accounted for on the equity method (continued)			
Northern Lancaster County Medical Transport Services Cooperative (NLCMTSC)	ECH has a 33.33% interest in NLCMTSC	November 1996	A not-for-profit cooperative that provided ambulance and wheelchair transport services in Northern Lancaster County (inactive since 2016)
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.
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.
Other joint ventures accounted for at cost			
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, PH, WMG, WHCS, and WSS also serve as board members of WSH.

WellSpan Health

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

1. Organization (continued)

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 have the ability to exercise significant influence. Joint ventures where WSH has 50% control or more are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

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.

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, 2018 and 2017, 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 uncollectible accounts, are recorded at estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for uncollectible accounts 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

WellSpan Health

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

2. Significant Accounting Policies (continued)

experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are used to make any modifications to the provision for uncollectible accounts to establish an appropriate allowance.

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, 2017.

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 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. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Notes 5, 6 and 12.

WSH's board-designated unrestricted investments are designated as a trading portfolio in accordance with the American Institute of Certified Public Accountants Audit and Accounting

WellSpan Health

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

2. Significant Accounting Policies (continued)

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 the excess of revenues over expenses.

Investment income, realized gains and losses, unrealized gains and losses on trading securities, and other-than-temporary losses on investments (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, 2018 or 2017.

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.

Inventories

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

	June 30	
	2018	2017
Pharmaceutical drugs	\$ 11,601	\$ 9,130
Medical supplies	12,674	12,455
Computer supplies	215	300
	<u>\$ 24,490</u>	<u>\$ 21,885</u>

WellSpan Health

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

2. Significant Accounting Policies (continued)

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.

Expenditures for renewals and improvements are capitalized. 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 in the accompanying consolidated statements of operations.

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 accompanying 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 as of June 30, 2017. There were no capitalized software costs in software in process at June 30, 2018. Capitalized software costs in the accompanying consolidated balance sheets consists of:

	June 30	
	2018	2017
Capitalized software costs	\$ 72,270	\$ 63,418
Less accumulated amortization	(6,036)	(208)
	<u>\$ 66,234</u>	<u>\$ 63,210</u>

WellSpan Health

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

2. Significant Accounting Policies (continued)

Capitalized software costs are amortized over its expected useful life of ten years. Amortization expense related to capitalized software, included within depreciation and amortization in the accompanying consolidated statement of operations, was \$5,828 and \$208 for the years ended June 30, 2018 and 2017, respectively.

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

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 in the accompanying 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 in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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.

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

WellSpan Health

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

2. Significant Accounting Policies (continued)

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.

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, 2018 and 2017, consists primarily of WRx's prescription sales of \$44,101 and \$41,867, respectively. GSHMC had durable medical equipment revenue of \$10,075 and \$7,438 for the years ended June 30, 2018 and 2017, 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.

WellSpan Health

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

2. Significant Accounting Policies (continued)

Federal and State Income Taxes

WSH, the six hospitals (ECH, GH, GSH, PH, 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.

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 in the consolidated statements of operations. At June 30, 2018 and 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, 2018 and 2017 was \$2,421 and \$3,542, respectively.

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, 2018 and 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 2014.

WellSpan Health

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

2. Significant Accounting Policies (continued)

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018, and WSH does not currently anticipate a material impact.

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that was previously tax deferred and creates new taxes on certain foreign sourced earnings. For tax-exempt entities, the Act also requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, and repeals tax-exempt status of advanced refunding bond issuances among other provisions. At June 30, 2018, WSH has made a reasonable estimate of the tax effects of the enactment of the Act.

Certain regulatory guidance provides for a measurement period of up to one year during which the accounting for the tax effects of the Act may be completed. WSH may record further adjustments in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the date of enactment that would have affected the income tax effects initially reported. WSH will continue to revise and refine the calculations as additional IRS guidance is issued.

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

WellSpan Health

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

2. Significant Accounting Policies (continued)

WSH for annual reporting periods beginning after December 15, 2017. WSH anticipates that, as a result of certain changes required by ASU 2014-09, the majority of its provision for uncollectible accounts will be recorded as a direct reduction to revenue instead of being presented as a separate line item. Additionally, the provision for uncollectible accounts will be presented as an expense item rather than a reduction of net patient service revenue. Management intends to adopt the new standard on a modified retrospective basis and is in process of finalizing its assessment of the impact of adoption under ASU 606 for each of its revenue streams under the scope of the ASUs.

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. Early adoption is permitted. WSH adopted the new standard as of July 1, 2018 and, as a result of the adoption, recorded an increase in Board-designated, restricted and unrestricted net assets in its consolidated balance sheets of approximately \$3,331 as of that date.

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 anticipates that the adoption of ASU 2016-02 will result in an increase in both assets and liabilities on the balance sheet. WSH will continue evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and will update disclosures accordingly.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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, 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, 2017 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

WellSpan Health

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

2. Significant Accounting Policies (continued)

December 15, 2017 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, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. The provisions of ASU 2017-07 are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. ASU 2017-07 allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Early adoption is permitted. Adoption of ASU 2017-07 will require WSH to present the components of net benefit cost other than service cost (in aggregate, approximately \$14,280 for the year ended June 30, 2018) 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 within salaries and wages line, which represents approximately \$1,400 for the year ended June 30, 2018 in the consolidated statements of operations. Net periodic benefit cost is reported currently within employee benefit expense in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements of the prior year to conform to the current-year presentation, which had no impact on previously reported excess of revenues over expenses or net assets.

WellSpan Health

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

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 41% and 40% of WSH's net patient service revenue for each of the years ended June 30, 2018 and 2017, 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.
- **Blue Cross** – Net revenue for services provided under Blue Cross/Blue Shield contracts accounted for approximately 30% and 31% of WSH net patient service revenues for the years ended June 30, 2018 and 2017, respectively. 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.

WellSpan Health

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

3. Net Patient Service Revenue (continued)

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, 2017.

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:

	June 30	
	2018	2017
Medicare	36%	34%
Medicaid	18	18
Blue Cross/Blue Shield	12	12
Other third-party payors	19	27
Self-pay	15	9
	100%	100%

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 uncollectible accounts.

WellSpan Health

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

4. Charity Care and Community Service (continued)

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 \$15,168 and \$15,782 for the years ended June 30, 2018 and 2017, 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 \$25,113 and \$30,795 for the years ended June 30, 2018 and 2017, 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 from the Medicare program were approximately \$255,562 and \$187,403 for the years ended June 30, 2018 and 2017, respectively. The unpaid costs are estimated by utilizing an entity wide ratio of operating costs against gross patient revenues applied to the payor level.

