

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

WellSpan Health
Years Ended June 30, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



WellSpan Health

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018

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 (2019 Only)	
Consolidating Balance Sheet	65
Consolidating Statement of Operations.....	67
Combining Balance Sheet – York, Gettysburg, Ephrata Community and Chambersburg Hospital (Obligated Group)	68
Combining Statement of Operations – York, Gettysburg, Ephrata Community and Chambersburg Hospital (Obligated Group)	70



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Report of Independent Auditors

The Board of Directors
WellSpan Health

We have audited the accompanying consolidated financial statements of WellSpan Health, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the 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, 2019 and 2018, 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.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 2 to the consolidated financial statements, WellSpan Health changed its method of revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) resulting from Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, effective July 1, 2018. WellSpan Health also adopted the amendments to the FASB ASC resulting from ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective June 30, 2019. Our opinion is not modified with respect to these matters.

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 7, 2019

WellSpan Health

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 157,714	\$ 41,644
Assets limited as to use	6,972	6,650
Patient accounts receivable, net	343,099	293,049
Other receivables	40,880	26,622
Inventories	29,121	24,490
Prepaid expenses	44,667	30,232
Total current assets	622,453	422,687
Investments limited as to use:		
Board-designated	1,543,789	1,073,492
Under bond indenture	108,777	–
Self-insurance trust	14,004	13,864
Donor restricted investments	16,894	15,989
Beneficial interest in perpetual trusts	43,605	19,503
Total investments limited as to use	1,727,069	1,122,848
Pledges receivable, net	3,195	5,053
Property and equipment, net	1,098,912	781,571
Investments in joint ventures	22,503	11,386
Notes receivable	3,719	1,367
Capitalized software costs, net	62,528	66,234
Goodwill and intangible assets, net	23,417	17,755
Estimated insurance recoveries	19,839	18,814
Other assets	7,346	7,104
Total assets	\$ 3,590,981	\$ 2,454,819

	June 30	
	2019	2018
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 19,178	\$ 42,061
Accounts payable and accrued expenses	66,974	76,038
Accrued interest payable	2,272	2,001
Accrued salaries and wages	169,130	111,846
Advances from third-party payors	5,192	5,052
Current portion of self-insurance reserves and accrued retirement benefits	44,055	32,941
Third-party payor settlements	22,753	9,624
Total current liabilities	<u>329,554</u>	<u>279,563</u>
Self-insurance reserves, less current portion	77,295	70,908
Long-term debt and capital lease obligation, less current portion	950,186	624,384
Accrued retirement benefits, less current portion	236,446	114,764
Interest rate swap agreements	74,976	36,743
Other non-current liabilities	2,489	1,511
Total liabilities	<u>1,670,946</u>	<u>1,127,873</u>
Net assets:		
Net assets without donor restrictions	1,840,726	1,276,245
Net assets with donor restrictions	73,616	46,178
WellSpan Health net assets	<u>1,914,342</u>	<u>1,322,423</u>
Non-controlling interests	5,693	4,523
Total net assets	<u>1,920,035</u>	<u>1,326,946</u>
Total liabilities and net assets	<u><u>\$ 3,590,981</u></u>	<u><u>\$ 2,454,819</u></u>

See accompanying notes.

WellSpan Health

Consolidated Statements of Operations

(In Thousands)

	Year Ended June 30	
	2019	2018
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 2,477,272	\$ 2,009,390
Provision for uncollectible accounts	–	(85,358)
Net patient service revenue less provision for uncollectible accounts	2,477,272	1,924,032
Other revenue	90,731	80,326
Net assets released from restrictions used for operations	2,672	7,573
Total revenues, gains, and other support	2,570,675	2,011,931
Expenses		
Salaries and wages	1,292,518	1,079,759
Employee benefits	209,307	160,972
Professional fees	76,545	67,402
Supplies and other	720,742	602,797
Depreciation and amortization	122,685	96,222
Interest	29,694	24,222
Total operating expenses	2,451,491	2,031,374
Operating income (loss)	119,184	(19,443)
Other income (expense)		
Contributions	2,448	1,880
Investment income, net	71,001	68,277
Equity gain in joint ventures	2,717	1,673
Gain on sale of assets/other	639	375
Loss on debt refinancing	(5,817)	(6,271)
Contribution received in the Summit Health acquisition	522,218	–
Change in fair value of interest rate swap agreements	(25,114)	13,260
Other income (expense), net	349	(2,372)
Total other income	568,441	76,822
Excess of revenues over expenses before non-controlling interests	687,625	57,379
Non-controlling interests	(1,057)	(496)
Excess of revenues over expenses	686,568	56,883
Other changes in net assets without donor restrictions		
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	833	(496)
Net assets released from restrictions for purchase of property and equipment	1,553	7,421
Cumulative effect of change in accounting principles	3,284	–
Other change in accrued retirement benefits	(127,757)	28,549
Increase in net assets without donor restrictions	\$ 564,481	\$ 92,357

See accompanying notes.

WellSpan Health

Consolidated Statements of Changes in Net Assets (In Thousands)

	Year Ended June 30	
	2019	2018
Net assets without donor restrictions		
Excess of revenues over expenses	\$ 686,568	\$ 56,883
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on assets limited as to use and investments – other-than-trading securities	833	(496)
Net assets released from restrictions for purchase of property and equipment	1,553	7,421
Cumulative effect of change in accounting principles	3,284	–
Other change in accrued retirement benefits	(127,757)	28,549
Increase in net assets without donor restrictions	564,481	92,357
Net assets with donor restrictions		
Net realized and change in net unrealized gains and losses on restricted investments	857	1,482
Net investment income	250	283
Cumulative effect of change in accounting principles	48	–
Contributions	6,206	9,655
Contribution received in the Summit Health acquisition	24,323	–
Net assets released from donor restrictions	(4,246)	(15,144)
Increase (decrease) in net assets with donor restrictions	27,438	(3,724)
Increase in WellSpan Health net assets	591,919	88,633
Non-controlling interests	1,170	(317)
Increase in net assets	593,089	88,316
Net assets		
Beginning of year	1,326,946	1,238,630
End of year	\$ 1,920,035	\$ 1,326,946

See accompanying notes.

WellSpan Health

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended June 30	
	2019	2018
Operating activities		
Increase in net assets	\$ 593,089	\$ 88,316
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in the Summit Health acquisition	(547,396)	—
Depreciation and amortization	122,685	96,222
Provision for uncollectible accounts	—	85,358
Gain on sale of assets/other	(639)	(375)
Net realized and unrealized gains and losses on investments	(45,738)	(50,290)
Change in fair value of interest rate swap agreements	25,114	(13,260)
Amortization of bond premium and discount	(3,192)	(624)
Undistributed loss (gain) of investments in joint ventures	1,607	(913)
Change in beneficial interest in perpetual trusts	221	(520)
Loss on debt refinancing	5,817	6,271
Donor restricted net contributions and investment income received	(6,456)	(9,788)
Change in other operating assets and liabilities:		
Patient accounts receivable and other receivables	(3,461)	(87,389)
Inventories, pledges receivable, prepaid expenses, and other assets	(2,445)	1,152
Accounts payable and accrued expenses, accrued interest payable and other non-current liabilities	(27,381)	(18,671)
Accrued salaries and wages	30,188	9,252
Advances from third-party payors	(377)	(934)
Third-party payor settlements	(7,672)	585
Self-insurance reserves	9,980	(12,910)
Accrued retirement benefits	84,358	(88,272)
Net cash provided by operating activities before change in trading securities	228,302	3,210
(Decrease) increase in investments designated as trading securities, net	(61,706)	63,380
Net cash provided by operating activities	166,596	66,590

WellSpan Health

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

	Year Ended June 30	
	2019	2018
Investing activities		
Purchases of property, equipment, and capitalized software	\$ (171,797)	\$ (108,292)
Proceeds on sale of property and equipment	1,736	911
Cash received in the Summit Health acquisition	35,168	–
Purchases of assets limited as to use and alternative investments	(147,620)	(5,893)
Sales of assets limited as to use and alternative investments	71,776	1,335
Change in investments in joint ventures	3	(9)
Net cash used in investing activities	(210,734)	(111,948)
Financing activities		
Donor restricted net contributions and investment income received	6,456	9,788
Draws on line of credit	3,722	17,090
Repayments on line of credit	(28,827)	(90)
Principal repayments on long-term debt	(12,819)	(12,498)
Refunding of long-term debt	(349,302)	(60,290)
Proceeds from issuance of long-term debt	544,193	65,626
Debt issuance costs	(3,215)	(170)
Net cash provided by financing activities	160,208	19,456
Increase (decrease) in cash and cash equivalents	116,070	(25,902)
Cash and cash equivalents, beginning of year	41,644	67,546
Cash and cash equivalents, end of year	\$ 157,714	\$ 41,644
Supplemental cash flow information		
Cash paid for interest, net of capitalized interest	\$ 29,423	\$ 23,534
Cash paid for income taxes	\$ 256	\$ 525

See accompanying notes.

WellSpan Health

Notes to Consolidated Financial Statements (In Thousands)

June 30, 2019

1. Organization

WellSpan Health (WSH) is a Pennsylvania nonprofit corporation, exempt from federal income taxation pursuant to Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. Headquartered in York, Pennsylvania, WSH is an integrated delivery system serving York, Lancaster, Lebanon, Dauphin, Franklin, Cumberland, and Adams Counties in Pennsylvania and Northern Maryland.

