

**St. Luke's Health Network, Inc.  
and Controlled Entities**

**Consolidated Financial Statements and  
Supplemental Information  
June 30, 2018 and 2017**

# St. Luke's Health Network, Inc. and Controlled Entities

## Index

June 30, 2018 and 2017

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## Report of Independent Auditors

To The Board of Trustees  
St. Luke's Health Network, Inc.

We have audited the accompanying consolidated financial statements of St. Luke's Health Network, Inc. and its controlled entities (collectively, the "Network"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Health Network, Inc. and its controlled entities at June 30, 2018 and 2017, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

*PricewaterhouseCoopers LLP*

Philadelphia, Pennsylvania  
October 27, 2018

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidated Balance Sheets**  
**June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 106,312,025	\$ 74,287,679
Patient accounts receivable, net of allowance for uncollectible accounts of \$91,901,380 and \$73,529,789, respectively	184,045,195	146,219,594
Other accounts receivable	14,093,565	9,431,885
Investments	117,384,555	107,413,430
Inventories	25,905,805	20,232,196
Prepaid expenses	23,829,529	33,856,908
Estimated third-party payor settlements	-	2,579,451
Total current assets	<u>471,570,674</u>	<u>394,021,143</u>
Noncurrent		
Funds held by trustee	78,363,885	602,348
Funds held under bond indenture	7,309,991	13,905,022
Board designated funds	390,742,793	387,273,060
Property and equipment, net	989,175,225	837,462,966
Goodwill	72,821,531	29,236,903
Investments temporarily restricted as to use	37,262,271	33,966,400
Investments permanently restricted as to use	44,183,807	38,099,312
Deferred compensation plan assets	31,739,621	25,786,797
Other assets	67,625,505	55,781,336
Total assets	<u>\$ 2,190,795,303</u>	<u>\$ 1,816,135,287</u>
<b>Liabilities and Net Assets</b>		
Current		
Accounts payable	\$ 116,183,846	\$ 71,353,757
Accrued salaries, wages and taxes	70,406,605	54,116,420
Accrued vacation and bonus	65,391,023	52,720,391
Current portion of self insurance reserves	27,117,648	24,937,572
Deferred income	4,893,158	4,251,219
Advance from third-party payors	2,873,456	2,398,101
Patient credit balances	5,783,499	4,815,071
Current portion of long-term debt	22,155,510	17,036,861
Current portion of accrued compensation payable	2,546,486	3,404,593
Accrued interest on long-term debt	9,247,227	9,338,556
Other current liabilities	12,851,380	10,650,857
Estimated third-party payor settlements	9,364,541	-
Total current liabilities	<u>348,814,379</u>	<u>255,023,398</u>
Noncurrent		
Long-term debt, net of current portion	815,835,981	652,076,185
Asset retirement obligation	3,562,721	3,562,721
Accrued compensation payable	61,115,655	81,710,238
Self insurance reserves	55,057,043	50,630,829
Other noncurrent liabilities	24,768,798	21,112,089
Swap contracts	48,489,638	77,899,007
Total liabilities	<u>1,357,644,215</u>	<u>1,142,014,467</u>
Net assets		
Unrestricted net assets	739,515,171	591,521,007
Temporarily restricted net assets	49,452,110	44,500,501
Permanently restricted net assets	44,183,807	38,099,312
Total net assets	<u>833,151,088</u>	<u>674,120,820</u>
Total liabilities and net assets	<u>\$ 2,190,795,303</u>	<u>\$ 1,816,135,287</u>

The accompanying notes are an integral part of these consolidated financial statements.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidated Statement of Operations**  
**Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Revenues and gains</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,876,702,627	\$ 1,561,396,980
Provision for bad debts	<u>(67,004,172)</u>	<u>(71,965,356)</u>
Net patient service revenue less provision for bad debts	1,809,698,455	1,489,431,624
Other operating revenue and gains	32,533,987	30,051,441
Net assets released from restrictions used for operations	<u>2,513,181</u>	<u>2,197,973</u>
Total revenue and gains	<u>1,844,745,623</u>	<u>1,521,681,038</u>
<b>Operating expenses</b>		
Salaries and employee benefits	1,000,046,735	840,245,558
Supplies and other	629,434,841	524,394,013
Depreciation and amortization	93,070,448	85,581,553
Interest	<u>29,667,507</u>	<u>26,353,060</u>
Total expenses	<u>1,752,219,531</u>	<u>1,476,574,184</u>
Income from operations	<u>92,526,092</u>	<u>45,106,854</u>
<b>Nonoperating gains (losses)</b>		
Unrestricted investment income from assets limited as to use	10,802,914	9,046,624
Realized gains on unrestricted investment	7,354,371	8,084,090
Gifts, grants and bequests	329,231	409,544
Unrestricted investment income from restricted net assets	647,913	288,947
Unrestricted investment income, other	4,942,019	4,084,388
Income from equity method investments	1,228,073	678,607
(Loss) Gain on disposal of property and equipment	(1,158,338)	408,830
Restructuring costs	(2,538,077)	(1,469,562)
Pre-acquisition/merger costs	(2,113,861)	(1,240,642)
Donations to other organizations	(10,974,339)	(2,301,080)
Change in fair market value of total return interest rate swaps	12,664,871	2,960,138
Goodwill impairment	(1,790,512)	(6,233,287)
Gain (loss) on retirement/purchase of bonds	<u>690,782</u>	<u>(20,179,113)</u>
Nonoperating gains/(losses)	<u>20,085,047</u>	<u>(5,462,516)</u>
Excess of revenue and gains over expenses	112,611,139	39,644,338
Net assets released from restrictions used for purchase of property and equipment	705,329	467,612
Contribution of building	320,000	-
Pension adjustment	12,333,051	27,743,618
Change in unrealized gains on investments	5,280,147	16,841,774
Change in fair market value of interest rate swaps	<u>16,744,498</u>	<u>27,553,608</u>
Increase in unrestricted net assets	<u>\$ 147,994,164</u>	<u>\$ 112,250,950</u>

The accompanying notes are an integral part of these consolidated financial statements.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2018 and 2017**

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	2018	2017
<b>Unrestricted net assets</b>		
Excess of revenue and gains over expenses	\$ 112,611,139	\$ 39,644,338
Net assets contributed and released from restrictions used for purchase of property and equipment	705,329	467,612
Contribution of land	320,000	-
Pension adjustment	12,333,051	27,743,618
Change in unrealized gains on investments	5,280,147	16,841,774
Change in fair market value of derivatives	16,744,498	27,553,608
Increase (decrease) in unrestricted net assets	147,994,164	112,250,950
<b>Temporarily restricted net assets</b>		
Contributions received	5,844,113	3,947,382
Beginning temporarily restricted net assets from acquisitions	404,764	-
Net realized/unrealized gains on investments	3,050,727	5,234,150
Net assets released from restrictions	(4,347,995)	(2,284,320)
Increase (decrease) in temporarily restricted net assets	4,951,609	6,897,212
<b>Permanently restricted net assets</b>		
Contributions received	1,870,816	1,482,164
Beginning permanently restricted net assets from acquisitions	3,394,034	-
Net realized/unrealized gains on investments	819,645	832,917
Increase in permanently restricted net assets	6,084,495	2,315,081
Increase in net assets	159,030,268	121,463,243
<b>Net assets</b>		
Beginning of year	674,120,820	552,657,577
End of year	\$ 833,151,088	\$ 674,120,820