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 \$129,822 and \$150,578 for the years ended June 30, 2018 and 2017, 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)

5. Investments

Assets Limited as to Use and Investments

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

	June 30	
	2018	2017
Board-designated:		
WSH Master Trust	\$ 1,001,459	\$ 936,828
Money market fund	20,847	91,692
Mutual funds	18,580	17,390
Land investment, at cost	5,881	6,987
Government-sponsored enterprise mortgage-backed securities	3,092	5,908
Corporate debt securities	9,974	10,758
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	13,659	11,541
	\$ 1,073,492	\$ 1,081,104
Self-insurance trust:		
Corporate debt securities	\$ 8,188	\$ 9,321
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	12,326	10,954
Less: Trustee-held assets for current self-insurance	(6,650)	(6,114)
	\$ 13,864	\$ 14,161

WellSpan Health

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

5. Investments (continued)

	June 30	
	2018	2017
Temporarily restricted investments:		
Cash and short-term investments	\$ 885	\$ 1,073
Mutual funds	486	2,219
WSH Master Trust	8,838	8,522
	\$ 10,209	\$ 11,814
Permanently restricted investments:		
Cash and short-term Investments	\$ 68	\$ –
Mutual funds	1,371	1,136
WSH Master Trust	4,341	4,198
	\$ 5,780	\$ 5,334
Beneficial interest in perpetual trusts:		
Mutual funds held by other trustees	\$ 19,503	\$ 18,983

WSH Master Trust

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

	June 30	
	2018	2017
Board-designated	\$ 1,001,459	\$ 936,828
Temporarily restricted	8,838	8,522
Permanently restricted	4,341	4,198
	\$ 1,014,638	\$ 949,548

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:

	June 30	
	2018	2017
Investments, at fair value:		
Commodities/real return	\$ 40,611	\$ 35,293
Equity securities	189,000	177,377
Stock index fund	70,240	61,261
Collective mutual funds and investment trusts	606,077	569,135
	905,928	843,066
Alternative investments, recorded under the equity method:		
Real estate, limited partnerships	38,522	38,165
Private equity, limited partnership	3,920	2,348
	42,442	40,513
Alternative investments, recorded at cost:		
Absolute return, limited partnerships	45,263	45,263
Real estate, limited partnerships	1,920	2,130
Private equity, limited partnership	19,085	18,576
	66,268	65,969
	\$ 1,014,638	\$ 949,548

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 \$3,331 and \$1,862 as of June 30, 2018 and 2017, respectively.

WellSpan Health

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

5. Investments (continued)

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

	Year Ended June 30	
	2018	2017
Investment income:		
Interest and dividend income	\$ 17,790	\$ 16,099
Change in net unrealized gains and losses on trading securities	20,090	72,980
Net realized gain on sales of securities	30,397	18,255
	\$ 68,277	\$ 107,334
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	\$ (496)	\$ (566)

6. Fair Value Measurements

As of June 30, 2018 and 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

WellSpan Health

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

6. Fair Value Measurements (continued)

- 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

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.

WellSpan Health

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

6. Fair Value Measurements (continued)

	June 30, 2018				
	Total	Level 1	Level 2	Level 3	NAV
WSH Master Trust					
Commodities/real return	\$ 40,611	\$ 40,611	\$ —	\$ —	\$ —
Domestic equity securities	189,000	189,000	—	—	—
Stock index fund	70,240	—	—	—	70,240
Collective mutual funds and investment trusts:					
International equity	225,370	61,408	—	—	163,962
Emerging markets	40,726	—	—	—	40,726
Fixed income funds	244,320	135,674	—	—	108,646
Emerging market debt	37,953	37,953	—	—	—
Global asset allocation	49,100	49,100	—	—	—
Cash and cash equivalents	8,608	8,608	—	—	—
Total collective mutual funds and investment trusts	606,077	292,743	—	—	313,334
		\$ 522,354	\$ —	\$ —	\$ 383,574
Alternative investments, recorded under the equity method:					
Real estate, limited partnerships ⁽¹⁾⁽²⁾	38,522				
Private equity, limited partnership ⁽³⁾	3,920				
Total WSH Master Trust	948,370				
Other assets					
Cash and cash equivalents	63,444	63,444	—	—	—
Mutual funds	20,437	20,437	—	—	—
Beneficial interest in perpetual trusts*	19,503	—	—	19,503	—
Government-sponsored enterprise mortgage-backed securities	3,092	—	3,092	—	—
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	25,985	—	25,985	—	—
Corporate debt securities	18,162	—	18,162	—	—
Total other assets	150,623	83,881	47,239	19,503	—
	1,098,993	606,235	47,239	19,503	383,574
Liabilities					
Interest rate swap agreements	(36,743)	—	(36,743)	—	—
	\$ 1,062,250	\$ 606,235	\$ 10,496	\$ 19,503	\$ 383,574

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	NAV
WSH Master Trust					
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	62,619	–	–	147,847
Emerging markets	42,693	–	–	–	42,693
Fixed income funds	223,607	118,370	–	–	105,237
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	273,358	–	–	295,777
		\$ 486,028	\$ –	\$ –	\$ 357,038
Alternative investments, recorded under the equity method:					
Real estate, limited partnerships ⁽¹⁾⁽²⁾	38,165				
Private equity, limited partnership ⁽³⁾	2,348				
Total WSH Master Trust	883,579				
Other assets					
Cash and cash equivalents	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	663,016	52,550	18,983	357,038
Liabilities					
Interest rate swap agreements	(50,003)	–	(50,003)	–	–
	\$ 1,082,097	\$ 663,016	\$ 2,547	\$ 18,983	\$ 357,038

WellSpan Health

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

6. Fair Value Measurements (continued)

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

⁽¹⁾This asset includes a \$13,591 investment in Siguler Guff Distressed Real Estate Opportunities Fund, LP (Siguler Guff) as of June 30, 2018. 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. WSH 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.

⁽²⁾This asset includes a \$24,931 investment in Guggenheim Real Estate Commingled Trust (Guggenheim) as of June 30, 2018. 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.

⁽³⁾This asset includes an investment in Private Advisors Small Company Coinvestment Fund, LP (Private Advisors). 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. WSH has an unfunded commitment of \$5,328. 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.

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

Balance at June 30, 2016	\$ 25,460
Realized and unrealized gains and losses	1,146
Sales, issuances, and settlements	(7,623)
Balance at June 30, 2017	18,983
Realized and unrealized gains and losses	520
Balance at June 30, 2018	<u>\$ 19,503</u>

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 as follows:

	Total Fair Value		Unfunded Commitments June 30, 2018	Redemption	
	June 30 2018	2017		Frequency	Notice Period
Absolute return					
Multi-strategy ⁽⁴⁾	\$ 48,046	\$ 46,180	\$ –	Quarterly	65 days
Real estate					
Opportunistic ⁽⁵⁾	2,230	2,248	612	N/A	N/A
Private equity⁽⁶⁾	19,323	19,403	20,042	N/A	N/A
	\$ 69,599	\$ 67,831	\$ 20,654		

⁽⁴⁾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.

⁽⁵⁾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.

⁽⁶⁾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:

	Estimated Useful Life	June 30 2018	2017
Land		\$ 26,832	\$ 25,813
Land improvements	5 to 25 years	23,658	23,160
Buildings and building equipment	10 to 40 years	940,825	911,756
Fixed equipment	5 to 25 years	70,104	72,657
Major movable equipment	3 to 20 years	599,728	631,706
Construction-in-progress		48,665	30,999
		1,709,812	1,696,091
Less accumulated depreciation		(928,241)	(924,551)
Property and equipment, net		\$ 781,571	\$ 771,540

Depreciation expense for the years ended June 30, 2018 and 2017, was \$88,871 and \$84,623, respectively.