WSH has the following sole member corporations, equity investments, and other affiliates as of June 30, 2019:

Consolidated Hospitals

- The Chambersburg Hospital (CH)
- Ephrata Community Hospital (ECH)
- Gettysburg Hospital (GH)
- Good Samaritan Hospital (GSH)
- Philhaven (PH)
- Waynesboro Hospital (WH)
- WellSpan Specialty Services (WSS)
- York Hospital (YH)

Consolidated Foundations

- Ephrata Community Health Foundation (ECHF)
- Gettysburg Hospital Foundation (GHF)
- Summit Health Foundation (SHF)
- Good Samaritan Health Services Foundation (GSHSF)
- York Health Foundation (YHF)

Consolidated Other Not-for-Profit Organizations Engaged in Health Services

- Healthy Community Pharmacy, Inc. (HCP) (Inactive)
- Chambersburg Health Services (CHS)
- Apple Hill Surgical Center, Inc. (AHSCI)
- WellSpan Summit Health (SH)
- Summit Physician Services (SPS)
- VNA Community Services (VNACS) (Inactive)
- VNA Home Health Services (VNAHHS)
- WellSpan Health Care Services (WHCS)
- WellSpan Medical Group (WMG)
- WellSpan Properties, Inc. (WP)

WellSpan Health

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization (continued)

Taxable Corporations Engaged in Taxable Activities that Support WSH's Mission

- Apple Hill Condominium Association (AHCA)
- Apple Hill Surgical Center Partners (AHSCP)
- Cherry Tree Cancer Center (CTCC)
- Cumberland Valley Mobile Services LLC (CVMS)
- GSH Home Med Care, LLC (GSHMC)
- GSH Realty, Inc. (GSR)
- Littlestown Health Care Partnership (LHCP)
- WellSpan Reciprocal Risk Retention Group (WRRRG)
- York Health Plan d/b/a WellSpan Population Health Services (WPHS)
- WellSpan Pharmacy, Inc. (WRx)
- WellSpan Provider Network (WPN)
- Surgery Center Associates LLC (SCA)
- Summit Surgery Center LP (SSC)

Other Joint Ventures Accounted for on the Equity Method

- Advanced Management Services, LLC (AMS)
- AllSpire Health Group Purchasing Organization, LLC (AHGPO)
- AllSpire Health Partners, LLC (AHP)
- Central Pennsylvania Alliance Laboratory (CPAL)
- Central Pennsylvania Healthcare Alliance (CPHA)
- Downtown Renaissance Fund, LLC (DRF)
- Ephrata Health Pavilion Condominium Association (EHPCA)
- Ephrata Medical Office Condominium Association (EMOCA)
- KE, LLC (KE)
- Northern Lancaster County Medical Transport Services Cooperative (NLCMTSC)
- Northern Lancaster County Physician Alliance (NLCPA)
- Quest Behavioral Health, Inc. (QUEST)
- The Rehab Center (ERC)
- Cassatt Insurance Company, Ltd (CA)
- Community Hospital Alternative for Risk Transfer (CHART)
- Good Samaritan Physician Hospital Organization (GSPHO)

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 greater than 50% ownership or control or more are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

Certain board members of YH, GH, ECH, GSH, PH, VNAHH, WMG, WHCS, WP, WSS, CH, SPS, SH, and SHF also serve as board members of WSH.

Summit Health Acquisition

On November 1, 2018 (the SH Acquisition Date), WSH acquired SH, CH, WH, SPS, CHS, SCA and SSC (collectively, Summit Health), which is composed of a 273-bed, acute care hospital, a 57-bed acute care hospital, physician practice organization and an outpatient surgical center located in and around Franklin County, Pennsylvania. WSH acquired Summit Health by means of an inherent contribution where no consideration was transferred by WSH. WSH accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the SH Acquisition Date. The results of the operations of Summit Health have been included in the accompanying consolidated financial statements since the SH Acquisition Date.

WellSpan Health

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

1. Organization (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the SH Acquisition Date:

Assets	
Cash and cash equivalents	\$ 35,168
Patient accounts receivable, net	48,679
Other receivables	14,520
Inventories	3,798
Prepaid expenses	12,084
Investments limited as to use	421,476
Pledges receivables, net	148
Property and equipment, net	263,613
Investments in joint ventures	12,728
Other assets	7,669
Total assets acquired	<u>\$ 819,883</u>
Liabilities	
Accounts payable and accrued expenses	\$ 19,566
Accrued salaries and wages and accrued interest payable	27,096
Third-party payor settlements	21,318
Accrued retirement benefits	37,324
Self-insurance reserves	7,521
Long-term debt	146,542
Interest rate swap agreement	13,120
Total liabilities assumed	<u>272,487</u>
Excess of assets acquired over liabilities assumed	<u>\$ 547,396</u>
Net assets acquired	
Net assets without donor restrictions	\$ 522,218
Net assets with donor restrictions	24,323
Non-controlling interests	855
Excess of assets acquired over liabilities assumed	<u>\$ 547,396</u>

WellSpan Health

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

1. Organization (continued)

The following table summarizes amounts attributable to Summit Health from the SH Acquisition Date through June 30, 2019, that are included in the accompanying 2019 consolidated financial statements:

Total revenues, gains and other support	\$	353,641
Total excess of revenues over expenses		28,643
Change in net assets:		
Without donor restrictions	\$	851
With donor restrictions		889

The following table represents unaudited pro forma financial information for WSH, assuming the acquisition of Summit Health had taken place on July 1, 2017. The unaudited pro forma financial information excludes the contribution received in the acquisition and is not necessarily indicative of the results of operations as they would have been had the transaction been effected on July 1, 2017.

	Year Ended June 30	
	2019	2018
Total revenues, gains and other support	\$ 2,750,209	\$ 2,718,709
Total excess of revenues over expenses	170,450	90,041
Change in net assets:		
Without donor restrictions	\$ 40,954	\$ 125,312
With donor restrictions	2,360	(2,691)

Other assets include the following intangible assets:

	Fair Value at the SH Acquisition Date	Estimated Life
Medical records	\$ 1,202	10 years
Trade name	6,361	20 years
	\$ 7,563	

WellSpan Health

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

2. Significant Accounting Policies

New Accounting Pronouncements

Effective July 1, 2018, WSH adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of application. This ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. As a result of implementing ASU No. 2014-09, certain patient activity where collection is uncertain (representing approximately \$176,000 for the year ended June 30, 2019) previously reported through June 30, 2018 as net patient service revenue and the provision for bad debts in the consolidated statement of operations no longer meets the criteria for revenue recognition and, accordingly, the provision for uncollectible accounts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession. Additionally, the provision for bad debts, when applicable, will now be presented as an expense item rather than a reduction to net patient service revenue. Other aspects of the implementation of ASU No. 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are included in Note 3. The adoption of ASU No. 2014-09 in relation to other revenue activity did not have a material impact on the accompanying consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method of accounting at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a practicability exception. The practicability 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 No. 2016-01, WSH will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other than trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities. The provisions of ASU No. 2016-01 are effective for WSH for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted for the provision relating to the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost for fiscal years

WellSpan Health

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

2. Significant Accounting Policies (continued)

beginning after December 15, 2017. As such, management has elected to early adopt this provision and will no longer disclose the fair value of debt within its financial statements. WSH adopted the remaining provisions of the standard prospectively as of July 1, 2018, and, as a result of the adoption, recorded an increase in board-designated, and donor restricted investments limited as to use and net assets with and without donor restrictions in its consolidated balance sheet of approximately \$3,332 as of that date.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: 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. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of ASU No. 2016-14 are effective for WSH for annual periods beginning after December 15, 2017 and interim periods thereafter. As such, WSH adopted ASU No. 2016-14 in its June 30, 2019 consolidated financial statements. The effects of the adoption of ASU No. 2016-14 were applied retrospectively, except for the disclosure of expenses by both natural and functional classification and the disclosures about liquidity and availability of resources, as permitted by ASU No. 2016-14. The adoption of ASU No. 2016-14 had no impact on the total net assets previously reported as of June 30, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities in the consolidated balance sheet. The ASU will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The provisions of ASU No. 2016-02 are effective for WSH for annual periods beginning after December 15, 2018 and interim periods within the period. Early adoption is permitted. Subsequent to adoption, WSH's right-of-use assets and liabilities are expected to increase by an initially estimated amount of approximately \$70,000 in the consolidated balance sheets, with no significant impact to net assets or the performance indicator in the consolidated financial statements.

WellSpan Health

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

2. Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU No. 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 No. 2016-15 are effective for WSH for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 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 No. 2016-18 are effective for WSH for annual periods beginning after December 15, 2018, and interim periods for fiscal years beginning after December 15, 2019. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2016-18 on its consolidated financial statements.

WellSpan Health

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

2. Significant Accounting Policies (continued)

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 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 in 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 No. 2017-07 are effective for annual periods beginning after December 15, 2018, and interim periods thereafter, 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 No. 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 No. 2017-07 will require WSH to present the components of net benefit cost other than service cost (in aggregate, approximately \$16,000 of net periodic benefit income for the year ended June 30, 2019) as a separate line item excluded from the subtotal for operating income in the consolidated statements of operations. The service cost component will be presented within salaries and wages line, which represents approximately \$7,000 for the year ended June 30, 2019, in the consolidated statements of operations. Net periodic benefit cost is currently reported within employee benefit expense in the consolidated statements of operations.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which amends Accounting Standards Codification (ASC) 815. The purpose of this ASU is to better align accounting rules with a company's risk management activities and financial reporting for hedging relationships, better reflect economic results of hedging in financial statements, simplify hedge accounting requirements and improve the disclosures of hedging arrangements. The provisions of ASU No. 2017-12 are effective for WSH for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2017-12 on its consolidated financial statements.