The accompanying notes are an integral part of these consolidated financial statements.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Cash flows provided by operating activities</b>		
Change in net assets	\$ 159,030,268	\$ 121,463,243
Adjustments to reconcile change in net assets to net cash from operating activities		
Loss (gain) on disposal of equipment	1,158,338	(408,830)
Depreciation and amortization	93,070,448	85,581,553
Equity gains from joint ventures and partnerships	(1,228,073)	(678,607)
Change in unrealized gains on unrestricted investments	(5,280,147)	(16,841,774)
Net realized gain on restricted investments	(1,325,965)	(1,179,955)
Net unrealized gain on restricted investments	(2,517,638)	(4,887,112)
Net realized gain on unrestricted investments	(7,354,371)	(8,084,090)
Goodwill impairment	1,790,512	6,233,287
Pension adjustments	(12,333,051)	(27,743,618)
Swap contracts	(29,409,369)	(30,513,748)
Restricted contributions received	(7,714,929)	(5,429,546)
Provision for bad debts	67,004,172	71,965,356
Restricted net assets from acquisition	(3,798,798)	-
Change in cash due to changes in operating assets and liabilities		
Patient accounts receivable	(92,818,883)	(54,415,330)
Other receivables	8,947,307	253,648
Inventories	(2,191,545)	(1,802,023)
Prepaid expenses	12,714,675	(4,084,623)
Other assets	(11,417,938)	(9,177,904)
Accounts payable and accrued liabilities	(40,266,982)	38,750
Patient credit balances	968,428	(1,822,431)
Net estimated third-party payor settlements	2,929,510	299,238
Deferred income	525,398	(584,787)
Advances from third party payors	475,355	-
Net cash provided by operating activities	<u>130,956,722</u>	<u>118,180,697</u>
<b>Cash flows used by investing activities</b>		
Purchases of property, plant and equipment	(176,754,643)	(142,749,874)
Proceeds from sale of equipment	487,916	792,466
Cash acquired in acquisition	5,002,240	-
Purchases of investments	(402,259,457)	(320,875,010)
Proceeds from sales of investments	339,075,856	329,283,814
Net cash used in investing activities	<u>(234,448,088)</u>	<u>(133,548,604)</u>
<b>Cash flows provided by financing activities</b>		
Proceeds from issuance of long-term debt	357,551,703	255,766,800
Proceeds from sale leaseback transaction	19,629,167	-
Repayments of long-term debt	(133,360,088)	(42,117,455)
Repurchase of St. Luke's bonds	(116,019,999)	(184,925,000)
Proceeds from restricted contributions	7,714,929	5,429,546
Net cash provided by financing activities	<u>135,515,712</u>	<u>34,153,891</u>
Increase in cash and cash equivalents	32,024,346	18,785,984
<b>Cash and cash equivalents</b>		
Beginning of year	74,287,679	55,501,695
End of year	<u>\$ 106,312,025</u>	<u>\$ 74,287,679</u>
Construction in progress included in accounts payable	<u>\$ 15,520,107</u>	<u>\$ 5,820,692</u>
Cash paid for interest	<u>33,543,090</u>	<u>28,370,826</u>

The accompanying notes are an integral part of these consolidated financial statements.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### 1. Organization, Mission and Basis of Presentation

St. Luke's Health Network, Inc. ("Parent") is a not-for-profit, tax-exempt corporation which controls the following acute care hospitals, organization of physician practices, and other health care related organizations serving the western New Jersey and Eastern Pennsylvania regions.

- St. Luke's Hospital of Bethlehem, Pennsylvania ("St. Luke's Hospital"), which includes the following entities:
  - St. Luke's Health Network Insurance Company ("SLRRG")
  - St. Luke's HomeStar Services, LLC
  - St. Luke's AirMed, LLC
  - St. Luke's Care, LLC
  - St. Luke's Shared Savings Plan, LLC
  - Pocono MRI Imaging & Diagnostic Center, LLC
  - St. Luke's VNA ("VNA"), which includes the following two entities:
    - VNA Home Health and Hospice
    - HomeStar Medical Equipment and Infusion Services
- St. Luke's Quakertown Hospital
- St. Luke's Physician Group, Inc.
- St. Luke's Emergency and Transport Services
- Quakertown Rehabilitation Center DBA St. Luke's Rehabilitation Center
  - New Valley Rehab, LLC
- Carbon-Schuylkill Community Hospital, Inc. DBA St. Luke's Miners Memorial Medical Center ("MMMC")
- St. Luke's Hospital - Anderson Campus
- St. Luke's Hospital - Monroe Campus
- St. Luke's Warren Hospital Inc.
  - St. Luke's Warren Physician Group.
  - Hillcrest Emergency Services, Inc
- Two Rivers Enterprises, Inc.
- Sacred Heart Hospital of Allentown DBA St. Luke's Hospital – Sacred Heart Campus includes the following entities:
  - Sacred Heart Foundation
  - Sacred Heart Ancillary Services, Inc.
  - Quality Patient Care, LLC
  - SH Realty Corporation
- Sacred Heart Healthcare System

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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- CMS Medical Care Corporation
- Blue Mountain Hospital, Inc.

The Parent and controlled entities are referred to collectively as the St. Luke's Health Network, Inc. (the "Network").

The Network also participates in various joint ventures and partnerships. These arrangements enable the Network to provide healthcare services to the broader community through involvement in other healthcare organizations. See Note 8 for additional information on investments in joint ventures and partnerships.

## 2. Summary of Significant Accounting Policies

### Adoption of Accounting Pronouncements

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). ASU No. 2015-07 removes the requirement to categorize all investments measured at fair value using the net asset value per share practical expedient within the fair value hierarchy. The provisions of ASU No. 2015-07 became effective for fiscal years beginning after December 15, 2016, and requires retrospective application to all periods presented. The Network has adopted ASU No. 2015-07, for which it did not have a significant impact on the related investment disclosure.

### Recent Accounting Pronouncements

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for SLHN's fiscal year beginning after December 15, 2017. SLHN has evaluated the impact of the standard and determined that it will not have a material impact upon adoption.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which requires improved presentation and disclosure of a not-for-profit entity's liquidity, financial performance, cash flows and the classification of its net assets. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Network is evaluating the impact this will have on the fiscal year 2019 consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for SLHN's fiscal years beginning after December 15, 2018. SLHN early adopted the ASU provision permitting the omission of fair value disclosures for financial instruments at amortized cost in fiscal year 2016, which resulted in disclosure changes only. Early adoption of the remaining updates is not permitted. The Network is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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In February 2016, the FASB issued ASC 842, Leases. The FASB retained a dual model that includes financing leases, which are similar to today's capital leases, and operating leases, with expense recognized on a straight-line basis. Under the FASB's dual approach, determining whether a lease is a finance or operating lease will be based on guidance similar to the classification model under current US GAAP, but without the bright lines. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The Board decided that, lessees should be required to recognize the assets and liabilities arising from leases on the balance sheet. The Board ultimately reached the conclusion that the economics of leases can vary for a lessee and that those economics should be reflected in the financial statements; therefore, Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The standard is effective for the Networks' fiscal year beginning after December 15, 2018. Entities are required to adopt the standard using a modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Early adoption is permitted. The Network is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for certain cash receipts and cash payments. ASU 2016-15 is effective for SLHN's fiscal year beginning after December 15, 2018 using a retrospective transition approach when practicable, with early adoption permitted. The Network is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (Topic 230), which provides guidance on the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. ASU 2016-18 is effective for SLHN's fiscal year beginning after December 15, 2018 using a retrospective transition approach, with early adoption permitted. The Network is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715), which provides additional guidance on the presentation of net periodic benefit cost and components eligible for capitalization. ASU 2017-07 is effective for SLHN's fiscal year beginning after December 15, 2018 using a retrospective approach for provisions related to the presentation of the service cost and other cost components and prospectively, for provisions related to the capitalization of the service cost component. SLHN is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Network is currently evaluating the standard to determine the impact it will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU no. 2017-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. The Network is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The ASU aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. Entities can apply the guidance prospectively or retrospectively. The Network is currently evaluating the standard to determine the impact it will have on its financial statements.