WSH has outstanding purchase commitments related to various construction projects of approximately \$47,000 and \$11,000 at June 30, 2018 and 2017, respectively.

WellSpan Health

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

8. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2018	2017
Fixed rate debt		
2017 bank loans issued under the General Authority of South Central Pennsylvania to refund 2008 Series A and B Bonds, secured by gross receipts of YH, GH and ECH	\$ 64,189	\$ –
2017 bank loan, secured by gross receipts of YH, GH and ECH	100,000	100,000
2015 ECH bank loan, uncollateralized	501	740
2014 General Authority of South Central Pennsylvania Revenue Refunding Bonds, Series A, secured by gross receipts of YH, GH, and ECH, includes unamortized premium of \$16,678 and \$17,322 at June 30, 2018 and 2017, respectively	219,662	223,192
2013 GSH Small Business Administration loan secured by mortgage on real property	–	227
2008 General Authority of South Central Pennsylvania Revenue Refunding Bonds, Series A, secured by gross receipts of YH, GH, and ECH, net of unamortized discount of \$1,672 at June 30, 2017	–	61,237
Variable rate debt		
2018 AHCA bank loan, uncollateralized	1,410	–
2015 ECH bank loan, Series A, issued under the Lancaster Municipal Authority, secured by the gross receipts of YH, GH, and ECH	32,269	33,727
2015 ECH bank loan Series B, issued under Lancaster Municipal Authority, secured by the gross receipts of YH, GH, and ECH	4,632	4,841
2015 WP line of credit, amended 2018, uncollateralized	28,159	11,072
2015 WP line of credit, amended 2018, uncollateralized	694	694

WellSpan Health

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

8. Long-Term Debt (continued)

	June 30	
	2018	2017
Variable rate debt (continued)		
2013 WPH bank loan, secured by mortgage on real property	\$ 460	\$ 494
2012 GH bank loan, uncollateralized	1,305	1,395
2008 GSR bank loan, secured by mortgage on real property	1,588	1,668
2008 General Authority of South Central Pennsylvania Revenue Bonds, Series B1-D, variable rate demand bond interest, secured by gross receipts of YH, GH, and ECH	211,701	211,701
2007 WPH bank loan, secured by mortgage on real property	217	271
2005 WPH Eastern Mennonite Missions promissory note, secured by shared first mortgage on real property	696	1,039
2000 AHSCP bank loan, collateralized by certain assets	771	1,021
	668,254	653,319
Less current portion	(41,913)	(9,806)
Less deferred financing cost, net	(2,068)	(2,891)
	\$ 624,273	\$ 640,622

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 \$666,696 and \$658,216 at June 30, 2018 and 2017, respectively.

Long-Term Debt Issued Under Master Trust Indenture Dated June 15, 2001, and Secured by Gross Receipts of the Obligated Group

On September 25, 2017, the WSH Obligated Group (consisting of YH, GH, and ECH) issued bank loans under the General Authority of Southcentral Pennsylvania for the purpose of refunding 2008 Series A Bonds. Bank loan Series A principal of \$34,877 was issued as a taxable note, converting to a tax exempt fixed rate of 1.68% in March 2018, and matures in June 2025. Bank loan Series B principal of \$29,312 was issued as a taxable note, converting to a tax exempt fixed rate of 1.88% in September 2018, and matures in June 2029. Payments of interest are due on a quarterly basis.

WellSpan Health

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

8. Long-Term Debt (continued)

On March 14, 2017, the Obligated Group obtained a taxable term loan in the amount of \$100,000. Payments of interest are due monthly at a fixed rate of 3.33%. Under the loan terms, WSH is subject to a prepayment penalty dependent on market rates at the time of prepayment. The amount outstanding at June 30, 2018, was \$100,000. Principal payments are due annually and the loan matures in March 2027.

On May 22, 2015, the Obligated Group issued bank loans under the Lancaster Municipal Authority for the purposes of refunding ECH 2009 Series A bonds, ECH 2010 Series A bonds, and ECH 2013 bonds. Bank loan Series A principal of \$36,572 was issued as a tax-exempt variable rate loan. Bank loan Series B principal of \$5,250 was issued as a taxable variable rate loan. The 2015 Series A and B bonds interest rates at June 30, 2018 of 2.08% and 2.76%, respectively. Outstanding balances at June 30, 2018, were \$32,269 and \$4,632, respectively. Both loans mature in 2041.

On November 10, 2014, the General Authority of South Central Pennsylvania issued 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 will be paid by YH, GH, ECH, WSS, and WP based on their allocated amounts. The Series 2014A Bonds are fixed rate bonds with interest rates ranging from 2.75%–5.00%. The amount outstanding at June 30, 2018, was \$219,662, including unamortized premium of \$16,678. The bonds mature in November 2044.

On November 12, 2008, the General Authority of Southcentral Pennsylvania issued Revenue Refunding Bonds, Series B-D. The Series 2008A Bonds are fixed rate bonds with interest rates ranging from 5.63%–6.00%. 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, the bonds are nonbank-qualified variable rate loans held by various banks under Continuing Covenant Agreements. The amount outstanding at June 30, 2018, is \$211,701. Final maturity of Series B–D is June 2037.

- On October 1, 2015, WSH issued Series 2008D in the amount of \$80,935 for a term of ten years. The rate at June 30, 2018 and 2017, was 2.15% and 1.45%, 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 at June 30, 2018 and 2017, was 2.13% and 1.38%, respectively.

WellSpan Health

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

8. Long-Term Debt (continued)

- On December 1, 2012, WSH issued Series 2008C in the amount of \$56,740 for a term of seven years. The interest rate at June 30, 2018 and 2017, was 2.10% and 1.40%, respectively.
- On December 1, 2012, WSH Obligated Group issued Series 2008B-1 in the amount of \$40,026 for a term of seven years. The interest rate at June 30, 2018 and 2017, was 2.10% and 1.40%, respectively.

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

All bonds and related loan agreements issued under the June 15, 2001 Master Trust Indenture are subject to 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, 2018 and 2017.

Other Long-Term Debt Not Issued Under the Master Trust Indenture

On June 20, 2018, WP amended its 2015 line of credit used to finance real estate acquisitions and facility development to increase the total amounts available to \$50,000 from \$25,000. The amount outstanding under the line at June 30, 2018 and 2017, was \$28,159 and \$11,072, respectively. The interest rate is variable and the rate at June 30, 2018 and 2017, was 3.43% and 2.75%, respectively. The line of credit is uncollateralized and is due on demand.

On June 20, 2018, WP amended the interest rate on its 2015 line of credit used to finance real estate acquisition and construction. The total available under the line is \$20,000. The amount outstanding under the line at June 30, 2018 and 2017, was \$694. The interest rate is variable and was 4.85% and 3.91% at June 30, 2018 and 2017, respectively. The line of credit is uncollateralized.