WellSpan Health

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

2. Significant Accounting Policies (continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The provisions of ASU No. 2018-08 are effective for WSH for annual periods beginning after June 15, 2018, including interim periods within those years. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2018-08 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurements (Topic 820)*. This ASU improves the effectiveness of notes to the financial statements through changes in disclosure requirements for fair value measurements. The provisions of ASU No. 2018-13 are effective for WSH for annual periods beginning after December 15, 2019, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2018-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715)*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The provisions of ASU No. 2018-14 are effective for WSH for annual periods beginning after December 15, 2021, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2018-14 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. The provisions of ASU No. 2018-15 are effective for WSH for annual periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. WSH has not completed the process of evaluating the impact of ASU No. 2018-15 on its consolidated financial statements.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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, 2019 and 2018, 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

Patient accounts receivable, net are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. The estimated implicit price concessions 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 to estimate amounts that it expects to collect. 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. Subsequent changes to collectability due to change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses, where applicable.

WellSpan Health

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

2. Significant Accounting Policies (continued)

Assets Limited as to Use and Investments

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, self-insurance trust, donor restricted investments, beneficial interests in perpetual trusts and designated assets set aside by the Board of Directors. Investment income from these assets is available for current operations of WSH. 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 are reported under the equity method of accounting. Generally, WSH's holdings reflect net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The financial statements of the limited partnerships are audited annually, generally as of December 31. The results of the private equity investments are based upon financial statements received from general partners. 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 net asset values, as a practical expedient, 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 summarized as alternative investments in Notes 5, 6 and 12.

WSH's board-designated investments are designated as a trading portfolio in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Entities* (the Guide). The Guide requires that changes in unrealized gains and losses on marketable securities designated as trading be reported within the excess of revenues over expenses. WSH's investments that are donor restricted assets are designated as other-than trading. Unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets. Investment income, realized gains and losses, the change in net 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.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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	
	2019	2018
Pharmaceutical drugs	\$ 12,345	\$ 11,601
Medical supplies	16,464	12,674
Computer supplies	312	215
	<u>\$ 29,121</u>	<u>\$ 24,490</u>

Property and Equipment

Property and equipment acquisitions are recorded at cost. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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 in the accompanying consolidated balance sheets consists of:

	June 30	
	2019	2018
Capitalized software costs	\$ 76,628	\$ 72,270
Less accumulated amortization	(14,100)	(6,036)
	\$ 62,528	\$ 66,234

Capitalized software costs are amortized over its expected useful life of ten years. Amortization related to capitalized software, included within depreciation and amortization in the accompanying consolidated statements of operations, was \$8,064 and \$5,828 for the years ended June 30, 2019 and 2018, respectively.

WellSpan Health

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

2. Significant Accounting Policies (continued)

Goodwill and Intangible Assets

Financial Accounting Standards Board (FASB) Guidance requires business combinations to be accounted for using the acquisition method of accounting and it also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Goodwill represents the excess of cost of acquisition over the fair value of net assets acquired and is tested for impairment at least annually. Other intangible assets primarily represent the values assigned to trade names and medical records and are amortized over their expected useful lives. Goodwill and other intangible assets, net is as follows:

	June 30	
	2019	2018
Trade names	\$ 18,157	\$ 11,796
Medical records	8,081	7,073
Less accumulated amortization	<u>(6,378)</u>	<u>(4,671)</u>
Total intangibles, net	19,860	14,198
Goodwill	3,557	3,557
Total goodwill and other intangible assets	<u>\$ 23,417</u>	<u>\$ 17,755</u>

Amortization expense of intangible assets, included within depreciation and amortization in the accompanying consolidated statements of operations, was \$1,707 and \$1,415 for the years ended June 30, 2019 and 2018, 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.

WellSpan Health

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

2. Significant Accounting Policies (continued)

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 in 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.

Donor 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 donor restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions 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.

Net assets with donor restrictions include 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 net assets with donor restrictions.

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.

WellSpan Health

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

2. Significant Accounting Policies (continued)

WSH classifies as net assets with donor restrictions (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 net assets without donor restrictions is characterized as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization. WSH considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

WSH has adopted investment policies for its endowment assets that are consistent with the policies and objectives of its overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor requires WSH to maintain in perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions in accordance with U.S. generally accepted accounting principles.

WellSpan Health

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

2. Significant Accounting Policies (continued)

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions that are excluded from the excess of revenues over expenses, consistent with industry practice, include the change in net 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, 2019 and 2018, consists primarily of WRx's prescription sales of \$45,971 and \$44,101 respectively. GSHMC had durable medical equipment revenue of \$13,140 and \$10,075 for the years ended June 30, 2019 and 2018, respectively. Investment income from assets limited as to use under bond indenture agreements, cafeteria sales, grant revenues, and other non-patient service revenue are also included in other revenue in the accompanying consolidated statements of operations.

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, these amounts are deducted from gross revenue as a price concession.

Federal and State Income Taxes

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

WellSpan Health

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

2. Significant Accounting Policies (continued)

WRx, 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, 2019 and 2018, it was more likely than not that WSH taxable entities' net operating loss and carryovers would be utilized before expiring.

No federal or state income taxes have been provided for AHSCP, CTCC, CVMS, LHCP, SCA and SSC 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, 2019 and 2018, 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 2015.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions.

WellSpan Health

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Significant Accounting Policies (continued)

The Tax Cuts and Jobs Act (the 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, 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, 2019, 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.

Reclassifications

Certain reclassifications have been made to the accompanying 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. Net patient service revenue and employee benefits were reduced by \$167,314 for the year ended June 30, 2018 to conform to the current-year presentation.

WellSpan Health

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

3. Net Patient Service Revenue

WSH's revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by Medicare and Medicaid or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for services provided to patients typically specify payments at amounts less than WSH's standard charges. Medicare and Medicaid generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

WSH revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

WellSpan Health

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

3. Net Patient Service Revenue (continued)

WSH has elected the practical expedient allowed under ASU No. 2014-09 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to WSH expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, WSH does, in certain circumstances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. The mix of net patient service revenue by payor is as follows:

	June 30, 2019		June 30, 2018	
	Amount	Percentage	Amount	Percentage
Medicare	\$ 843,731	34%	\$ 679,285	35%
Medicaid	250,177	10	220,491	12
Blue Cross/Highmark	867,961	35	659,950	34
Other third-party payors and self-pay	515,403	21	364,306	19
Net patient service revenue	\$ 2,477,272	100%	\$ 1,924,032	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and WSH historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transactions price were not significant for the year ended June 30, 2019.

WellSpan Health

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

3. Net Patient Service Revenue (continued)

The collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is WSH's primary source of cash and is critical to its operating performance. WSH practice is to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, the payors listed above contain patient responsibility components such as deductibles and copayments. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured account, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of WSH revenues and patient accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of patient accounts receivable. Management performs a hindsight analysis monthly, utilizing rolling twelve-month patient accounts receivable collection and write-off data. Management believes monthly updates to the estimated implicit price concession amounts at each of WSH's healthcare facilities provide reasonable estimates of its revenues and valuations of its patient accounts receivable. These routine, monthly changes in estimates have not resulted in material adjustments to the valuations of patient accounts receivable or period-to-period comparisons of the results of operations.

WellSpan Health

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

3. Net Patient Service Revenue (continued)

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 is as follows:

	June 30	
	2019	2018
Medicare	35%	36%
Medicaid	17	18
Blue Cross/Highmark	14	12
Other third-party payors	19	19
Self-pay	15	15
	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 as an implicit price concession.

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 \$11,733 and \$15,168 for the years ended June 30, 2019 and 2018, 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.

WellSpan Health

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

4. Charity Care and Community Service (continued)

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 \$29,517 and \$25,113 for the years ended June 30, 2019 and 2018, 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 \$356,256 and \$255,562 for the years ended June 30, 2019 and 2018, 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 \$179,948 and \$129,822 for the years ended June 30, 2019 and 2018, 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	
	2019	2018
Board-designated:		
WSH Master Trust	\$ 1,459,059	\$ 1,001,459
Money market funds	24,062	20,847
Mutual funds	26,625	18,580
Land investments	7,569	5,881
Government-sponsored enterprise mortgage-backed securities	44	3,092
Corporate debt securities	7,136	9,974
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	19,294	13,659
	\$ 1,543,789	\$ 1,073,492
Under bond indenture agreements held by trustee:		
Project Fund – under investment agreement	\$ 108,000	\$ –
Cash and cash equivalents	777	–
	\$ 108,777	\$ –

WellSpan Health

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

5. Investments (continued)

	June 30	
	2019	2018
Self-insurance trust:		
Government-sponsored enterprise mortgage-backed securities	\$ 86	\$ —
Corporate debt securities	6,846	8,188
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	14,044	12,326
Less: Trustee-held assets for current self-insurance	(6,972)	(6,650)
	\$ 14,004	\$ 13,864
 Donor restricted investments:		
Cash and short-term investments	\$ 1,038	\$ 953
Mutual funds	2,416	1,857
WSH Master Trust	13,440	13,179
	\$ 16,894	\$ 15,989
 Beneficial interest in perpetual trusts:		
Mutual funds held by other trustees	\$ 43,605	\$ 19,503
	\$ 43,605	\$ 19,503

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	
	2019	2018
Board-designated	\$ 1,459,059	\$ 1,001,459
Donor restricted	13,440	13,179
	\$ 1,472,499	\$ 1,014,638

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	
	2019	2018
Investments, at fair value:		
Commodities/real return	\$ 57,581	\$ 40,611
Domestic equity securities	71,998	189,000
Stock index fund	318,930	70,240
Collective mutual funds and investment trusts	837,798	606,077
	1,286,307	905,928
 Alternative investments, recorded under the equity method:		
Absolute return, limited partnerships	72,245	–
Real estate, limited partnerships	80,017	38,522
Private equity, limited partnerships	33,930	3,920
	186,192	42,442
 Alternative investments, recorded at cost:		
Absolute return, limited partnerships	–	45,263
Real estate, limited partnerships	–	1,920
Private equity, limited partnerships	–	19,085
	–	66,268
	\$ 1,472,499	\$ 1,014,638

Subsequent to the adoption of ASU No. 2016-01, investments in limited partnerships are reported under the equity method of accounting based on information provided by the respective partnership. Prior to July 1, 2018, certain real estate, private equity, and absolute return limited partnership investments were carried at cost because WSH did not have a controlling interest in the related partnerships and the fair value was not readily determinable. The unaudited fair value of these limited partnership investments exceeded the cost basis of these investments by \$3,332 as of June 30, 2018 and is reported as a cumulative change in accounting principles in the accompanying consolidated statement of operations and changes in net assets.