#### **Basis of Accounting**

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

#### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Parent and its controlled entities. The Parent exercises control over its controlled entities through the appointment of members to the controlled entities' Board of Trustees ("Board"). The accounts of the controlled entities have been included in the consolidated financial statements to reflect the results of operations of entities under common control. All significant intercompany balances and transactions have been eliminated.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and cash equivalents include cash management funds with original maturities of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under trust agreements. The carrying value of cash and cash equivalents approximates market value.

#### **Investments and Investment Income**

Investments are measured at fair value in the balance sheet. Investment income or loss (including interest, dividends and realized gains and losses on unrestricted investments), is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on unrestricted investments are reported below the excess of revenues over expenses within net asset changes. Realized and unrealized gains and losses on donor restricted investments are reported as changes in temporarily and permanently restricted net assets as stipulated by the donor.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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The Network conducted an analysis and evaluation of securities for any potential "other than temporary impairment" of investments. If the decline in the market value of an investment below cost was deemed to be other than temporary, an adjustment would be made to reduce the cost basis of the investment(s) and a realized loss would be recorded in the excess of revenue over expenses.

Investment income and the change in unrealized gains (losses) on investments was comprised of the following for the years ended June 30:

- Interest and dividend income are included within unrestricted investment income from assets limited as to use, other operating revenue and gains and unrestricted net income from restricted net assets.
- Realized gain on sale of investments is included within realized gains on unrestricted investments, income from equity method investments, investments temporarily restricted to use and investments permanently restricted to use.
- Net unrealized (losses) gains on investments are included within the changes in unrestricted net assets.

	2018	2017
Interest and dividend income	\$ 14,890,545	\$ 13,157,259
Realized gains on sales of investments	9,705,057	9,708,659
Net unrealized gains (losses) on investments	5,280,147	16,841,774

#### **Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the board of trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

#### **Inventories**

Inventory is valued at average cost, net of reserves for obsolescence. Nonstock or non-storeroom inventory is valued at the last purchase price or last in first out (LIFO).

#### **Property and Equipment**

Property and equipment acquisitions are recorded at cost for purchased items and fair value at the date of contribution for contributed items. Depreciation is expensed over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets. Upon sale or retirement, the cost and related accumulated depreciation of such assets are removed from the accounts and any resulting gain or loss realized is credited or charged to income for the period. Expenditures for maintenance and repairs are expensed as incurred. Significant renewals, improvements and betterments are capitalized.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### **Long Lived Assets**

The Network evaluates the carrying value of its long lived assets for impairment when impairment indicators are identified. In the event that the carrying value of a long-lived asset is not supported by the fair value, the Network will recognize an impairment loss for the difference. Fair value is based on available market prices or discounted cash flows.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenue and gains over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### **Goodwill**

Goodwill recorded in the accompanying consolidated balance sheets represents the excess of the fair market value of assets acquired over the purchase price. Management reviews goodwill for impairment annually or when events and circumstances indicate that the carrying amount may not be recoverable.

#### **Deferred Financing Costs**

Deferred financing costs represent costs incurred in connection with the issuance of bonds and are amortized over the life of the related debt using the effective interest method.

#### **Annuity Contracts and Accrued Compensation Payable**

The Network maintains a deferred compensation plan which provides supplemental retirement benefits for former officers and key management personnel. The Network has purchased annuity contracts to fund these benefits. These annuity contracts are included in the consolidated balance sheets at their current surrender value.

#### **Self-Insurance Reserves**

Accrued insurance costs consist of discounted reserves for reported and incurred-but-not-reported (IBNR) claims related to medical malpractice incidents and the Network's self-insured retention for workers' compensation and employee health insurance incidents. For the years ended June 30, malpractice reserves and workers compensation reserves are discounted using a discount rate of 4.35% and 4.35%, respectively, in 2018 and 3.75% and 3.75%, respectively, in 2017. Effective 12/1/2016, St. Luke's Health Network Insurance Company non-renewed the buffer layer coverage. The Network assumed responsibility for buffer layer coverage. Buffer layer reserves are discounted using a discount rate of 4.35%.

#### **Gift Annuities**

The Hospital receives assets from donors in exchange for the promise to make fixed payments, over a specified period of time, to a recipient as designated by the donor. The Hospital discounts (this past year the discount rate averaged 2.7%) the liability for annuity contracts based on the annuitant's estimated life expectancy. These amounts are included in other noncurrent liabilities on the balance sheets. Any restricted assets remaining at the end of the annuity contract are placed into an endowment fund and the earnings on those funds are available for the general operations of the Network. Any unrestricted assets remaining at the end of the annuity contract are available for the general operations of the Network. The Network revalues the liability for annuity contracts quarterly and the related change is included as a change in net assets.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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

Temporarily restricted net assets include assets whose use by the Network has been limited by donors to a specific time period or purpose. Also included in temporarily restricted net assets are unrecognized gains and losses on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity.

#### **Donor Restricted Gifts**

Unconditional promises to give cash and other assets to the Network are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and conditions have been met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts, grants and bequests in the accompanying consolidated financial statements.

#### **Net Patient Service Revenue**

The Network has agreements with third-party payors who provide payments to the Network at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted from established charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews and investigations.

Included in net patient service revenue are changes in liability adjustments from third party payors with an overall net favorable adjustment of \$7,682,909 for 2018 as compared to a favorable adjustment of \$7,493,083 for 2017.

In July 2010 the Pennsylvania General Assembly passed the Public Welfare Code amendment (Act 49) which was signed into law by the Governor, establishing a new program referred to as Medicaid Modernization. The program was subsequently approved by the federal Centers for Medicare and Medicaid Services. The program is designed to provide additional funding to Pennsylvania hospitals for the purpose of enhancing access to quality healthcare for qualifying Medicaid beneficiaries, helping to partially mitigate the losses incurred by hospitals resulting from low reimbursement rates. To accomplish this objective, for fiscal years 2011 through 2017, the program provides participating hospitals with improved inpatient fee-for-service hospital payments, establishes enhanced hospital payments through Medicaid managed care organizations (MCOs), and secures additional federal matching Medicaid funds through a Quality Care Assessment, under which hospitals pay the state a percentage of their net inpatient revenue for fiscal year 2011. The cost of the assessment due to the state was \$16,652,581 and \$14,657,249 in 2018 and 2017, respectively. The Network recognized additional net patient service revenue of \$11,500,187 and \$10,847,998 for the years ended June 30, 2018 and 2017, respectively, from the Pennsylvania Medicaid Modernization program.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Notes to Consolidated Financial Statements**  
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Patient service revenue, net of contractual allowances, discounts, and provisions for bad debts recognized was as follows at June 30:

	2018		2017	
	Amount	Percentage	Amount	Percentage
Medicare	\$ 513,356,787	28.37%	\$ 405,769,588	27.24%
Medical Assistance	189,990,355	10.50%	116,628,983	7.83%
Blue Cross/Highmark Blue Shield	447,577,888	24.73%	405,305,308	27.21%
Commercial/HMO/Other (includes Medicare HMO)	618,303,366	34.17%	533,386,484	35.82%
Self pay	40,470,059	2.23%	28,341,261	1.90%
	<u>\$ 1,809,698,455</u>	<u>100.00%</u>	<u>\$ 1,489,431,624</u>	<u>100.00%</u>

**Allowance for Doubtful Accounts**

The Network records an allowance for doubtful accounts for estimated losses resulting from the unwillingness of patients to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

**Charity Care**

The Network provides care to all patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charges for services to patients who meet the Network's guidelines for charity care are not reflected in the accompanying consolidated financial statements. The charges associated with these services for charity care provided by the Network approximate \$64,508,825 and \$100,156,452 in 2018 and 2017, respectively. The costs incurred to provide such care is determined using a cost to charge ratio and were approximately \$8,000,000 and \$12,700,000 for 2018 and 2017, respectively.

**Excess of Revenue and Gains over Expenses**

The consolidated statements of operations include the excess of revenue and gains over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue and gains over expenses, consistent with industry practice, include assets released from donor restrictions to be used for purchases of property and equipment, donations of long-lived assets, net unrealized gains and losses on available for sale investments, pension adjustments, and change in fair market value of interest rate swaps meeting hedging criteria.

**Income Taxes**

The Parent and its controlled hospital entities, are Pennsylvania and New Jersey not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. On such basis, the Parent and its controlled hospital entities will not incur any liability for federal income taxes, except for possible unrelated business income.

St. Luke's Health Network Insurance Company is a taxable reciprocal insurer.

St. Luke's HomeStar Services, LLC and Sacred Heart Ancillary Services, Inc. are taxable distributors of pharmacy and infusion services.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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St. Luke's Warren Physician Group, P.C., PA Alliance, Hillcrest Emergency Services, P.C. and Two Rivers are for profit entities providing outpatient health care services in Pennsylvania and New Jersey. Prior to January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. elected, under the applicable provisions of the Internal Revenue Code and applicable state codes, to have the physician owner recognize their respective share of net income or loss on their individual tax returns. Accordingly, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. did not record a liability for federal and state income taxes. Effective January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. commenced operating as a for profit "C" corporation. The deferred tax assets arising from net operating losses and other temporary items generated by for profit entities, approximately \$5.25 million at June 30, 2018, are subject to a full valuation allowance as the realization of such deferred tax assets cannot be considered more likely than not at June 30, 2018.

Sacred Heart HealthCare System, Sacred Heart Realty Corporation and Sacred Heart Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

Quality Patient Care, LLC is treated as a partnership for federal and state income tax purposes and income earned is passed through to its member, and as such, no income taxes have been incurred or accrued.

#### **Interest Rate Swaps**

The Network recognizes all derivative financial instruments in the balance sheet at fair value. The change in the fair value of derivatives that do not qualify for hedge accounting is recognized as a component of excess of revenues over expenses for the years ended June 30, 2018 and 2017. The change in the fair value of derivatives that qualify for hedge accounting are recognized through changes in unrestricted net assets on the statement of operations for the years ended June 30, 2018 and 2017.

### **3. Risks and Uncertainties**

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

### **4. Concentrations of Credit Risk**

Financial instruments which subject the Network to concentrations of credit risk consist primarily of cash and cash equivalents, investments, assets limited as to use, and patient accounts receivable.

The Network maintains cash, investments and assets limited as to use in banks, which include cash equivalents consisting of overnight repurchase agreements. Amounts are invested in a variety of financial instruments. The related values, as presented in the consolidated financial statements, are subject to various market fluctuations which include changes in the equity markets, interest rate environment and the general economic conditions. The FDIC insures funds up to \$250,000 per depositor.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Notes to Consolidated Financial Statements**  
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The Network's patient accounts receivable consist of unsecured amounts due for patient services billed to patients and other third-party payors such as Medicare, Medical Assistance, Blue Cross and various commercial insurance companies and managed care companies. The primary service area of the Network is located in Lehigh, Northampton, Carbon, Schuylkill, Monroe and Bucks Counties, Pennsylvania and Warren County, New Jersey. The ability of these patients to pay is subject to changes in general economic conditions of the Network's service area. The Network performs ongoing credit evaluations and maintains reserves for potential credit losses.

The mix of receivables from patients and third-party payors at June 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	22.8 %	22.1 %
Medical Assistance	12.8 %	12.2 %
Commercial	55.3 %	62.6 %
Self pay (includes balances of patients filing for Medicaid eligibility, but not yet approved)	9.1 %	3.1 %
	<u>100.0 %</u>	<u>100.0 %</u>

**5. Charity Care and Community Service**

The Network maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and the estimated cost of those services furnished under its charity care policy. Additionally, the Network sponsors certain other service programs and charity services which provide substantial benefit to the broader community. Such programs include services to needy populations and support including: HIV treatments, medical and dental mobile vans, health fairs, community-based medical clinics, and teen pregnancy counseling.

The Network also participates in the Medical Assistance program which makes payment for services provided to financially needy patients at rates which are less than the cost of such services. Additionally, the Network provides services through the emergency room and clinics at a substantial loss.

**6. Third-Party Agreements**

For the years ended June 30, 2018 and 2017, payment arrangements with the Network and third-party payors were as follows:

**Medicare**

Payments to St. Luke's Hospital, St. Luke's Quakertown Hospital, MMMC, St. Luke's Hospital - Anderson Campus, St. Luke's Warren Hospital and St. Luke's Hospital - Monroe Campus from the Medicare program for inpatient acute care services are made on a prospective basis. Under this program, payments are made at a predetermined specific rate for each discharge based on the patient's diagnosis, and certain components of those rates are retrospectively adjusted through the cost report settlement.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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Outpatient services are reimbursed under the Ambulatory Payment Classification System except for certain services (clinical lab, physical therapy, occupational therapy, speech therapy) which are paid on prospectively determined fee schedules.

#### **Capital Blue Cross/Highmark Blue Shield**

Inpatient services rendered to Capital Blue Cross and Highmark Blue Shield subscribers are reimbursed at prospectively determined per case rates. Outpatient services provided to Capital Blues Cross members are reimbursed on a case rate or fee schedule basis, while Highmark members are reimbursed in accordance with Highmark's Ambulatory Payment Classification (APC) Based Methodology which is based on the Medicare Hospital Outpatient Prospective Payment System (OPPS).

#### **Medicaid**

The Pennsylvania Medical Assistance program ("PMA") reimburses St. Luke's Hospital, St. Luke's Quakertown Hospital, MMMC, St. Luke's Hospital - Anderson Campus, St. Luke's Warren Hospital and St. Luke's Hospital - Monroe Campus for inpatient services and capital costs on a prospective basis. Payments for inpatient services are made at a predetermined specific rate for each discharge based on the patient's diagnosis. Outpatient services are reimbursed on the basis of an established fee schedule.

#### **Other**

The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and capitated payment arrangements.