On April 2, 2018, AHCA obtained bank financing of \$1,440 for roof repairs at the Apple Hill Medical Center. The loan is a fixed rate loan for 60 months at 4.97%, adjusting to variable interest at month 61. The term of the loan is 10 years. The amount outstanding at June 30, 2018, is \$1,410.

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, 2018, was \$501.

WellSpan Health

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

8. Long-Term Debt (continued)

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 amount outstanding at June 30, 2018, was \$460.

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, 2018, was \$0.

On December 7, 2012, GH obtained bank financing in the amount of \$1,800. The interest rate is variable and the rate was 4.40% and 3.46% at June 30, 2018 and 2017, respectively. The note is uncollateralized and has a final maturity of December 2022. The amount outstanding at June 30, 2018, was \$1,305.

On January 10, 2008, GSR obtained bank financing in the amount of \$2,300. The promissory note is a variable rate loan secured by real property. Final maturity is January 10, 2020. The interest rate at June 30, 2018, was 3.73%. The amount outstanding at June 30, 2018, was \$1,588.

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 5.00% at June 30, 2018. The amount outstanding at June 30, 2018, was \$217.

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, 2018. The amount outstanding at June 30, 2018, was \$696.

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, 2018 and 2017, were 2.73% and 1.87%, respectively. Repayment is in monthly payments through June 1, 2020. All principal and interest payments on the loan have been collateralized by AHSCP assets. The amount outstanding as of June 30, 2018, was \$771.

WellSpan Health

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

8. Long-Term Debt (continued)

Deferred Financing Costs

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

Maturities of Long-Term Debt

Maturities of the long-term debt outstanding, including capital leases and unamortized premium, as of June 30, 2018:

2019	\$	42,061
2020		12,320
2021		12,245
2022		10,895
2023		12,316
2024 and thereafter		<u>578,676</u>
	\$	<u>668,513</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 in 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
June 30, 2018			
Notional amount	\$ 8,240	\$ 86,015	\$ 140,000
Effective date	2/10/2006	6/05/2007	6/05/2007
Termination date	1/01/2031	5/15/2031	6/01/2037
Fixed rate	3.583%	3.600%	3.636%
Variable rate basis	USD-LIBOR- BBA-1MT *.68	USD-LIBOR-BBA- 1MT *.624+.0029	USD-LIBOR-BBA- 1MT *.617+.0031
Recorded liability	\$ 890	\$ 9,507	\$ 26,346
June 30, 2017			
Notional amount	\$ 8,725	\$ 89,600	\$ 140,000
Effective date	2/10/2006	6/05/2007	6/05/2007
Termination date	1/01/2031	5/15/2031	6/01/2037
Fixed rate	3.583%	3.600%	3.636%
Variable rate basis	USD-LIBOR- BBA-1MT *.68	USD-LIBOR-BBA- 1MT *.624+.0029	USD-LIBOR-BBA- 1MT *.617+.0031
Recorded liability	\$ 1,301	\$ 13,862	\$ 34,840

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 at June 30, 2018 and 2017, respectively, is calculated based on WSH's credit ratings. At June 30, 2018, WSH market value of the interest rate swaps as determined by the counterparty was \$36,743, which did not exceed the threshold and no collateral was posted. At June 30, 2017, WSH market value of the interest rate swaps as determined by the counterparty was \$50,003, which slightly exceeded the threshold but did not cause collateral to be posted.

9. Amounts Available Under Lines and Letters of Credit

At June 30, 2018 and 2017, WSH collectively maintained four lines of credit totaling \$120,000 of which \$91,147 was unused at June 30, 2018, and \$95,000 of which \$83,234 was unused at June 30, 2017. At June 30, 2018 and 2017, WSH had unused, unsecured standby letters of credit with a bank totaling \$19,203 and \$17,534, 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:

	June 30	
	2018	2017
Health care services		
Professional education	\$ 1,524	\$ 1,391
Health care promotion	19,371	24,194
	\$ 20,895	\$ 25,585

For the years ended June 30, 2018 and 2017, \$14,994 and \$3,036 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:

	June 30	
	2018	2017
Permanent endowment funds, the income of which was permitted to be used to support health care services	\$ 5,780	\$ 5,334
Funds held in trust by others	19,503	18,983
	\$ 25,283	\$ 24,317

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:

	June 30	
	2018	2017
Professional liability	\$ 72,189	\$ 73,653
Health benefits	18,209	29,894
Short-term disability	783	700
Workers' compensation	11,730	11,545
	102,911	115,792
Less current portion	(32,003)	(42,856)
	\$ 70,908	\$ 72,936

For the years ended June 30, 2018 and 2017, 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 2018 and 2017 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, 2018 and 2017, estimated professional liability reserve requirements for WSH have been discounted at 3%. The undiscounted reserve for professional liability was \$78,605 and \$78,857 at June 30, 2018 and 2017, respectively. The reserves established by WSH are inclusive of both incurred and incurred but not reported claims at June 30, 2018 and 2017.

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, 2016 (the latest date for which such information is available), was \$975 million. 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 \$2,900 and \$2,567 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, the reserve for workers' compensation claims, discounted at 3%, was \$11,730 and \$11,545, respectively. The undiscounted reserve for workers' compensation claims was \$12,482 and 10,223 at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the reserve for medical claims incurred but not reported was \$18,209 and \$29,894, respectively.

The self-insurance liabilities are presented gross on the consolidated balance sheets of the professional and general liability reinsurance agreements discussed above, comprising \$18,814 and \$20,088 of estimated insurance recoveries as of June 30, 2018 and 2017, 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)

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.

The following table summarizes information about the plans:

	June 30, 2018			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
Change in benefits obligations				
Benefits obligation at beginning of year	\$ 1,020,347	\$ 134,231	\$ 1,154,578	\$ 36,124
Service cost, net	—	—	—	1,438
Interest cost	35,817	4,716	40,533	1,077
Actuarial gain	(34,050)	(6,218)	(40,268)	(2,257)
Benefits paid	(30,642)	(4,351)	(34,993)	(1,124)
Other	—	—	—	(375)
Benefits obligation at end of year	<u>\$ 991,472</u>	<u>\$ 128,378</u>	<u>\$ 1,119,850</u>	<u>\$ 34,883</u>
Accumulated benefits obligation	<u>\$ 991,472</u>	<u>\$ 128,378</u>	<u>\$ 1,119,850</u>	<u>\$ 34,883</u>
Changes in plan assets				
Fair value of plan assets at beginning of year	\$ 892,194	\$ 94,505	\$ 986,699	\$ —
Actual return on plan assets	38,051	3,484	41,535	—
Contributions by WSH and GSH	32,308	13,482	45,790	1,124
Benefits paid	(30,642)	(4,351)	(34,993)	(1,124)
Fair value of plan assets at end of year	<u>\$ 931,911</u>	<u>\$ 107,120</u>	<u>\$ 1,039,031</u>	<u>\$ —</u>
Funded status at end of year	<u>\$ (59,561)</u>	<u>\$ (21,258)</u>	<u>\$ (80,819)</u>	<u>\$ (34,883)</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
Change in benefits obligations				
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	\$ 1,020,347	\$ 134,231	\$ 1,154,578	\$ 36,124
Accumulated benefits obligation	\$ 1,020,347	\$ 134,231	\$ 1,154,578	\$ 36,124
Changes in plan assets				
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 paid	(27,524)	(3,778)	(31,302)	(746)
Fair value of plan assets at end of year	\$ 892,194	\$ 94,505	\$ 986,699	\$ -
Funded status at end of year	\$ (128,153)	\$ (39,726)	\$ (167,879)	\$ (36,124)