WellSpan Health

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

6. Fair Value Measurements

As of June 30, 2019 and 2018, 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 under the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, include:

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

Alternative 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. With the adoption of ASU No. 2016-01, certain alternative investments are now utilizing NAV to calculate fair value and are included in alternatives investments in the following tables.

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 nonperformance risk in its assessment of fair value. Financial assets carried at fair value, including amounts for securities, which have been redeemed but for which funds have not yet been received, 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, 2019				
	Total	Level 1	Level 2	Level 3	NAV
WSH Master Trust					
Commodities/real return	\$ 57,581	\$ 57,581	\$ –	\$ –	\$ –
Domestic equity securities	71,998	71,998	–	–	–
Stock index fund	318,930	–	–	–	318,930
Collective mutual funds and investment trusts:					
International equity	244,097	65,707	–	–	178,390
Emerging markets	74,158	–	–	–	74,158
Fixed income funds	383,768	244,267	–	–	139,501
Emerging market debt	52,708	52,708	–	–	–
Global asset allocation	75,832	75,832	–	–	–
Government short-term	7,235	–	–	–	7,235
Total collective mutual funds and investment trusts	837,798	438,514	–	–	399,284
	1,286,307	568,093	–	–	718,214
Alternative investments, recorded under the equity method:					
Absolute Return, limited partnerships ⁽¹⁾	72,245	–	–	–	72,245
Real estate, limited partnerships ⁽²⁾	80,017	–	–	–	80,017
Private equity, limited partnership ⁽³⁾	33,930	–	–	–	33,930
Total WSH Master Trust	1,472,499	568,093	–	–	904,406
Other assets					
Cash and cash equivalents	184,024	184,024	–	–	–
Mutual funds	29,041	29,041	–	–	–
Project Fund-under investment agreement ⁽⁴⁾	108,000	–	108,000	–	–
Beneficial interest in perpetual trusts*	43,605	–	–	43,605	–
Government-sponsored enterprise mortgage-backed securities	130	–	130	–	–
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	33,338	–	33,338	–	–
Corporate debt securities	13,982	–	13,982	–	–
Total other assets	412,120	213,065	155,450	43,605	–
	1,884,619	781,158	155,450	43,605	904,406
Liabilities					
Interest rate swap agreements	(74,976)	–	(74,976)	–	–
	\$ 1,809,643	\$ 781,158	\$ 80,474	\$ 43,605	\$ 904,406

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
	905,928	522,354	–	–	383,574
Alternative investments, recorded under the equity method:					
Real estate, limited partnerships ⁽²⁾	38,522	–	–	–	38,522
Private equity, limited partnership ⁽³⁾	3,920	–	–	–	3,920
Total WSH Master Trust	948,370	522,354	–	–	426,016
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	426,016
Liabilities					
Interest rate swap agreements	(36,743)	–	(36,743)	–	–
	\$ 1,062,250	\$ 606,235	\$ 10,496	\$ 19,503	\$ 426,016

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

WellSpan Health

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

6. Fair Value Measurements (continued)

- ⁽¹⁾ This class includes investments in hedge fund of funds that invest in multiple strategies, including long and short equity, other nondirectional, distressed securities, convertible arbitrage, and fixed income arbitrage. The fair values of the investments in this class had been estimated using the net asset value per share of the investments. There is 65 day redemption notice period for these investments, which can be redeemed on a quarterly basis. There are no unfunded commitments as of June 30, 2019.
- ⁽²⁾ This class includes real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class had 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. There is no redemption notice period for these investments. The total unfunded commitments are \$1,956 as of June 30, 2019.
- ⁽³⁾ 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. There is no redemption notice period for these investments. The total unfunded commitments are \$49,850 as of June 30, 2019.
- ⁽⁴⁾ On May 2, 2019, WSH entered into an investment agreement in order to protect against interest rate risks. WSH invested \$133 million of residual Series 2019 bond proceeds in return for a 2.72% per annum fixed rate of return. WSH withdraws the funds for capital needs with expected full redemption in September 2020.

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, domestic equity securities, registered collective mutual funds and investment trusts, 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.

WellSpan Health

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

6. Fair Value Measurements (continued)

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 securities, and guaranteed interest investment agreement. 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, noncurrent 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, 2017	\$	18,983
Realized and unrealized gains and losses		520
Balance at June 30, 2018		19,503
Addition of Summit Health investments at the SH Acquisition Date		24,323
Realized and unrealized gains and losses		(221)
Balance at June 30, 2019	\$	43,605

The fair value of investments carried at cost, excluding land, were as follows:

	Total Fair Value		Unfunded Commitments June 30, 2018	Redemption	
	June 30 2019	June 30 2018		Frequency	Notice Period
Absolute return					
Multi-strategy	\$ –	\$ 48,047	\$ –	Quarterly	65 days
Real estate					
Opportunistic	–	2,230	612	N/A	N/A
Private equity					
	–	19,323	20,042	N/A	N/A
	\$ –	\$ 69,600	\$ 20,654		

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 2019	2018
Land		\$ 46,147	\$ 26,832
Land improvements	5 to 25 years	25,558	23,658
Buildings and building equipment	10 to 40 years	1,204,647	940,825
Fixed equipment	5 to 25 years	72,220	70,104
Major movable equipment	3 to 20 years	694,047	599,728
Construction-in-progress		57,936	48,665
		2,100,555	1,709,812
Less accumulated depreciation		(1,001,643)	(928,241)
Property and equipment, net		\$ 1,098,912	\$ 781,571

Depreciation expense for the years ended June 30, 2019 and 2018, was \$112,963 and \$88,871, respectively.

WSH has outstanding purchase commitments related to various construction projects of approximately \$58,000 and \$47,000 at June 30, 2019 and 2018, respectively.

WellSpan Health

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

8. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2019	2018
Fixed rate debt		
2019 General Authority of Southcentral Pennsylvania, Series A, secured by gross receipts of YH, GH, ECH and CH, including unamortized premium of \$22,348 at June 30, 2019	\$ 250,813	\$ —
2017 bank loans issued under the General Authority of Southcentral Pennsylvania to refund 2008 Series A and B Bonds, secured by gross receipts of YH, GH, ECH and CH	59,879	64,189
2017 bank loan, secured by gross receipts of YH, GH and ECH	98,500	100,000
2015 ECH bank loan, uncollateralized	247	501
2014 General Authority of Southcentral Pennsylvania Revenue Refunding Bonds, Series A, secured by gross receipts of YH, GH, and ECH, including unamortized premium of \$13,485 and \$16,678 at June 30, 2019 and 2018, respectively	193,496	219,662
2014 Franklin County Industrial Development Authority Bank Loan, Series C, secured by gross receipts of YH, GH, ECH, and CH	21,539	—
2014 Franklin County Industrial Development Authority Bank Loan, Series A, secured by gross receipts of YH, GH, ECH, and CH	7,143	—
Variable rate debt		
2019 General Authority of Southcentral Pennsylvania Revenue Bonds, Series B, floating rate notes, secured by gross receipts of YH, GH, ECH and CH	80,480	—

WellSpan Health

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

8. Long-Term Debt (continued)

	June 30	
	2019	2018
Variable rate debt (continued)		
2019 General Authority of Southcentral Pennsylvania Revenue Bonds, Series C-E, variable rate demand bonds, secured by gross receipts of YH, GH, ECH and CH	\$ 212,690	\$ 211,701
2018 AHCA bank loan, uncollateralized	1,295	1,410
2015 ECH bank loan, Series A, issued under the Lancaster Municipal Authority, secured by the gross receipts of YH, GH, ECH and CH	30,763	32,269
2015 ECH bank loan Series B, issued under Lancaster Municipal Authority, secured by the gross receipts of YH, GH, ECH and CH	4,416	4,632
2015 WP line of credit, amended 2018, uncollateralized	3,772	28,159
2015 WP line of credit, amended 2018, uncollateralized	–	694
2014 Taxable bank loan, Series B, secured by gross receipts of YH, GH, ECH and CH	5,356	–
2013 WPH bank loan, secured by mortgage on real property	430	460
2012 GH bank loan, uncollateralized	1,215	1,305
2008 GSR bank loan, secured by mortgage on real property	1,519	1,588
2007 WPH bank loan, secured by mortgage on real property	163	217
2005 WPH Eastern Mennonite Missions promissory note, secured by shared first mortgage on real property	335	696
2000 AHSCP bank loan, collateralized by certain assets	521	771
	974,572	668,254
Less current portion	(19,095)	(41,913)
Less deferred financing cost, net	(5,319)	(2,068)
	\$ 950,158	\$ 624,273

WellSpan Health

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

8. Long-Term Debt (continued)

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

On April 3, 2019, WSH issued debt for the purpose of refunding CH 2010 bonds, a portion of WSH 2014 Series A bonds, refinancing WSH 2008 Series B1-D bank loans, and additional capital to support future capital expansion. As part of the transaction, YH, GH and ECH added CH to the Obligated Group.