## **7. Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The accounting guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. 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. Financial instruments measured at fair value are based on valuation techniques noted below consistent with fair value guidance. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Network for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets. The Network does not adjust the quoted price for such assets and liabilities.

Level 2 – Inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

**St. Luke's Health Network, Inc. and Controlled Entities**  
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Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Network believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Financial instruments carried at fair value as of June 30, 2018 and 2017 are as follows:

	June 30, 2018			Total Fair Value
	Quoted Prices in Active (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)	
Investments				
Cash, cash equivalents & money market funds	\$ 57,388,226	\$ -	\$ -	\$ 57,388,226
Government securities	53,798,244	-	-	53,798,244
Corporate bonds	105,849,770	-	-	105,849,770
Common & preferred stock	19,660,882	-	-	19,660,882
Mutual funds	438,550,180	-	-	438,550,180
Total investments	<u>\$ 675,247,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 675,247,302</u>
Deferred compensation plan assets				
Mutual funds	31,739,621	-	-	31,739,621
Total deferred compensation plan assets	<u>\$ 31,739,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,739,621</u>
Derivative financial instruments				
Cost of funds hedge - floating to fixed rate	\$ -	\$ 48,489,638	\$ -	\$ 48,489,638
Interest rate swaps-liability	\$ -	\$ 48,489,638	\$ -	\$ 48,489,638

**St. Luke's Health Network, Inc. and Controlled Entities**  
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	June 30, 2017			
	Quoted Prices in Active (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)	Total Fair Value
Investments				
Cash, cash equivalents & money market funds	\$ 8,428,248	\$ -	\$ -	\$ 8,428,248
Government securities	32,893,331	-	-	32,893,331
Corporate bonds	92,104,741	-	-	92,104,741
Common & preferred stock	19,980,111	-	-	19,980,111
Mutual funds	427,853,141	-	-	427,853,141
Total investments	<u>\$ 581,259,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 581,259,572</u>
Deferred compensation plan assets				
Mutual funds	25,786,797	-	-	25,786,797
Total deferred compensation plan assets	<u>\$ 25,786,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,786,797</u>
Derivative financial instruments				
Cost of funds hedge - floating to fixed rate	\$ -	\$ 65,234,135	\$ -	\$ 65,234,135
Total return swap	-	-	12,664,872	12,664,872
Interest rate swaps-liability	<u>\$ -</u>	<u>\$ 65,234,135</u>	<u>\$ 12,664,872</u>	<u>\$ 77,899,007</u>

**8. Investments in Joint Ventures and Partnerships**

St. Luke's Hospital is a Class B member of the St. Luke's Physician Hospital Organization, Inc. ("PHO"). The PHO has two classes of members: Class A members consist of primary care and specialist physicians and Class B members consist of member hospitals, St. Luke's being the only Class B member hospital.

St. Luke's Health Network holds a 50% equity interest in the Center for Oral and Maxillofacial Surgery and Implantology at St. Luke's, LLC, which was organized on May 12, 2005 and provides oral surgery services which enables the joint venture to respond to community needs.

St. Luke's Health Network holds a 40% equity interest in Royal HomeStar, LLC, which was organized on March 1, 2013 and provides durable medical equipment services.

St. Luke's Health Network holds a 40% equity interest in Etowah Dialysis, Inc., which was organized on September 1, 2013 and provides outpatient dialysis services.

Sacred Heart Healthcare System holds a 50% equity interest in Sacred Heart Assisted Living Partnership ("Assisted Living I"), a for-profit joint venture with a 140-unit assisted living facility in Northampton, Pennsylvania.

Blue Mountain Hospital has an \$868,220 investment in Community Hospital Alternative for Risk Transfer ("CHART"). CHART was formed as a reciprocal risk retention group to provide liability insurance, reinsurance, and risk management services for its subscribers.

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Notes to Consolidated Financial Statements**  
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The Network also maintains other investments in partnerships that provide various clinical and nonclinical services. The Network's investments in the partnerships are accounted for under the equity method. The total investments in joint ventures and partnerships of approximately \$17,407,927 and \$12,808,680 for the years ended June 30, 2018 and 2017, respectively, are included in other assets on the consolidated balance sheets.

**9. Property and Equipment**

Property and equipment and related accumulated depreciation at June 30, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Land	\$ 114,060,417	\$ 106,380,005
Buildings and improvements	891,300,360	804,118,225
Equipment	1,081,870,952	841,718,604
Parking garage	26,812,227	26,812,227
Total property, plant, & equipment, gross	<u>2,114,043,956</u>	<u>1,779,029,061</u>
Less: Accumulated depreciation	<u>1,214,681,127</u>	<u>1,032,104,719</u>
Total property, plant & equipment, net	899,362,829	746,924,342
Construction-in-progress (CIP)	<u>89,812,396</u>	<u>90,538,624</u>
Total property, plant & equipment, net and CIP	<u>\$ 989,175,225</u>	<u>\$ 837,462,966</u>

Depreciation expense was approximately \$91,077,069 and \$83,236,307 for the years ended June 30, 2018 and 2017, respectively. Interest that was capitalized was approximately \$191,250 and \$1,795,984 for the years ended June 30, 2018 and 2017, respectively.

**Capital Leases and Sale leaseback assets**

Included in fixed and movable equipment as of June 30, 2018 is approximately \$9,403,238 of assets purchased under capital lease agreements. Accumulated amortization of such assets approximates \$9,299,159 as of June 30, 2018.

During 2018 the Network entered an agreement to sell a building herein known as 77 South Commerce. In connection with the sale the Network leased back the property. The transaction resulted in a deferral of a resulting gain, and recognition of a funding liability representing the present value of the future minimum lease payments with the building remaining on the books of the Network. The funding liability was approximately \$19,701,219. See footnote 10 for the balance of the funding liability at June 30, 2018. The net book value of the building at June 30, 2018 was \$8,200,869.

**St. Luke's Health Network, Inc. and Controlled Entities**  
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**10. Long-Term Debt**

Long-term debt at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Hospital Revenue Bonds, Series 2007, issued by the Lehigh County General Purpose Authority	\$ -	\$ 119,910,000
Hospital Revenue Bonds, Series 2010A, 2010B, 2010C, issued by Northampton County General Purpose Authority, net of unamortized premium	18,944,273	20,413,642
Hospital Revenue Bonds, Series 2013A & 2013B, issued by Northampton County General Purpose Authority, net of unamortized premium	65,051,241	65,432,257
Hospital Refunding Bonds, Series 2013, issued by New Jersey Health Care Facilities Financing Authority, net of unamortized premium	39,011,383	39,073,140
Hospital Revenue Bonds - Series 2015A, issued by Pocono Mountains Industrial Park Authority, net of unamortized premium	84,426,509	84,584,600
Hospital Revenue Bonds, Series 2016A, issued by Northampton County General Purpose Authority, net of unamortized premium	246,568,108	247,467,853
Hospital Revenue Bonds, Series 2018A & 2018B, issued by Northampton County General Purpose Authority, net of unamortized premium	151,477,731	-
Hospital Revenue Bonds, Series 2012, issued by Carbon County General Purpose Authority, net of unamortized premium	2,425,000	-
Hospital Revenue Bonds, Series 2015, issued by Carbon County General Purpose Authority, net of unamortized premium	19,742,758	-
TD Bank, N.A. and BB&T Notes Payable	106,070,000	-
TD Bank, N.A. Notes Payable	49,531,366	51,533,316
Wells Fargo Equipment Finance, Inc.	3,359,016	6,592,721
Bank of America Loans	33,632,822	42,093,851
77 South Commerce	19,629,167	-
Capital Leases	5,907,340	-
Various notes and mortgage notes payable at various interest rates	591,277	124,470
Deferred Financing Costs	(8,376,500)	(8,112,804)
	<u>837,991,491</u>	<u>669,113,046</u>
Less: Current portion	<u>22,155,510</u>	<u>17,036,861</u>
	<u>\$ 815,835,981</u>	<u>\$ 652,076,185</u>