WellSpan Health

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

12. Retirement Benefits (continued)

	June 30, 2018			
	WSH Plan	GSH Plan	Total Pension	Other Benefits
Amounts recognized in accumulated unrestricted net assets consist of				
Prior service cost	\$ —	\$ —	\$ —	\$ 917
Net actuarial loss	270,166	42,553	312,719	968
	\$ 270,166	\$ 42,553	\$ 312,719	\$ 1,885
 Components of net periodic benefit (income) cost				
Service cost	\$ —	\$ —	\$ —	\$ 1,438
Interest cost	35,817	4,716	40,533	1,077
Expected return on assets	(58,946)	(6,058)	(65,004)	—
Amortization of prior service cost	—	—	—	337
Amortization of unrecognized net actuarial loss	7,442	1,040	8,482	298
Net periodic benefit (income) cost	\$ (15,687)	\$ (302)	\$ (15,989)	\$ 3,150
 Other changes in retirement benefits recognized in unrestricted net assets				
	\$ (20,598)	\$ (4,684)	\$ (25,282)	\$ (3,267)

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
Amounts recognized in accumulated unrestricted net assets consist of				
Prior service cost	\$ —	\$ —	\$ —	\$ 901
Net actuarial loss	290,763	47,238	338,001	4,251
	<u>\$ 290,763</u>	<u>\$ 47,238</u>	<u>\$ 338,001</u>	<u>\$ 5,152</u>
Components of net periodic benefit (income) cost				
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	<u>\$ (9,353)</u>	<u>\$ (725)</u>	<u>\$ (10,078)</u>	<u>\$ 3,162</u>
Other changes in retirement benefits recognized in unrestricted net assets				
	<u>\$ (20,781)</u>	<u>\$ (1,059)</u>	<u>\$ (21,840)</u>	<u>\$ (324)</u>

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:

	Pension Benefits	Other Benefits	Total
Prior service cost	\$ –	\$ 337	\$ 337
Net actuarial loss	7,906	229	8,135
Total	\$ 7,906	\$ 566	\$ 8,472

	2018		
	WSH Plan	GSH Plan	Other Benefits
Assumptions			
Weighted average assumptions used to determine benefit obligation at June 30			
Discount rate	4.36%	4.37%	4.38%
Rate of increase in future compensation levels	N/A	N/A	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30			
Discount rate	4.04%	4.06%	4.04%
Rate of increase in future compensation levels	N/A	N/A	4.00%
Expected long-term rate of return on assets	7.25%	7.25%	N/A

WellSpan Health

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

12. Retirement Benefits (continued)

	2017		
	WSH Plan	GSH Plan	Other Benefits
Assumptions			
Weighted average assumptions used to determine benefit obligation at June 30			
Discount rate	4.04%	4.06%	4.04%
Rate of increase in future compensation levels	N/A	N/A	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30			
Discount rate	3.99%	4.01%	3.92%
Rate of increase in future compensation levels	4.00%	3.00%	4.00%
Expected long-term rate of return on assets	7.25%	7.25%	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	2018	2017
Equity securities	28%	34%	48%	38%	38%
Debt securities	17	44	67	47	47
Other	0	22	45	15	15
				100%	100%

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.

WellSpan Health

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

12. Retirement Benefits (continued)

Cash Flows

Contributions

WSH expects to contribute during the 2019 fiscal year approximately \$6,130 related to the GSH pension plan and \$2,899 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, 2018				
	Total Fair Value	Level 1	Level 2	Level 3	NAV
Stock index fund	\$ 50,057	\$ –	\$ –	\$ –	\$ 50,057
Alternative investments – private equity, limited partnerships ⁽¹⁾	57,761	–	–	–	57,761
Alternative investments – real estate partnerships ⁽²⁾⁽³⁾	38,407	–	–	–	38,407
Collective mutual funds and investment trusts:					
International equity	132,961	29,809	–	–	103,152
Emerging markets	54,359	–	–	–	54,359
Fixed income funds	486,598	102,545	–	–	384,053
Global asset allocation	52,226	52,226	–	–	–
Cash and cash equivalents	4,359	4,359	–	–	–
Total collective mutual funds and investment trusts	730,503	188,939	–		541,564
Guaranteed annuity contracts	3,757	–	3,757	–	–
Domestic equity securities	158,546	158,546	–	–	–
	\$ 1,039,031	\$ 347,485	\$ 3,757	\$ –	\$ 687,789

WellSpan Health

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

12. Retirement Benefits (continued)

	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 ⁽¹⁾	56,478	—	—	—	56,478
Alternative investments – real estate partnerships ⁽²⁾⁽³⁾	36,618	—	—	—	36,618
Collective mutual funds and investment trusts:					
International equity	123,421	33,225	—	—	90,196
Emerging markets	56,985	—	—	—	56,985
Fixed income funds	460,107	88,105	—	—	372,002
Global asset allocation	50,506	50,506	—	—	—
Cash and cash equivalents	3,491	3,491	—	—	—
Total collective mutual funds and investment trusts	694,510	175,327	—	—	519,183
Guaranteed annuity contracts	3,874	—	3,874	—	—
Domestic equity securities	151,567	151,567	—	—	—
	\$ 986,699	\$ 326,894	\$ 3,874	\$ —	\$ 655,931

⁽¹⁾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.

WellSpan Health

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

12. Retirement Benefits (continued)

- ⁽²⁾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.
- ⁽³⁾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:	Pension Benefits	Other Benefits
2019	\$ 41,513	\$ 2,899
2020	45,149	5,433
2021	48,705	4,990
2022	52,062	3,320
2023	55,208	2,466
2024 and thereafter	316,299	8,598

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 PH. 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 \$60,990 and \$47,095 for the years ended June 30, 2018 and 2017, 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, 2018.

2019	\$ 14,122
2020	9,790
2021	7,502
2022	5,810
2023	4,653
2024 and thereafter	15,975
Total minimum payments required	<u>\$ 57,852</u>

Rent expense under operating leases was \$15,639 and \$15,526 for the years ended June 30, 2018 and 2017, respectively, and is included in supplies and other expenses in 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	
	2018	2017
Program activities	\$ 1,730,471	\$ 1,637,715
General and administrative	468,217	407,670
	<u>\$ 2,198,688</u>	<u>\$ 2,045,385</u>

15. Subsequent Events

WSH has evaluated subsequent events that have occurred for recognition or disclosure through October 9, 2018, the date the accompanying consolidated financial statements were issued.