On April 3, 2019, the General Authority of Southcentral Pennsylvania issued Revenue Bonds, Series 2019A, to a borrower group of WP, WSS, WH, SHS and the Obligated Group. The proceeds from this bond issuance were \$251,023. The Series 2019A bonds are secured by gross receipts of the Obligated Group. The Series 2019A bonds are fixed rate bonds with interest rates ranging from 2.75%–5.00%. The amount outstanding at June 30, 2019, was \$250,813, including unamortized premium of \$22,348. The bonds mature in June 2049.

On April 3, 2019, the General Authority of Southcentral Pennsylvania issued floating rate bonds, Series 2019B, to a borrower group of WP, WSS, WH, SHS and the Obligated Group. The proceeds from this bond issuance were \$80,480. The Series 2019B bonds are secured by gross receipts of the Obligated Group. The interest rate on the Series 2019B bonds was 2.50% on June 30, 2019. The bonds mature in June 2049.

On April 3, 2019, the General Authority of Southcentral Pennsylvania issued variable rate demand bonds, Series 2019C and D, for the purpose of refunding 2008 Series B1- C bank loans. The proceeds from this bond issuance were \$131,375. The Series 2019 C and D bonds are secured by gross receipts of the Obligated Group and are backed by standby bond purchase agreements with Bank of America. The interest rate on the Series 2019C and D bonds was 1.90% on June 30, 2019. The bonds mature in June 2037.

WellSpan Health

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

8. Long-Term Debt (continued)

On April 3, 2019, the General Authority of Southcentral Pennsylvania issued variable rate demand bonds, Series 2019E, for the purpose of refunding the 2008 Series D bank loan. The proceeds from this bond issuance were \$81,315. The Series 2019E bonds are secured by gross receipts of the Obligated Group and are backed by a standby bond purchase agreement with US Bank. The interest rate on the Series 2019E bonds was 1.92% on June 30, 2019. The bonds mature in June 2035.

On September 25, 2017, the 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. The Series 2017 A and B loans are secured by gross receipts of the Obligated Group. Bank loan Series A principal of \$34,877 was issued as a taxable note, converting to a tax-exempt fixed rate of 2.04% 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 2.28% in September 2018, and matures in June 2029. The amount outstanding at June 30, 2019, was \$59,879. Payments of interest are due on a quarterly basis.

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, 2019, was \$98,500. 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, 2019 of 2.40% and 3.29%, respectively. Outstanding balances at June 30, 2019 were \$30,763 and \$4,416, respectively. Both loans mature in 2041.

On November 10, 2014, the General Authority of Southcentral 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, 2019, was \$193,496, including unamortized premium of \$13,485. The bonds mature in November 2044.

WellSpan Health

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

8. Long-Term Debt (continued)

On April 30, 2014, WH issued bank loans under the Franklin County Industrial Development Authority for the purpose of constructing and renovating facilities. The Series 2014 A loan is secured by gross receipts of the Obligated Group. Bank loan Series A principal of \$8,600 was issued as a tax-exempt fixed rate of 2.55% and matures in May 2025. The amount outstanding at June 30, 2019 was \$7,143. Payments of principal and interest are due on a monthly basis.

On April 30, 2014, WH issued bank loans under the Franklin County Industrial Development Authority for the purpose of constructing and renovating facilities. The Series 2014 B loan is secured by gross receipts of the Obligated Group. Bank loan Series B principal of \$6,340 was issued as a taxable variable rate. The interest rate on June 30, 2019 was 3.06% and matures in May 2025. The amount outstanding at June 30, 2019, was \$5,356. Payments of principal and interest are due on a monthly basis.

On April 30, 2014, CH issued bank loans under the Franklin County Industrial Development Authority for the purpose of constructing and renovating facilities. The Series 2014 C loan is secured by gross receipts of the Obligated Group. Bank loan Series C principal of \$27,195 was issued as a tax-exempt fixed rate of 2.55% and matures in May 2024. The amount outstanding at June 30, 2019 was \$21,539. Payments of principal and interest are due on a monthly basis.

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, 2019 and 2018.

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, 2019 and 2018, was \$3,772 and \$28,159, respectively. The interest rate is variable and the rate at June 30, 2019 was 3.74%. The line of credit is uncollateralized and is due on demand.

WellSpan Health

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

8. Long-Term Debt (continued)

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. There was no balance outstanding under the line at June 30, 2019. The amount outstanding under the line at June 30, 2018, was \$694. The interest rate is variable and was 4.45% at June 30, 2019. 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, guaranteed by the partners. 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 loan is uncollateralized. The amount outstanding at June 30, 2019 is \$1,295.

On December 21, 2015, ECH obtained bank financing of \$925 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, 2019 was \$247.

On August 15, 2013, WPH obtained bank financing in the amount of \$604. The promissory note is fixed for a period of 60 months at 4.55% and variable thereafter. The note is secured by real property. Final maturity is on November 15, 2028. The interest rate was 4.78% at June 30, 2019. The amount outstanding at June 30, 2019 was \$430.

On December 7, 2012, GH obtained bank financing in the amount of \$1,800. The interest rate is variable and the rate was 4.90% and 4.40% at June 30, 2019 and 2018, respectively. The note is uncollateralized and has a final maturity of December 2022. The amount outstanding at June 30, 2019 was \$1,215.

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. The interest rate was 4.18% at June 30, 2019. Final maturity is January 10, 2020. The amount outstanding at June 30, 2019 was \$1,519.

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. The interest rate was 5.50% at June 30, 2019. Final maturity is on January 17, 2022. The amount outstanding at June 30, 2019 was \$163.

WellSpan Health

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

8. Long-Term Debt (continued)

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, 2019. The amount outstanding at June 30, 2019 was \$335.

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 rate at June 30, 2019 was 3.05%. 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, 2019 was \$521.

Deferred Financing Costs

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

Maturities of Long-Term Debt

Maturities of the long-term debt outstanding, including capital leases and unamortized premium, as of June 30, 2019:

2020	\$	19,095
2021		16,112
2022		16,550
2023		17,138
2024		31,094
2025 and thereafter		874,694
	\$	<u>974,683</u>

WellSpan Health

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

8. Long-Term Debt (continued)

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 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.

	Series 2006	Series 2005	Series 2007	Series 2008
June 30, 2019				
Notional amount	\$ 7,735	\$ 82,295	\$ 140,000	\$ 100,000
Effective date				
Termination date				
Fixed rate	3.583%	3.600%	3.676%	4.070%
Variable rate basis	USD-LIBOR- BBA-1MT *.68	USD-LIBOR-BBA- 1MT *.624+.0029	USD-LIBOR-BBA- 1MT *.617+.0031	USD-LIBOR-BBA- 3MT *.90
Recorded liability	\$ 1,122	\$ 12,284	\$ 35,491	\$ 26,079
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	-

9. Amounts Available Under Lines and Letters of Credit

At June 30, 2019 and 2018, WSH collectively maintained five lines of credit totaling \$145,000 of which \$141,228 was unused at June 30, 2019, and \$120,000 of which \$91,147 was unused at June 30, 2018. At June 30, 2019 and 2018, WSH had unused, unsecured standby letters of credit with a bank totaling \$18,679 and \$19,203, respectively.

WellSpan Health

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

10. Net Assets with Donor Imposed Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	June 30	
	2019	2018
Subject to expenditure for specified purpose:		
Professional education	\$ 1,483	\$ 1,524
Healthcare services and programs	28,528	25,151
Funds held in trust by others	43,605	19,503
	\$ 73,616	\$ 46,178

For the years ended June 30, 2019 and 2018, \$4,246 and \$15,144 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.

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

11. Self-Insurance Reserves

The estimated liability for self-insurance reserves consists of:

	June 30	
	2019	2018
Professional liability	\$ 77,102	\$ 72,189
Health benefits	19,535	18,209
Short-term disability	842	783
Workers' compensation	14,199	11,730
	111,678	102,911
Less current portion	(34,383)	(32,003)
	\$ 77,295	\$ 70,908

WellSpan Health

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

11. Self-Insurance Reserves (continued)

For the years ended June 30, 2019 and 2018, malpractice claims up to \$500 were paid through WRRRG and CHART (an equity method investment in which WSH has a 9% ownership). 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 2019 and 2018 were self-insured by WSH, excluding Summit Health. Excess coverage of losses between \$5,000 and \$35,000 was commercially insured excluding Summit Health. Summit Health malpractice claims between \$1,000 and \$20,000 were paid through CHART. At June 30, 2019 and 2018, estimated professional liability reserve requirements for WSH have been discounted at 3%. The undiscounted reserve for professional liability was \$84,325 and \$78,605 at June 30, 2019 and 2018, respectively. For those self-insured risks, WSH has established an irrevocable trust fund to pay claims and related costs.

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, 2017 (the latest date for which such information is available), was \$982 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.

WSH's annual premiums for participation in the MCARE Fund were \$3,323 and \$2,900 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, the reserve for workers' compensation claims have been discounted at 3%. The undiscounted reserve for workers' compensation claims was \$14,968 and \$12,482 at June 30, 2019 and 2018, respectively.

WellSpan Health

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

11. Self-Insurance Reserves (continued)

The self-insurance liabilities are presented gross in the consolidated balance sheets of the professional and general liability reinsurance agreements discussed above, comprising \$19,839 and \$18,814 of estimated insurance recoveries as of June 30, 2019 and 2018, 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 four qualified defined benefit pension plans (the WSH Plan, GSH Plan, CH Non-Union Plan, and the CH Union Plan) each with a measurement date of June 30.

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.

The CH Non-Union Plan is a defined benefit pension plan covering substantially all nonunion employees. This plan provides eligible participants a contribution to their account equal to a percentage of their annual compensation, based on years of service. Effective September 1, 2010, new hires in the nonunion group earn pension benefits in a cash balance plan.