**St. Luke's Health Network, Inc. and Controlled Entities**  
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Scheduled maturities, assuming no amounts are tendered that cannot be remarketed, for the years ending June 30 are as follows:

Fiscal Year	Long-Term Debt
2019	22,155,510
2020	25,488,683
2021	25,139,488
2022	22,069,145
2023	18,152,588
2024	17,170,797
Thereafter	<u>678,306,683</u>
	808,482,894
Less: Amount of unamortized bond discount/premium/imputed interest	<u>(29,508,597)</u>
	<u>\$837,991,491</u>

The Network reported long-term debt of \$815,835,981 and \$652,076,185 for years ended June 30, 2018 and 2017, respectively.

**Hospital Revenue Bonds, Series 2010**

On May 13, 2010, the Northampton County General Purpose Authority issued \$69,730,000 of its Hospital Revenue Bonds. The \$69,730,000 Northampton County General Purpose Authority Hospital Revenue Bonds, consisting of \$24,415,000 aggregate principal amount of Hospital Revenue Bonds Series 2010A (Saint Luke's Hospital Project), \$10,390,000 aggregate principal amount of Hospital Revenue Bonds Series 2010B (Saint Luke's Hospital Project) and \$34,925,000 aggregate principal amount of Hospital Revenue Bonds Series 2010C (Saint Luke's Hospital Project). The 2010 Bonds are issued under that certain Loan and Trust Agreement, dated as of June 1, 2008 by and among the Northampton County General Purpose Authority, Saint Luke's Hospital of Bethlehem, Pennsylvania and Wells Fargo Bank, National Association, as trustee, as amended and supplemented by a First Supplemental Loan and Trust Agreement, dated as of May 1, 2010.

The 2010 Bonds were issued to provide funds for the refunding of previous bond offerings, the construction and equipping of a medical office building on the Anderson Campus, and to pay for certain costs and expenses related to the issuance of the bonds.

The Hospital requested that the Authority issue approximately \$29,300,000 of its bonds (the "Private Placement Bonds") to TD Bank, N.A. in a private placement (the "Private Placement") to finance capital projects and reimburse the Hospital for expenditures previously made. The Private Placement Bonds are secured by a master note on a parity basis with the 2010 Bonds under the Master Trust Indenture.

**Hospital Revenue Bonds, Series 2013**

On June 27, 2013 the Northampton County General Purpose Authority issued \$65,000,000 of its Hospital Revenue Bonds. Which consists of \$25,000,000 in Series A aggregate principal and \$40,000,000 in Series B aggregate principal with a variable rate. Issued pursuant to a Loan and Trust Agreement by the Authority, SLH and the Bank of New York Mellon Trust, under the Trust Agreement SLH is obligated to make payments to the trustee as assignee of the Authority.

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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The Series 2013 Bonds were issued to provide a portion of the funds for a project “the 2013 project” consisting of 200 bed expansion of the hospital located at the Anderson Campus, the construction of an administration building at the Anderson Campus, the funding of various capital projects for general SLH purpose, including without limitations, renovations, repairs and acquisitions of related outpatient facilities in Northampton County and Lehigh County, Pennsylvania. Also reimbursement of any cost referred to in clauses, the payment of certain cost and expense in connection with the issuance of the 2013 Bonds.

#### **Hospital Refunding Bonds, Series 2013**

On June 6, 2013 the New Jersey Health Care Facilities Financing Authority issued \$37,410,000 of Refunding Bonds, St Luke's Warren Hospital Obligated group. The proceeds of the 2013 Bonds to St. Luke's Warren Hospital is for the purpose of paying a portion of the cost of a project consisting generally of the current refunding of all the Authority's Revenue Bonds: St Luke's Warren Hospital Issue Series 2012 and the payment of certain cost incidental to the issuance and sale of the Series 2013 Bonds.

#### **Hospital Revenue Bonds, Series 2015**

On February 1, 2015 Pocono Mountains Industrial Park Authority issued \$80,000,000 of its Hospital Revenue Bonds. Issued pursuant to a Loan and Trust Agreement by the Authority, St Luke's Hospital-Monroe Project and the Bank of New York Mellon Trust, under the Trust Agreement SLH is obligated to make payments to the trustee as assignee of the Authority. The net proceeds received upon the sale of the 2015 Bonds will be deposited in the 2015 Project Construction Fund and disbursed from the 2015 Project Construction Fund to finance various costs incurred by St Luke's Monroe in connection with the 2015 Project.

#### **Hospital Revenue Bonds, Series 2016**

On July 1, 2016 the Northampton County General Purpose Authority issued \$215,600,000 of its Hospital Revenue Bonds, Series 2016A (St Luke's University Health Network Project) (“the 2016 Bonds”). Issued pursuant to a loan and Trust Agreement by the Authority, St Luke's Hospital of Bethlehem, Pennsylvania, St Luke's Hospital Anderson campus and the Bank of New York Mellon Trust company.

The 2016 Bonds were issued to provide a portion of the funds for the “2016 Project” consisting of the advance refunding of all portion of the Authority's outstanding Hospital Revenue Bonds Series A of 2008 and the funding of various capital projects.

Under the trust agreement, the borrowers are obligated to make loan payments to the trustee, as assignee of the Authority, at times and in amounts sufficient to pay the principal or redemption price of and interest on, the 2016 Bonds when due and in certain instances. Interest on the 2016 Bonds will accrue at a fixed rates and will be payable on each February 15 and August 15, commencing on February 15, 2017. Interest on the 2016 Bonds will be computed on the basis of 360-day year of twelve 30-day months. The 2016 Bonds are subject to optional, mandatory and extraordinary optional redemption prior to their maturity.

#### **Hospital Revenue Bonds, Series 2018**

On June 6, 2018 the Northampton County General Purpose Authority issued \$150,000,000 of its Hospital Revenue Bonds. Northampton County General Purpose Authority, Saint Luke's Hospital of Bethlehem, St Luke's Anderson Campus and (collectively, the “Borrowers”), The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as underwriter.

# **St. Luke's Health Network, Inc. and Controlled Entities**

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#### **Blue Mountain Hospital Bonds, Series 2012 and 2015**

In February 2012, the Hospital entered into a Loan and Security Agreement (the "2012 Agreement (Gnaden)") with the Carbon County Hospital Authority (the "Authority") whereby the Authority issued, on behalf of the Hospital, \$6,000,000 of tax-exempt Hospital Revenue Bonds, Series of 2012 (the "2012 Gnaden Bonds"). The proceeds of the 2012 Gnaden Bonds were used to refund the 1999 Bonds, establish a debt service reserve fund, and to pay the costs of issuance of the 2012 Gnaden Bonds.