On June 29, 2018, WSH and Summit Health (SH) executed a definitive affiliation agreement defining the terms and intention of aligning the two organizations, as a means to address changes in health care and improve the health of individuals and communities across south central Pennsylvania.

WellSpan Health

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Subsequent Events (continued)

Summit Health was formed in 1996 to serve the residents of Franklin County. Today, the organization has grown to provide care to patients from across Franklin County and neighboring counties through Chambersburg Hospital – a 273 bed acute care hospital, Waynesboro Hospital – a 57 bed acute care hospital, Summit Surgical Center LP – an outpatient surgical center, Summit Physician Services – 53 medical practices, 5 urgent/walk in care centers and 19 outpatient hospital centers.

Summit Health is in the process of completing the affiliation with WellSpan.

Supplementary Information (2018 Only)

WellSpan Health
Consolidating Balance Sheet
(In Thousands)

June 30, 2018

	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
Assets													
Current assets:													
Cash and cash equivalents	\$ 16,158	\$ 5,357	\$ 4,164	\$ 2,805	\$ 3,000	\$ 1,219	\$ –	\$ 2,751	\$ 6	\$ 5,415	\$ 3,019	\$ (2,250)	\$ 41,644
Due from affiliates	–	20,814	595	845	–	119	–	71	10,387	242	–	(33,073)	–
Assets limited as to use	–	–	–	–	–	–	–	–	–	–	6,650	–	6,650
Patient accounts receivable, net	155,572	25,684	29,526	19,070	13,786	8,276	32,025	1,525	504	7,081	–	–	293,049
Other receivables	4,949	1,128	646	695	643	1,984	9,406	35	6,313	467	356	–	26,622
Inventories	6,658	1,704	3,391	2,459	1,459	53	485	466	215	7,600	–	–	24,490
Prepaid expenses	1,816	456	150	312	1,432	155	249	12	22,376	2,929	345	–	30,232
Total current assets	185,153	55,143	38,472	26,186	20,320	11,806	42,165	4,860	39,801	23,734	10,370	(35,323)	422,687
Investments limited as to use:													
Board-designated	837,147	176,366	8,338	10,636	32,767	636	–	–	–	5,881	1,721	–	1,073,492
Self-insurance trust	–	–	–	–	–	–	–	–	–	–	13,864	–	13,864
Temporarily restricted investments	1,551	883	–	–	1,652	–	–	–	18	–	6,105	–	10,209
Permanently restricted investments	1,050	396	–	699	3,257	378	–	–	–	–	–	–	5,780
Beneficial interest in perpetual trusts	7,226	7,852	690	251	3,157	327	–	–	–	–	–	–	19,503
Total investments limited as to use	846,974	185,497	9,028	11,586	40,833	1,341	–	–	18	5,881	21,690	–	1,122,848
Pledges receivable, net	1,285	93	115	3,483	–	77	–	–	–	–	–	–	5,053
Property and equipment, net	223,147	41,618	101,595	70,135	50,101	16,341	26,012	3,989	121,967	126,181	485	–	781,571
Investments in joint ventures	–	–	1,807	5,951	–	885	–	–	7,518	217	–	(4,992)	11,386
Notes receivable	–	–	1,027	–	–	340	–	–	–	–	–	–	1,367
Notes receivable – affiliates	441,499	–	–	–	–	–	–	–	189,543	159	214	(631,415)	–
Interest in net assets of foundation	6,105	–	–	–	–	–	–	–	–	–	–	(6,105)	–
Capitalized software costs, net	–	–	–	–	–	–	–	–	66,234	–	–	–	66,234
Goodwill and intangible assets, net	33	3,214	–	115	–	–	–	195	14,198	–	–	–	17,755
Estimated insurance recoveries	–	–	–	–	–	–	–	–	18,814	–	–	–	18,814
Other assets	1	2,375	42	11	–	–	–	–	4,451	224	–	–	7,104
Total assets	\$ 1,704,197	\$ 287,940	\$ 152,086	\$ 117,467	\$ 111,254	\$ 30,790	\$ 68,177	\$ 9,044	\$ 462,544	\$ 156,396	\$ 32,759	\$ (677,835)	\$ 2,454,819

WellSpan Health

Consolidating Balance Sheet (continued)

(In Thousands)

June 30, 2018

	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
Liabilities and net assets													
Current liabilities:													
Current portion of long-term debt and capital lease obligations	\$ 7,248	\$ 601	\$ 2,300	\$ 118	\$ 935	\$ 449	\$ –	\$ 250	\$ 200	\$ 29,960	\$ –	\$ –	\$ 42,061
Accounts payable and accrued expenses	17,188	2,094	3,664	4,201	2,002	56	2,477	468	43,060	599	229	–	76,038
Bank payable	–	–	–	–	–	–	59	–	263	1,928	–	(2,250)	–
Accrued interest payable	1,902	13	84	–	–	–	–	2	–	–	–	–	2,001
Accrued salaries and wages	21,395	3,719	4,903	5,666	3,023	3,402	36,059	566	31,511	737	865	–	111,846
Advances from third-party payors	2,537	489	269	38	(64)	46	83	–	84	–	1,570	–	5,052
Current portion of self-insurance reserves and accrued retirement benefits	3,089	–	–	–	–	–	–	–	23,202	–	6,650	–	32,941
Third-party payor settlements	6,091	1,190	(290)	1,741	507	385	–	–	–	–	–	–	9,624
Due to affiliates	12,975	–	12,713	–	2,062	–	2,284	–	–	2,653	386	(33,073)	–
Total current liabilities	72,425	8,106	23,643	11,764	8,465	4,338	40,962	1,286	98,320	35,877	9,700	(35,323)	279,563
Self-insurance reserves, less current portion	–	–	–	(10)	–	–	–	–	57,392	–	13,526	–	70,908
Long-term debt and capital lease obligations, less current portion	383,507	34,463	67,426	2,300	60,797	924	–	521	12,604	61,842	–	–	624,384
Accrued retirement benefits, less current portion	19,501	–	–	21,258	–	–	–	–	74,005	–	–	–	114,764
Notes payable – affiliates	143	28	–	146,073	4	34,804	3,659	3	441,661	5,040	–	(631,415)	–
Interest rate swap agreements	20,084	4,478	890	–	–	–	–	–	–	11,291	–	–	36,743
Other non-current liabilities	1,511	–	–	–	–	–	–	–	–	–	–	–	1,511
Total liabilities	497,171	47,075	91,959	181,385	69,266	40,066	44,621	1,810	683,982	114,050	23,226	(666,738)	1,127,873
Net assets:													
Unrestricted	1,186,557	230,761	58,764	(67,922)	33,910	(10,353)	23,489	7,234	(221,894)	40,065	2,868	(7,234)	1,276,245
Temporarily restricted	6,088	1,856	673	3,054	1,664	372	67	–	456	–	6,665	–	20,895
Permanently restricted	8,276	8,248	690	950	6,414	705	–	–	–	–	–	–	25,283
Interest in net assets of foundation	6,105	–	–	–	–	–	–	–	–	–	–	(6,105)	–
WellSpan Health net assets	1,207,026	240,865	60,127	(63,918)	41,988	(9,276)	23,556	7,234	(221,438)	40,065	9,533	(13,339)	1,322,423
Non-controlling interests	–	–	–	–	–	–	–	–	–	2,281	–	2,242	4,523
Total net assets	1,207,026	240,865	60,127	(63,918)	41,988	(9,276)	23,556	7,234	(221,438)	42,346	9,533	(11,097)	1,326,946
Total liabilities and net assets	\$ 1,704,197	\$ 287,940	\$ 152,086	\$ 117,467	\$ 111,254	\$ 30,790	\$ 68,177	\$ 9,044	\$ 462,544	\$ 156,396	\$ 32,759	\$ (677,835)	\$ 2,454,819