The CH Union Plan is a noncontributory defined benefit pension plan covering substantially all union employees. The benefits are based on years of service and the employee's compensation during the last ten years of employment. Effective January 1, 2009, CH modified its pension plan for union workers. The new plan was developed according to a point system for age and years of service. Existing employees over age 60 or with 70 or more points were grandfathered under the old plan. The remaining employees at the time of the pension changes have a modified final average pay plan plus a cash balance account. CH employees hired on or after July 1, 2008 are covered under a cash balance formula.

WellSpan Health

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

12. Retirement Benefits (continued)

WSH makes contributions to the WSH Plan, CH Plans, and GSH Plan as determined by the actuary.

Retired employees of WSH, CH and GSH, who have met the requirements to become vested under the terms of the WSH Plan, CH Plans, 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, 2019				
	WSH Plan	GSH Plan	CH Plans	Total Pension	Other Benefits
Change in benefits obligations					
Benefits obligation at beginning of year	\$ 991,472	\$ 128,378	\$ —	\$ 1,119,850	\$ 34,883
Service cost, net	—	—	5,565	5,565	1,367
Interest cost	39,894	5,170	6,985	52,049	1,265
Addition of CH obligations at SH Acquisition Date	—	—	246,344	246,344	—
Actuarial gain	98,428	12,155	37,159	147,742	1,541
Benefits paid	(34,043)	(4,448)	(4,228)	(42,719)	(4,043)
Benefits obligation at end of year	<u>\$ 1,095,751</u>	<u>\$ 141,255</u>	<u>\$ 291,825</u>	<u>\$ 1,528,831</u>	<u>\$ 35,013</u>
Accumulated benefits obligation	<u>\$ 1,095,751</u>	<u>\$ 141,255</u>	<u>\$ 291,825</u>	<u>\$ 1,528,831</u>	<u>\$ 35,013</u>
Changes in plan assets					
Fair value of plan assets at beginning of year	\$ 931,911	\$ 107,120	\$ —	\$ 1,039,031	\$ —
Addition of CH assets at SH Acquisition Date	—	—	217,674	217,674	—
Actual return on plan assets	63,527	6,981	18,220	88,728	—
Employer contributions	—	6,000	16,528	22,528	4,043
Other	—	—	1,107	1,107	—
Benefits paid	(34,043)	(4,448)	(4,228)	(42,719)	(4,043)
Fair value of plan assets at end of year	<u>\$ 961,395</u>	<u>\$ 115,653</u>	<u>\$ 249,301</u>	<u>\$ 1,326,349</u>	<u>\$ —</u>
Funded status at end of year	<u>\$ (134,356)</u>	<u>\$ (25,602)</u>	<u>\$ (42,524)</u>	<u>\$ (202,482)</u>	<u>\$ (35,013)</u>

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
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	\$ 991,472	\$ 128,378	\$ 1,119,850	\$ 34,883
Accumulated benefits obligation	\$ 991,472	\$ 128,378	\$ 1,119,850	\$ 34,883
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	—
Employer contributions	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	\$ 931,911	\$ 107,120	\$ 1,039,031	\$ —
Funded status at end of year	\$ (59,561)	\$ (21,258)	\$ (80,819)	\$ (34,883)

WellSpan Health

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

12. Retirement Benefits (continued)

	June 30, 2019				
	WSH Plan	GSH Plan	CH Plans	Total Pension	Other Benefits
Amounts recognized in accumulated net assets without donor restrictions consist of					
Prior service cost	\$ -	\$ -	\$ -	\$ -	\$ 581
Net actuarial loss	359,045	53,253	30,856	443,154	1,692
	<u>\$ 359,045</u>	<u>\$ 53,253</u>	<u>\$ 30,856</u>	<u>\$ 443,154</u>	<u>\$ 2,273</u>
Components of net periodic benefit (income) cost					
Service cost	\$ -	\$ -	\$ 5,565	\$ 5,565	\$ 1,367
Interest cost	39,894	5,170	6,985	52,049	1,265
Expected return on assets	(60,935)	(6,473)	(9,959)	(77,367)	-
Amortization of prior service cost	-	-	-	-	337
Amortization of unrecognized net actuarial loss	6,958	948	-	7,906	240
Settlement/curtailment expense	-	-	-	-	576
Net periodic benefit (income) cost	<u>\$ (14,083)</u>	<u>\$ (355)</u>	<u>\$ 2,591</u>	<u>\$ (11,847)</u>	<u>\$ 3,785</u>
Other changes in retirement benefits recognized in net assets without donor restrictions					
	<u>\$ 88,879</u>	<u>\$ 10,699</u>	<u>\$ 27,792</u>	<u>\$ 127,370</u>	<u>\$ 387</u>

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 net assets without donor restrictions 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 net assets without donor restrictions				
	\$ (20,598)	\$ (4,684)	\$ (25,282)	\$ (3,267)

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 net assets without donor restrictions 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	11,662	221	11,883
Total	<u>\$ 11,662</u>	<u>\$ 558</u>	<u>\$ 12,220</u>

	2019			
	WSH Plan	GSH Plan	CH Plans	Other Benefits
Assumptions				
Weighted average assumptions used to determine benefit obligation at June 30				
Discount rate	3.71%	3.73%	3.86%	3.78%
Rate of increase in future compensation levels	N/A	N/A	N/A	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30				
Discount rate	4.36%	4.37%	4.64%	4.38%
Rate of increase in future compensation levels	N/A	N/A	3.50%	4.00%
Expected long-term rate of return on assets	7.25%	7.25%	7.25%	N/A

WellSpan Health

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

12. Retirement Benefits (continued)

	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

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	2019	2018
Equity securities	28%	34%	48%	28%	38%
Debt securities	17	44	67	52	47
Other	0	22	45	20	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

During fiscal year 2020, WSH expects to contribute approximately \$6,000 related to the GSH plan, \$19,200 related to the CH plans and \$3,672 related to the other benefits.

Fair Value Measurements

The following tables set forth by level, within the fair value hierarchy, the WSH Pension Plan's Master Trust assets carried at fair value, including amounts for securities which have been redeemed but for which funds have not yet been received, as of June 30:

	Total Fair Value	Level 1	Level 2	Level 3	NAV
June 30, 2019					
Stock index fund	\$ 148,600	\$ –	\$ –	\$ –	\$ 148,600
Alternative investments – private equity, limited partnerships ⁽¹⁾	70,916	–	–	–	70,916
Alternative investments – real estate partnerships ⁽²⁾	9,894	–	–	–	9,894
Alternative investments – absolute return, limited partnerships ⁽³⁾	50,625	–	–	–	50,625
Collective mutual funds and investment trusts:					
International equity	130,014	32,524	–	–	97,490
Emerging markets	30,159	–	–	–	30,159
Fixed income funds	691,292	108,546	–	–	582,746
Global asset allocation	36,796	36,796	–	–	–
Government short-term	97,882	–	–	–	97,882
Total collective mutual funds and investment trusts	986,143	177,866	–	–	808,277
Guaranteed annuity contracts	5,005	–	5,005	–	–
Domestic equity securities	55,166	55,166	–	–	–
	\$ 1,326,349	\$ 233,032	\$ 5,005	\$ –	\$ 1,088,312

WellSpan Health

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

12. Retirement Benefits (continued)

	Total Fair Value	Level 1	Level 2	Level 3	NAV
June 30, 2018					
Stock index fund	\$ 50,057	\$ –	\$ –	\$ –	\$ 50,057
Alternative investments – private equity, limited partnerships ⁽¹⁾	57,761	–	–	–	57,761
Alternative investments – real estate partnerships ⁽²⁾	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	–	–	–
	<u>\$ 1,039,031</u>	<u>\$ 347,485</u>	<u>\$ 3,757</u>	<u>\$ –</u>	<u>\$ 687,789</u>

⁽¹⁾ The plan maintains investments in private equity, limited partnerships. 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, audited financial statements are provided from independent audit firms for review. There are \$19,294 and \$3,053 of unfunded commitments as of June 30, 2019 and 2018, respectively.

WellSpan Health

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

12. Retirement Benefits (continued)

- ⁽²⁾ The plan maintains investments in real estate partnerships that invest primarily in U.S. commercial real estate. The fair values of the investments had 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. There is no redemption notice period for these investments. There are \$285 and \$388 of unfunded commitments as of June 30, 2019 and 2018, respectively.
- ⁽³⁾ The plan maintains investments in absolute return, limited partnerships that include investments in hedge fund of funds that invest in multiple strategies, including long and short equity, other nondirectional, distressed securities, convertible arbitrage, and fixed income arbitrage. The fair values of the investments had been estimated using the net asset value per share of the investments. There is 65 day redemption notice period for these investments, which can be redeemed on a quarterly basis. There are no unfunded commitments as of June 30, 2019 and 2018.

Estimated Future Benefit Payments

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

	Pension Benefits	Other Benefits
Fiscal year:		
2020	\$ 54,737	\$ 3,672
2021	58,977	5,687
2022	63,127	3,234
2023	67,073	2,428
2024	71,013	2,068
2025 to 2029	405,040	9,914

Defined Contribution Plans

In addition to the defined benefit plans, WSH also sponsors several other contributory and noncontributory defined contribution benefit plans. The amount of expense related to these plans was \$62,636 for the year ended June 30, 2019, inclusive of plans acquired in the Summit Health Acquisition described in Note 1. The amount of expense related to the plans was \$60,990 for the year ended June 30, 2018.

WellSpan Health

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

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 noncancelable lease terms in excess of one year as of June 30, 2019.

2020	\$	15,255
2021		11,141
2022		8,795
2023		6,978
2024		5,685
2025 and thereafter		17,492
Total minimum payments required	\$	<u>65,346</u>

Rent expense under operating leases was \$16,518 and \$15,639 for the years ended June 30, 2019 and 2018, 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.