In December 2015, the Hospital entered into a Loan and Security Agreement (the "2015 Agreement") with the Carbon County Hospital Authority whereby the Authority issued, on behalf of the Hospital, \$20,000,000 of tax-exempt Hospital Revenue Bonds, Series of 2015 (the "2015 Bonds"). The proceeds of the 2015 Bonds were used to fund a portion of the Hospital's pension liability, finance renovation and improvements to the existing facilities of the Hospital, finance various other capital improvements, establish a debt service reserve fund, and to pay the costs of issuance of the 2015 Bonds.

#### **Hospital Revenue Bonds, 2017A and 2017B – Financing through TD Bank N.A. and BB&T Community Holdings Company**

On September 20, 2017 the Lehigh County General Purpose Authority issued \$106,070,000 of its Hospital Revenue Bonds via financing through TD Bank N.A \$42,250,000 and BB&T Community Holdings Company \$63,820,000 . The proceeds were used for the redemption of the 2007 Bonds and to pay the costs of issuance of the 2017A and 2017B financing.

## **11. Derivative Financial Instruments**

At June 30, 2018, two floating to fixed interest rate swaps were outstanding with notional amounts totaling \$253 million and maturity dates ranging from August, 2033 to August, 2042. The bonds, issued in a quarterly reset LIBOR-based variable rate mode, will be swapped to a 4.60% fixed rate. The nature of the risk is to eliminate unpredictable variability of interest rate payments due to changes in the 3 month LIBOR rate as well as limit exposure to increases in short-term interest rates as well as significantly decrease borrowing costs (relative to a traditional fixed rate issuance). Based on the identical characteristics of the payment based index of the hedged item and the receipt based index on the interest rate swap, the hedge will exactly offset the variability of interest rates on the underlying bonds over the term of the swap transaction.

Two total return swaps were terminated on September 20, 2017, resulting in cash receipts totaling \$3.4 million. The swaps were as follows: In December 2007, St. Luke's executed a total return swap on a \$76 million portion of the outstanding Series 2007, 2042 term bond. In September 2009, St. Luke's executed a total return swap on a \$24 million portion of the outstanding Series 2007, 2033 term bond. The change in value resulting from the termination is posted through the excess of revenues and gains over expenses.

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**12. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes at June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Purchase of property and equipment	\$ 4,651,340	\$ 2,151,141
Health education	21,025,112	20,050,020
Research and development	294,347	301,254
Unrealized gains on restricted net assets for health care services	<u>23,458,402</u>	<u>21,998,086</u>
	<u>\$ 49,429,201</u>	<u>\$ 44,500,501</u>

Permanently restricted net assets at June 30, 2018 and 2017 were restricted to:

	<b>2018</b>	<b>2017</b>
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as other operating and nonoperating income)	\$ 44,183,807	\$ 38,099,312

**Endowments**

The Network's endowment consists of approximately \$44,183,807 individual donor restricted endowment funds and \$97,925,511 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Network has interpreted the relevant PA state law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Network classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 funds remain in the donor-restricted endowment fund until those amounts are appropriated for expenditure of the Network in a manner consistent with the standard of prudence prescribed by relevant PA state law. In accordance with relevant PA state law, the Network considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Network and the donor restricted endowment fund
- (3) General economic conditions

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- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Network
- (7) The investment policies of the Network.

The Network had the following endowment activities during the year ended June 30, 2018 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,416,278	\$ 44,183,807	\$ 46,600,085
Board-designated endowment funds	97,925,511	-	-	-
	<u>\$ 97,925,511</u>	<u>\$ 2,416,278</u>	<u>\$ 44,183,807</u>	<u>\$ 46,600,085</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,397,504	\$ 38,099,312	\$ 39,496,816
Board-designated endowment funds	90,579,029	-	-	90,579,029
	<u>\$ 90,579,029</u>	<u>\$ 1,397,504</u>	<u>\$ 38,099,312</u>	<u>\$ 130,075,845</u>

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	<u>\$ 90,579,031</u>	<u>\$ 1,397,504</u>	<u>\$ 38,099,312</u>	<u>\$ 130,075,847</u>
<b>Acquisitions</b>	-	-	3,394,034	3,394,034
Investment return				
Investment income	2,633,809	1,106,012	1,716,629	5,456,450
Gain (loss) on sale of investments	-	-	-	-
Net depreciation (realized and unrealized)	4,626,256	-	2,958,117	7,584,373
Total Investment return	7,260,065	1,106,012	4,674,746	13,040,823
Gifts	86,417	-	1,870,816	1,957,233
Income released to general fund for operations	-	(87,237)	(896,983)	(984,220)
Income released to specific purpose fund	-	-	-	-
Transfer balance of net depreciation	-	-	(2,958,118)	(2,958,118)
<b>Endowment net assets, end of year</b>	<u>\$ 97,925,513</u>	<u>\$ 2,416,279</u>	<u>\$ 44,183,807</u>	<u>\$ 141,131,565</u>

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Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	\$ 80,659,624	\$ 1,306,884	\$ 35,784,231	\$ 117,750,739
Investment return				
Investment income	2,328,913	229,673	1,656,130	4,214,716
Gain (loss) on sale of investments	-	-	-	-
Net appreciation (realized and unrealized)	7,315,131	-	4,940,417	12,255,548
Total Investment return	9,644,044	229,673	6,596,547	16,470,264
Gifts	275,363	-	1,482,164	1,757,527
Income released to general fund for operations	-	(139,053)	(823,214)	(962,267)
Income released to specific purpose fund	-	-	-	-
Transfer balance of net appreciation	-	-	(4,940,416)	(4,940,416)
<b>Endowment net assets, end of year</b>	<b>\$ 90,579,031</b>	<b>\$ 1,397,504</b>	<b>\$ 38,099,312</b>	<b>\$ 130,075,847</b>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

***Permanently Restricted Net Assets***

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by relevant PA State law:

Permanent Endowment	\$ 43,974,072
Mortgage Endowment	209,735
Total endowment assets classified as permanently restricted net assets	<u>\$ 44,183,807</u>

**Endowment Funds with Deficits**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$0 as of June 30, 2017 and 2016.

**Return Objectives and Risk Parameters**

The Network has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The Network expects its endowment funds over time, to provide an average rate of return approximating the S&P 500 Stock Index (domestic portion), MSCI EAFE Index (international portion) and Lehman Brothers Intermediate Government/Corporate Index (bond portion). Actual returns in any given year may vary from the index return amounts.

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**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the Network relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Network targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

**Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**

The Board of Trustees of the Network determines the method to be used to appropriate endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 4.5 percent of a three-year moving average market value with a minimum increase of 0% and a maximum increase of 10% per year over the previous year's spending amount. The total is reduced by the income distributed from the endowment fund in accordance with the preferences/restrictions made by the donors. The corresponding calculated spending allocations are distributed annually by June 30. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Network expects the current spending policy to allow its endowment to grow at an average of 8% percent annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

**13. Contingencies**

**Operating Leases**

The Network leases certain medical, office and information technology equipment used in its operations. Total rental expense for all operating leases for the years ended June 30, 2018 and 2017 was approximately \$24,825,441 and \$17,924,619, respectively.