WellSpan Health

Consolidating Statement of Operations
(In Thousands)

Year Ended June 30, 2018

	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
Unrestricted revenues, gains, and other support													
Net patient service revenue	\$ 1,101,789	\$ 197,147	\$ 222,784	\$ 200,643	\$ 101,071	\$ 59,255	\$ 281,367	\$ 14,248	\$ –	\$ 1,469	\$ –	\$ (3,069)	\$ 2,176,704
Provision for uncollectible accounts	(50,019)	(10,734)	(9,398)	(3,032)	300	(25)	(12,186)	(264)	–	–	–	–	(85,358)
Net patient service revenue less provision for uncollectible accounts	1,051,770	186,413	213,386	197,611	101,371	59,230	269,181	13,984	–	1,469	–	(3,069)	2,091,346
Other revenue	9,268	1,099	1,329	1,300	603	2,333	213,583	45	583,828	70,257	24,802	(828,121)	80,326
Net assets released from restrictions used for operations	2,446	263	185	2,653	146	1,042	19	–	819	–	–	–	7,573
Total revenues, gains, and other support	1,063,484	187,775	214,900	201,564	102,120	62,605	482,783	14,029	584,647	71,726	24,802	(831,190)	2,179,245
Expenses													
Salaries and wages	263,946	43,162	56,997	60,556	34,000	42,947	386,873	4,326	170,221	8,757	7,680	294	1,079,759
Employee benefits	94,200	15,611	19,620	20,739	12,346	15,956	88,576	1,540	290,821	3,282	2,909	(237,314)	328,286
Professional fees	227,449	39,212	32,645	43,549	11,738	6,000	20,597	646	3,580	1,532	657	(320,203)	67,402
Supplies and other	328,815	65,804	84,582	75,620	30,510	19,974	53,061	4,610	151,555	50,854	10,342	(272,930)	602,797
Depreciation and amortization	27,110	4,611	8,965	8,289	4,463	2,223	4,173	597	30,682	5,006	103	–	96,222
Interest	12,931	1,390	2,440	5,210	2,449	993	–	19	16,175	4,197	–	(21,582)	24,222
Total operating expenses	954,451	169,790	205,249	213,963	95,506	88,093	553,280	11,738	663,034	73,628	21,691	(851,735)	2,198,688
Operating income (loss)	109,033	17,985	9,651	(12,399)	6,614	(25,488)	(70,497)	2,291	(78,387)	(1,902)	3,111	20,545	(19,443)
Other income (expense)													
Contributions	186	262	308	499	148	173	–	–	–	–	56	248	1,880
Investment income, net	66,731	10,518	1,272	1,167	2,703	16	176	52	6,138	522	564	(21,582)	68,277
Equity gain on joint ventures	2,762	547	970	16	85	130	632	53	2,186	71	–	(5,779)	1,673
Gain (loss) on sale of assets/other	251	4	11	27	–	(78)	(85)	–	96	149	–	–	375
Loss on debt refinancing	(3,742)	(524)	–	(30)	(997)	–	–	–	(172)	(806)	–	–	(6,271)
Other (expense) income	(1,668)	(57)	4	(339)	(100)	23	–	(11)	–	(1,174)	161	789	(2,372)
Change in fair value of interest rate swap agreements	7,668	1,541	410	–	–	–	–	–	–	3,641	–	–	13,260
Total other income (expense)	72,188	12,291	2,975	1,340	1,839	264	723	94	8,248	2,403	781	(26,324)	76,822
Excess (deficiency) of revenues over expenses before non-controlling interests	181,221	30,276	12,626	(11,059)	8,453	(25,224)	(69,774)	2,385	(70,139)	501	3,892	(5,779)	57,379
Non-controlling interests	–	–	–	–	–	–	–	–	–	231	–	(727)	(496)
Excess (deficiency) of revenues over expenses	181,221	30,276	12,626	(11,059)	8,453	(25,224)	(69,774)	2,385	(70,139)	732	3,892	(6,506)	56,883
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	–	–	–	–	–	–	–	–	–	–	(496)	–	(496)
Net assets released from restrictions for purchase of property and equipment	501	5	817	6,056	–	7	–	–	35	–	–	–	7,421
Distributions to partners	–	–	–	–	–	–	–	(2,500)	–	–	(4,773)	7,273	–
Other change in accrued retirement benefits	1,842	–	–	4,684	–	–	–	–	22,023	–	–	–	28,549
Transfers with affiliates	(54,800)	(7,100)	(10,100)	(4,900)	(7,000)	–	75,800	–	9,300	(1,200)	–	–	–
Increase (decrease) in unrestricted net assets	\$ 128,764	\$ 23,181	\$ 3,343	\$ (5,219)	\$ 1,453	\$ (25,217)	\$ 6,026	\$ (115)	\$ (38,781)	\$ (468)	\$ (1,377)	\$ 767	\$ 92,357