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.

WellSpan Health

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

14. Functional Expenses

WSH provides general health care services to residents within its geographic location. Natural expenses attributable to more than one functional expense category are allocated across a variety of bases, where appropriate; including, employee salaries, square footage and operating expenses. Expenses related to providing these services are as follows for the year ended June 30, 2019:

	Health Care Services	General and Administrative	Total
Salaries and benefits	\$ 1,181,422	\$ 320,403	\$ 1,501,825
Other operating	631,192	166,095	797,287
Depreciation and amortization	63,410	59,275	122,685
Interest	28,035	1,659	29,694
	<u>\$ 1,904,059</u>	<u>\$ 547,432</u>	<u>\$ 2,451,491</u>

15. Liquidity and Availability

Financial assets available for general expenditures within one year of the balance sheet date comprised of the following at June 30, 2019:

Cash and cash equivalents	\$ 157,714
Patient and other receivables, net	383,979
Pledge receivables, net	3,195
Investments	1,444,572
	<u>\$ 1,989,460</u>

Additionally, WSH has entered into various unsecured revolving credit facilities with unused amounts available on such arrangements as discussed in Note 9.

16. Subsequent Events

WSH has evaluated subsequent events that have occurred for recognition or disclosure through October 7, 2019, the date the accompanying consolidated financial statements were issued. No events occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

Supplementary Information (2019 Only)

WellSpan Health

Consolidating Balance Sheet

(In Thousands)

June 30, 2019

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	Summit Health Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
Assets													
Current assets:													
Cash and cash equivalents	\$ 20,347	\$ 2,014	\$ 5,106	\$ 3,453	\$ 42,326	\$ 16,354	\$ 575	\$ 443	\$ 58,842	\$ 1,577	\$ 8,790	\$ (2,113)	\$ 157,714
Due from affiliates	–	11,286	5,647	1,274	2,395	815	4,398	10,188	(1,849)	9,868	672	(44,694)	–
Assets limited as to use	–	–	–	–	–	–	–	–	–	–	6,972	–	6,972
Patient accounts receivable, net	161,370	29,747	29,337	22,179	46,652	15,185	7,504	23,465	(64)	6,511	1,213	–	343,099
Other receivables	5,094	1,138	743	735	13,261	615	1,436	9,028	7,720	660	450	–	40,880
Inventories	6,662	2,078	3,133	2,268	4,001	1,459	85	572	312	7,971	580	–	29,121
Prepaid expenses	1,926	402	363	399	13,940	1,376	161	357	22,165	3,103	475	–	44,667
Total current assets	195,399	46,665	44,329	30,308	122,575	35,804	14,159	44,053	87,126	29,690	19,152	(46,807)	622,453
Investments limited as to use:													
Board-designated	875,121	209,337	3,656	11,133	400,014	34,495	641	–	–	7,569	1,823	–	1,543,789
Under bond indenture	108,777	–	–	–	–	–	–	–	–	–	–	–	108,777
Self-insurance trust	–	–	–	–	–	–	–	–	–	–	14,004	–	14,004
Donor restricted investments	2,729	1,332	–	755	492	4,915	406	–	11	–	6,254	–	16,894
Beneficial interest in perpetual trusts	7,085	7,710	681	236	24,403	3,159	331	–	–	–	–	–	43,605
Total investments limited as to use	993,712	218,379	4,337	12,124	424,909	42,569	1,378	–	11	7,569	22,081	–	1,727,069
Pledges receivable, net	1,545	74	134	1,212	201	–	29	–	–	–	–	–	3,195
Property and equipment, net	237,351	49,354	101,794	64,941	224,424	46,413	17,869	37,151	165,064	149,749	4,802	–	1,098,912
Investments in joint ventures	755	149	1,718	4,662	12,944	23	765	173	7,980	250	14	(6,930)	22,503
Notes receivable	–	–	933	–	2,296	–	340	–	150	–	–	–	3,719
Notes receivable – affiliates	498,163	–	–	–	–	–	–	–	172,733	253	–	(671,149)	–
Interest in net assets of foundation	6,254	–	–	–	–	–	–	–	–	–	–	(6,254)	–
Capitalized software costs, net	–	–	–	–	–	–	–	–	62,528	–	–	–	62,528
Goodwill and intangible assets, net	33	3,215	–	115	–	–	–	–	20,054	–	–	–	23,417
Estimated insurance recoveries	–	–	–	–	–	–	–	–	19,839	–	–	–	19,839
Other assets	–	1,632	42	11	396	–	–	–	4,866	204	195	–	7,346
Total assets	\$ 1,933,212	\$ 319,468	\$ 153,287	\$ 113,373	\$ 787,745	\$ 124,809	\$ 34,540	\$ 81,377	\$ 540,351	\$ 187,715	\$ 46,244	\$ (731,140)	\$ 3,590,981

WellSpan Health

Consolidating Balance Sheet (continued)

(In Thousands)

June 30, 2019

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	Summit Health Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
Liabilities													
Current liabilities:													
Current portion of long-term debt and capital lease obligations	\$ 6,626	\$ 627	\$ 2,358	\$ 120	\$ 3,360	\$ 985	\$ 366	\$ –	\$ 209	\$ 4,277	\$ 250	\$ –	\$ 19,178
Accounts payable and accrued expenses	19,561	3,175	4,661	5,198	8,576	2,290	91	2,334	19,695	775	618	–	66,974
Bank payable	–	–	–	–	–	–	–	–	–	2,113	–	(2,113)	–
Accrued interest payable	1,946	11	87	–	216	–	–	–	–	11	1	–	2,272
Accrued salaries and wages	21,980	4,251	5,270	5,715	30,065	3,327	3,679	40,878	51,758	761	1,446	–	169,130
Advances from third-party payors	2,394	480	212	(1)	1,156	(282)	46	50	84	360	693	–	5,192
Current portion self insurance reserves and accrued retirement benefits	2,987	–	–	6,000	3,488	–	–	–	24,608	–	6,972	–	44,055
Third-party payor settlements	1,092	28	3,390	2,811	12,749	156	2,527	–	–	–	–	–	22,753
Due to affiliates	37,230	–	–	7	364	–	–	–	4,830	1,671	592	(44,694)	–
Total current liabilities	93,816	8,572	15,978	19,850	59,974	6,476	6,709	43,262	101,184	9,968	10,572	(46,807)	329,554
Self-insurance reserves, less current portion	3,723	–	–	–	4,117	–	–	–	55,193	–	14,262	–	77,295
Long-term debt and capital lease obligation, less current portion	495,299	41,515	64,877	2,232	155,955	59,633	559	–	12,385	117,460	271	–	950,186
Accrued retirement benefits, less current portion	20,421	–	–	19,602	51,146	–	–	–	145,277	–	–	–	236,446
Notes payable – affiliates	–	–	10,000	157,521	–	–	–	–	498,417	5,211	–	(671,149)	–
Interest rate swap agreements	26,572	5,993	1,122	–	26,078	–	–	–	–	15,211	–	–	74,976
Other non-current liabilities	1,489	–	–	–	–	–	–	–	–	1,000	–	–	2,489
Total liabilities	641,320	56,080	91,977	199,205	297,270	66,109	7,268	43,262	812,456	148,850	25,105	(717,956)	1,670,946
Net assets:													
Net assets without donor restrictions	1,271,267	253,378	60,005	(90,534)	465,263	50,605	25,504	38,115	(272,593)	37,048	13,474	(10,806)	1,840,726
Net assets with donor restrictions	14,371	10,010	1,305	4,702	25,212	8,095	1,768	–	488	–	7,665	–	73,616
Interest in net assets of foundation	6,254	–	–	–	–	–	–	–	–	–	–	(6,254)	–
WellSpan Health net assets	1,291,892	263,388	61,310	(85,832)	490,475	58,700	27,272	38,115	(272,105)	37,048	21,139	(17,060)	1,914,342
Non-controlling interests	–	–	–	–	–	–	–	–	–	1,817	–	3,876	5,693
Total net assets	1,291,892	263,388	61,310	(85,832)	490,475	58,700	27,272	38,115	(272,105)	38,865	21,139	(13,184)	1,920,035
Total liabilities and net assets	\$ 1,933,212	\$ 319,468	\$ 153,287	\$ 113,373	\$ 787,745	\$ 124,809	\$ 34,540	\$ 81,377	\$ 540,351	\$ 187,715	\$ 46,244	\$ (731,140)	\$ 3,590,981

WellSpan Health

Consolidating Statement of Operations
(In Thousands)