WellSpan Health

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended June 30, 2018

	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
Unrestricted net assets													
Excess (deficiency) of revenues over expenses	\$ 181,221	\$ 30,276	\$ 12,626	\$ (11,059)	\$ 8,453	\$ (25,224)	\$ (69,774)	\$ 2,385	\$ (70,139)	\$ 732	\$ 3,892	\$ (6,506)	\$ 56,883
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	–	–	–	–	–	–	–	–	–	–	(496)	–	(496)
Net assets released from restrictions for purchase of property and equipment	501	5	817	6,056	–	7	–	–	35	–	–	–	7,421
Distributions to partners	–	–	–	–	–	–	–	(2,500)	–	–	(4,773)	7,273	–
Other change in accrued retirement benefits	1,842	–	–	4,684	–	–	–	–	22,023	–	–	–	28,549
Transfers with affiliates	(54,800)	(7,100)	(10,100)	(4,900)	(7,000)	–	75,800	–	9,300	(1,200)	–	–	–
Increase (decrease) in unrestricted net assets	128,764	23,181	3,343	(5,219)	1,453	(25,217)	6,026	(115)	(38,781)	(468)	(1,377)	767	92,357
Temporarily restricted net assets													
Net realized and unrealized gains and losses on restricted investments	80	9	–	12	84	–	–	–	3	–	328	–	516
Net investment income	27	61	–	6	23	–	–	–	–	–	63	–	180
Change in net assets of Foundation	146	–	–	–	–	–	–	–	–	–	–	(146)	–
Contributions	2,331	405	571	4,562	1	804	22	–	824	–	88	–	9,608
Net assets released from restrictions	(980)	(268)	(1,002)	(8,709)	(146)	(1,049)	(19)	–	(854)	–	(1,967)	–	(14,994)
Increase (decrease) in temporarily restricted net assets	1,604	207	(431)	(4,129)	(38)	(245)	3	–	(27)	–	(1,488)	(146)	(4,690)
Permanently restricted net assets													
Net realized and unrealized gains and losses on investments	320	143	1	208	172	122	–	–	–	–	–	–	966
Net investment income	14	–	–	1	88	–	–	–	–	–	–	–	103
Contributions	2	7	–	36	2	–	–	–	–	–	–	–	47
Net assets released from restrictions	(43)	(3)	–	–	(104)	–	–	–	–	–	–	–	(150)
Increase in permanently restricted net assets	293	147	1	245	158	122	–	–	–	–	–	–	966
Increase (decrease) in WellSpan Health net assets	130,661	23,535	2,913	(9,103)	1,573	(25,340)	6,029	(115)	(38,808)	(468)	(2,865)	621	88,633
Non-controlling interests	–	–	–	–	–	–	–	–	–	(207)	–	(110)	(317)
Increase (decrease) in net assets	130,661	23,535	2,913	(9,103)	1,573	(25,340)	6,029	(115)	(38,808)	(675)	(2,865)	511	88,316
Net assets													
Beginning 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
End of year	\$ 1,207,026	\$ 240,865	\$ 60,127	\$ (63,918)	\$ 41,988	\$ (9,276)	\$ 23,556	\$ 7,234	\$ (221,438)	\$ 42,347	\$ 9,533	\$ (11,098)	\$ 1,326,946

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

Combining Balance Sheet
(In Thousands)

June 30, 2018

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combined Totals
Assets				
Current assets:				
Cash and cash equivalents	\$ 16,158	\$ 3,952	\$ 4,164	\$ 24,274
Due from affiliates	–	20,768	–	20,768
Patient accounts receivable, net	155,572	25,684	29,526	210,782
Other receivables	4,949	1,128	646	6,723
Inventories	6,658	1,704	3,391	11,753
Prepaid expenses	1,816	456	150	2,422
Total current assets	<u>185,153</u>	<u>53,692</u>	<u>37,877</u>	<u>276,722</u>
Investments limited as to use:				
Board-designated	837,147	166,029	4,884	1,008,060
Temporarily restricted investments	1,551	883	–	2,434
Permanently restricted investments	1,050	–	–	1,050
Beneficial interest in perpetual trusts	7,226	–	690	7,916
Total investments limited as to use	<u>846,974</u>	<u>166,912</u>	<u>5,574</u>	<u>1,019,460</u>
Pledges receivable, net	1,285	93	115	1,493
Property and equipment, net	223,147	41,618	101,595	366,360
Investments in joint ventures	–	–	1,807	1,807
Notes receivable – affiliates	441,499	–	1,027	442,526
Interest in net assets of foundation	6,105	20,071	3,980	30,156
Goodwill and intangible assets, net	33	3,214	–	3,247
Other assets	1	2,272	42	2,315
Total assets	<u>\$ 1,704,197</u>	<u>\$ 287,872</u>	<u>\$ 152,017</u>	<u>\$ 2,144,086</u>

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combined Totals
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt and capital lease obligations	\$ 7,248	\$ 601	\$ 2,300	\$ 10,149
Accounts payable and accrued expenses	17,188	2,092	3,664	22,944
Accrued interest payable	1,902	13	84	1,999
Accrued salaries and wages	21,395	3,719	4,903	30,017
Advances from third-party payors	2,537	423	200	3,160
Current portion of self-insurance reserves and accrued retirement benefits	3,089	–	–	3,089
Third-party payor settlements	6,091	1,190	(290)	6,991
Due to affiliates	12,975	–	12,713	25,688
Total current liabilities	72,425	8,038	23,574	104,037
Long-term debt, less current portion	383,507	34,463	67,426	485,396
Accrued retirement benefits, less current portion	19,501	–	–	19,501
Notes payable – affiliates	143	28	–	171
Interest rate swap agreements	20,084	4,478	890	25,452
Other non-current liabilities	1,511	–	–	1,511
Total liabilities	497,171	47,007	91,890	636,068
Net assets:				
Unrestricted	1,186,557	219,404	54,847	1,460,808
Temporarily restricted	6,088	1,390	610	8,088
Permanently restricted	8,276	–	690	8,966
Interest in net assets of foundations	6,105	20,071	3,980	30,156
Total net assets	1,207,026	240,865	60,127	1,508,018
Total liabilities and net assets	\$ 1,704,197	\$ 287,872	\$ 152,017	\$ 2,144,086

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

Combining Statement of Operations
(In Thousands)

Year Ended June 30, 2018

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Combining Eliminations	Combined Totals
Unrestricted revenues, gains, and other support					
Net patient service revenue	\$ 1,101,789	\$ 197,147	\$ 222,784	\$ (6)	\$ 1,521,714
Provision for uncollectible accounts	(50,019)	(10,734)	(9,398)	–	(70,151)
Net patient service revenue less provision for uncollectible accounts	1,051,770	186,413	213,386	(6)	1,451,563
Other revenue	9,268	1,099	1,329	–	11,696
Net assets released from restrictions used for operations	2,446	263	185	–	2,894
Total revenues, gains, and other support	1,063,484	187,775	214,900	(6)	1,466,153
Expenses					
Salaries and wages	263,946	43,016	56,838	–	363,800
Employee benefits	94,200	15,555	19,558	–	129,313
Professional fees	227,449	39,212	32,645	–	299,306
Supplies and other	328,815	65,765	84,492	(6)	479,066
Depreciation and amortization	27,110	4,611	8,965	–	40,686
Interest	12,931	1,390	2,440	–	16,761
Total operating expenses	954,451	169,549	204,938	(6)	1,328,932
Operating income	109,033	18,226	9,962	–	137,221
Other income (expense)					
Contributions	186	152	208	–	546
Investment income, net	66,731	9,830	1,035	–	77,596
Equity gain on joint ventures	2,762	547	970	–	4,279
Gain on sale of assets/other	251	4	11	–	266
Loss on debt refinancing	(3,742)	(524)	–	–	(4,266)
Other expense, net	(1,668)	(320)	(307)	–	(2,295)
Change in fair value of interest rate swap agreements	7,668	1,541	410	–	9,619
Total other income	72,188	11,230	2,327	–	85,745
Excess of revenues over expenses	181,221	29,456	12,289	–	222,966
Other changes in unrestricted net assets					
Net assets released from restrictions used for purchase of property and equipment	501	5	824	–	1,330
Other change in accrued retirement benefits	1,842	–	–	–	1,842
Transfers with affiliates	(54,800)	(7,100)	(10,845)	–	(72,745)
Increase in unrestricted net assets	\$ 128,764	\$ 22,361	\$ 2,268	\$ –	\$ 153,393

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 Ernst & Young LLP.
All Rights Reserved.

ey.com