Year Ended June 30, 2019

	York Hospital	Gettysburg Hospital Consolidated	Ephrata Community Hospital Consolidated	Good Samaritan Hospital Consolidated	Summit Health Consolidated	WellSpan Specialty Services Consolidated	WellSpan Philhaven	WellSpan Medical Group	WellSpan Health	WellSpan Health Care Services Consolidated	Other	Consolidating Eliminations	Consolidated Totals
Unrestricted revenues, gains, and other support													
Net patient service revenue	\$ 1,063,983	\$ 216,580	\$ 210,447	\$ 208,000	\$ 348,234	\$ 108,955	\$ 59,488	\$ 275,654	\$ –	\$ (24,804)	\$ 12,015	\$ (1,282)	\$ 2,477,272
Other revenue	7,584	1,138	1,157	1,178	5,407	581	2,312	236,011	633,528	76,509	24,734	(899,408)	90,731
Net assets released from restrictions used for operations	833	201	198	149	–	8	232	67	984	–	–	–	2,672
Total revenues, gains, and other support	1,072,400	217,919	211,802	209,327	353,641	109,544	62,032	511,732	634,512	51,705	36,749	(900,690)	2,570,675
Expenses													
Salaries and wages	265,419	45,347	57,411	59,454	172,357	35,556	41,889	420,121	174,168	8,467	12,329	–	1,292,518
Employee benefits	16,520	4,386	4,656	10,650	32,237	3,119	17,087	83,418	314,902	(22,775)	1,536	(256,431)	209,307
Professional fees	242,723	40,007	36,313	43,820	14,932	13,904	6,209	18,394	3,667	1,653	1,059	(346,136)	76,545
Supplies and other	364,308	81,128	88,115	82,912	94,717	35,890	19,676	56,251	123,642	55,430	15,625	(296,952)	720,742
Depreciation and amortization	28,897	5,502	8,889	9,396	15,302	4,341	2,148	5,388	37,104	5,051	667	–	122,685
Interest	14,983	1,319	2,533	7,187	4,270	2,257	1,949	–	22,207	3,619	19	(30,649)	29,694
Total operating expenses	932,850	177,689	197,917	213,419	333,815	95,067	88,958	583,572	675,690	51,445	31,235	(930,168)	2,451,491
Operating income (loss)	139,550	40,230	13,885	(4,092)	19,826	14,477	(26,926)	(71,840)	(41,178)	260	5,514	29,478	119,184
Other income (expense)													
Contributions	174	(66)	405	342	790	142	118	2	(4)	–	110	435	2,448
Investment income, net	57,001	7,479	524	587	24,002	1,727	40	343	9,275	46	626	(30,649)	71,001
Equity gain in joint ventures	2,338	463	963	33	1,945	72	–	535	2,088	103	45	(5,868)	2,717
Gain (loss) on sale of assets/other	894	2	(57)	(2)	11	1	–	(11)	124	(323)	–	–	639
Loss on debt refinancing	(202)	(13)	(28)	–	(5,855)	(21)	–	–	–	302	–	–	(5,817)
Contribution received in the Summit Health acquisition	–	–	–	–	–	–	–	–	522,218	–	–	–	522,218
Change in fair value of interest rate swap agreements	(6,488)	(1,515)	(232)	–	(12,959)	–	–	–	–	(3,920)	–	–	(25,114)
Other income (expense), net	(760)	559	(266)	(404)	883	176	22	(3)	(886)	50	242	736	349
Total other income (expense)	52,957	6,909	1,309	556	8,817	2,097	180	866	532,815	(3,742)	1,023	(35,346)	568,441
Excess (deficiency) of revenues over expenses before non-controlling interests	192,507	47,139	15,194	(3,536)	28,643	16,574	(26,746)	(70,974)	491,637	(3,482)	6,537	(5,868)	687,625
Non-controlling interests	–	–	–	–	–	–	–	–	–	465	–	(1,522)	(1,057)
Excess (deficiency) of revenues over expenses	192,507	47,139	15,194	(3,536)	28,643	16,574	(26,746)	(70,974)	491,637	(3,017)	6,537	(7,390)	686,568
Other changes in net assets without donor restrictions													
Change in net unrealized gains and losses on assets limited as to use and investments - other-than-trading securities	–	–	–	–	–	–	–	–	–	–	833	–	833
Net assets released from restrictions for purchase of property and equipment	65	74	488	23	–	–	903	–	–	–	–	–	1,553
Cumulative effect of change in accounting principles	2,598	404	159	–	–	121	–	–	–	–	2	–	3,284
Distributions to partners	–	–	–	–	–	–	–	–	–	–	(4,673)	4,673	–
Other change in accrued retirement benefits	(387)	–	–	(10,699)	(27,792)	–	–	–	(88,879)	–	–	–	(127,757)
Transfers with affiliates	(110,073)	(25,000)	(14,600)	(8,400)	–	–	61,700	85,600	10,100	–	673	–	–
Increase (decrease) in net assets without donor restrictions	\$ 84,710	\$ 22,617	\$ 1,241	\$ (22,612)	\$ 851	\$ 16,695	\$ 35,857	\$ 14,626	\$ 412,858	\$ (3,017)	\$ 3,372	\$ (2,717)	\$ 564,481

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

Combining Balance Sheet
(In Thousands)

June 30, 2019

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Chambersburg Hospital	Combined Totals
Assets					
Current assets:					
Cash and cash equivalents	\$ 20,347	\$ 415	\$ 5,106	\$ 13,964	\$ 39,832
Due from affiliates	–	11,264	4,706	4,521	20,491
Patient accounts receivable, net	161,370	29,747	29,337	30,446	250,900
Other receivables	5,094	1,138	743	8,102	15,077
Inventories	6,662	2,078	3,133	3,100	14,973
Prepaid expenses	1,926	402	355	9,335	12,018
Total current assets	195,399	45,044	43,380	69,468	353,291
Investments limited as to use:					
Board-designated	875,121	198,446	56	279,049	1,352,672
Under bond indenture	108,777	–	–	–	108,777
Donor restricted investments	2,729	920	–	–	3,649
Beneficial interest in perpetual trusts	7,085	–	681	10,395	18,161
Total investments limited as to use	993,712	199,366	737	289,444	1,483,259
Pledges receivable, net	1,545	74	134	77	1,830
Property and equipment, net	237,351	49,354	101,794	128,663	517,162
Investments in joint ventures	755	149	1,718	–	2,622
Notes receivable – affiliates	498,163	–	933	273	499,369
Interest in net assets of foundation	6,254	20,686	4,537	–	31,477
Goodwill and intangible assets, net	33	3,215	–	–	3,248
Other assets	–	1,523	42	90	1,655
Total assets	\$ 1,933,212	\$ 319,411	\$ 153,275	\$ 488,015	\$ 2,893,913

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Chambersburg Hospital	Combined Totals
Liabilities and net assets					
Current liabilities:					
Current portion long-term debt and capital lease obligations	\$ 6,626	\$ 627	\$ 2,358	\$ 2,317	\$ 11,928
Accounts payable and accrued expenses	19,561	3,175	4,661	5,533	32,930
Accrued interest payable	1,946	11	87	167	2,211
Accrued salaries and wages	21,980	4,251	5,270	13,807	45,308
Advances from third-party payors	2,394	423	200	896	3,913
Current portion of self-insurance reserves					
accrued retirement benefits	2,987	–	–	2,035	5,022
Third-party payor settlements	1,092	28	3,390	6,349	10,859
Due to affiliates	37,230	–	–	2,335	39,565
Total current liabilities	93,816	8,515	15,966	33,439	151,736
Self-insurance reserves, less current portion	3,723	–	–	2,232	5,955
Long-term debt and capital lease obligation, less current portion	495,299	41,515	64,877	119,531	721,222
Accrued retirement benefits, less current portion	20,421	–	–	48,835	69,256
Notes payable – affiliates	–	–	10,000	–	10,000
Interest rate swap agreements	26,572	5,993	1,122	26,078	59,765
Other non-current liabilities	1,489	–	–	–	1,489
Total liabilities	641,320	56,023	91,965	230,115	1,019,423
Net assets:					
Net assets without donor restrictions	1,271,267	241,309	55,772	247,294	1,815,642
Net assets with donor restrictions	14,371	1,393	1,001	10,606	27,371
Interest in net assets of foundations	6,254	20,686	4,537	–	31,477
Total net assets	1,291,892	263,388	61,310	257,900	1,874,490
Total liabilities and net assets	\$ 1,933,212	\$ 319,411	\$ 153,275	\$ 488,015	\$ 2,893,913

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

Combining Statement of Operations
(In Thousands)

Year Ended June 30, 2019

	York Hospital	Gettysburg Hospital	Ephrata Community Hospital	Chambersburg Hospital	Combined Totals
Unrestricted revenues, gains, and other support					
Net patient service revenue	\$ 1,063,984	\$ 216,581	\$ 210,447	\$ 234,361	\$ 1,725,373
Other revenue	7,584	1,138	1,157	2,399	12,278
Net assets released from restrictions used for operations	833	201	198	–	1,232
Total revenues, gains, and other support	1,072,401	217,920	211,802	236,760	1,738,883
Expenses					
Salaries and wages	265,419	45,200	57,256	83,365	451,240
Employee benefits	16,521	4,330	4,597	24,172	49,620
Professional fees	242,723	40,002	36,308	16,311	335,344
Supplies and other	364,308	81,081	88,027	57,712	591,128
Depreciation and amortization	28,897	5,502	8,889	9,443	52,731
Interest	14,983	1,319	2,533	3,748	22,583
Total operating expenses	932,851	177,434	197,610	194,751	1,502,646
Operating income	139,550	40,486	14,192	42,009	236,237
Other income (expense)					
Contributions	174	58	10	415	657
Investment income, net	57,001	6,940	350	17,003	81,294
Equity gain in joint ventures	2,338	463	963	–	3,764
Gain on sale of assets/other	894	2	(57)	15	854
Loss on debt refinancing	(202)	(13)	(28)	(5,855)	(6,098)
Change in fair value of interest rate swap agreements	(6,488)	(1,515)	(232)	(12,959)	(21,194)
Other income (expense), net	(760)	11	(320)	(892)	(1,961)
Total other income (expense)	52,957	5,946	686	(2,273)	57,316
Excess of revenues over expenses	192,507	46,432	14,878	39,736	293,553
Other changes in net assets without donor restrictions					
Net assets released from restrictions for purchase of property and equipment	65	74	488	–	627
Cumulative effect of change in accounting principles	2,598	399	159	–	3,156
Other change in accrued retirement benefits	(387)	–	–	(27,354)	(27,741)
Transfers with affiliates	(110,073)	(25,000)	(14,600)	(29,566)	(179,239)
Increase (decrease) in net assets without donor restrictions	\$ 84,710	\$ 21,905	\$ 925	\$ (17,184)	\$ 90,356

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