At June 30, 2018, the annual and total future minimum lease payments under noncancelable operating leases were as follows:

	<b>Operating</b>
2019	\$ 26,080,820
2020	24,362,945
2021	20,261,267
2022	15,691,257
2023	7,831,479
Later years	75,909,054
Total minimum payments	<u>\$ 170,136,822</u>

**Litigation**

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

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**14. Functional Expenses**

The Network provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2018 and 2017 are approximately as follows:

	<b>2018</b>	<b>2017</b>
Health care services	\$ 1,578,348,906	\$ 1,329,957,021
General and administrative	<u>173,870,625</u>	<u>146,617,163</u>
	<u>\$ 1,752,219,531</u>	<u>\$ 1,476,574,184</u>

**15. Pension Plan**

**Defined Benefit Plan**

The Network entities, excluding St. Luke's Blue Mountain employees who have a separate plan (see Defined Benefit Plan St. Luke's Blue Mountain Employees note below), have a noncontributory defined benefit pension plan ("Plan") covering substantially all employees of the Network who were hired prior to January 1, 2009 (see New Pension Plan 401(a) note below). Plan benefits are based on years of service and the employee's average annual earned income during the highest 60 consecutive months in the last ten years of credited service prior to retirement or termination. The Network's policy is to fund annually at least the minimum amount required by the Employee Retirement Income Security Act of 1974.

In connection with a redesign of the network's (excluding St. Luke's Blue Mountain employees) retirement plans, the Finance Committee of the Board approved amendments to end benefit accruals in the qualified defined benefit pension plan after December 31, 2014. Benefits earned by participants under this plan prior to January 1, 2015 were not affected.

**Defined Benefit Plan St. Luke's Blue Mountain Employees**

St. Luke's Blue Mountain sponsors a noncontributory defined benefit plan covering substantially all employees of St. Luke's Blue Mountain. Benefits are generally based on the employee's compensation and years of service. The Hospital adapted a formal plan to cease the accrual of service benefits for Plan participants effective May 1, 2005. The Hospital's funding policy provides that payments to the Plan shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus any additional amounts which may be approved by the Network.

**Savings Plan**

In 2007, St. Luke's Warren established a 401(k) plan for qualified employees. Contributions to this plan are based on a defined formula of 3% of an employee's contribution. The St. Luke's Warren 401(k) plan was merged with the Network 401(a) plan as of January 1, 2014.

**401(a) Plan**

All employees hired before January 1, 2009 remain participants in the noncontributory defined benefit pension plan (see Pension Plan, above) through December 31, 2014. At that time, all employees will be moved to the 401(a) Plan.

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All employees hired after January 1, 2009, are provided with a defined contribution plan 401(a) of which St. Luke's will contribute a percentage of the employee's salary based on the employee's years of service as follows:

<b>Years of Service</b>	<b>% of Annual Salary</b>
1 through 5	2.5 %
6 through 10	4.0 %
11 through 15	5.5 %
16+ years	7.0 %

The Network has recorded a reserve of \$17,222,777 for the year ended June 30, 2018. This liability is included in accrued compensation payable on the 2018 consolidated balance sheet.

**Retirement Plan 401(k)**

As of January 1, 2009, a 401(k) retirement savings plan replaced the 403(b) retirement savings plan for employees of St. Luke's HomeStar Services, LLC, a for-profit organization.

**Pension Plan Financial Components**

The net pension cost for all Plans and Plan participants (including St. Luke's Blue Mountain for the period January 1, 2018 through June 30, 2018), during the years ended June 30, 2018 and 2017, includes the following components:

	<b>2018</b>	<b>2017</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 614,439,698	\$615,784,594
Blue Mountain Obligation at beginning of year	52,725,644	-
Interest cost	25,899,478	23,963,494
Benefits paid	(19,513,773)	(15,148,179)
Actuarial loss (gain)	(24,891,457)	(10,160,211)
Benefit obligation at end of year	<u>\$ 648,659,590</u>	<u>\$614,439,698</u>
	<b>2018</b>	<b>2017</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 568,122,902	\$518,783,815
Blue Mountain fair value of plan assets at beginning of year	49,608,214	-
Actual return on plan assets	15,871,671	44,487,266
Employer contributions	20,000,000	20,000,000
Benefits paid	(19,513,773)	(15,148,179)
Fair value of plan assets at end of year	<u>\$ 634,089,014</u>	<u>\$568,122,902</u>
Unfunded status at end of year	\$ (14,570,576)	\$ (46,316,796)

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Amounts recognized in the statement of financial position consist of:

	<b>2018</b>	<b>2017</b>
Noncurrent liabilities	\$ (14,570,576)	\$ (46,316,796)
Net amount recognized in statement of financial position	<u>\$ (14,570,576)</u>	<u>\$ (46,316,796)</u>

Amounts recognized in unrestricted net assets consist of:

	<b>2018</b>	<b>2017</b>
Unrecognized net loss (gain)	\$ 142,527,295	\$152,650,073
Accumulated other comprehensive income	<u>\$ 142,527,295</u>	<u>\$152,650,073</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	<b>2018</b>	<b>2017</b>
Projected benefit obligation	\$ 648,659,590	\$614,439,698
Accumulated benefit obligation	648,659,590	614,439,698
Fair value of plan assets	634,089,014	568,122,902

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets:

	<b>2018</b>	<b>2017</b>
<b>Total pension benefit cost</b>		
Interest cost	\$ 25,899,478	\$ 23,963,494
Expected return on plan assets	(33,605,369)	(30,672,584)
Amortization of net (gain) loss	2,965,019	3,768,725
Net periodic benefit cost	<u>\$ (4,740,872)</u>	<u>\$ (2,940,365)</u>
Curtailment loss	-	-
Settlement loss	-	-
Total pension cost	<u>\$ (4,740,872)</u>	<u>\$ (2,940,365)</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	<b>2018</b>	<b>2017</b>
Net (gain) loss	\$ (7,157,759)	\$ (23,974,893)
Amortization of loss (gain)	(2,965,019)	(3,768,725)
Total recognized in unrestricted net assets	<u>(10,122,778)</u>	<u>(27,743,618)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (14,863,650)</u>	<u>\$ (30,683,983)</u>

The estimated net loss, transition obligation and prior service cost for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$2,854,113, \$0 and \$0, respectively.

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Weighted-average assumptions used to determine benefit obligations:

	2018	2017
Discount rate	4.03 %	4.13 %
Discount rate - Blue Mountain	4.03 %	N/A
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost:

	2018	2017
Expected long-term return on plan assets	5.75 %	6.00 %
Expected long-term return on plan assets - Blue Mountain	6.00 %	N/A
Discount rate	4.13 %	3.94 %
Discount rate - Blue Mountain	3.46 %	N/A

**Plan Assets**

The St. Luke's Pension Plans weighted-average asset allocations at June 30, 2018 and 2017, by asset category, are as follows:

<b>Asset Category</b>	<b>Plan Assets at June 30</b>	
	<b>2018</b>	<b>2017</b>
Equity securities	27 %	40 %
Debt securities	73	60
	<u>100 %</u>	<u>100 %</u>

The Investments are broadly diversified in assets which over time provide the opportunity for appreciation and rising levels of income. The precise mix of assets is determined jointly by the Investment Committee and recommended to the Board of Trustees. The Investment Committee has discretion over the selection of individual securities and the weighting of the investments.

**Cash Flows**

***Estimated Future Benefit Payments***

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

2019	\$ 20,696,979
2020	21,597,494
2021	23,870,178
2022	25,750,706
2023	27,618,869
2024-2027	161,372,461
	<u>\$280,906,687</u>

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The following table presents the Plan's financial instruments as of June 30, 2018, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 7:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Total Fair Value</b>
<b>June 30, 2018</b>		
Investments		
Money market funds	\$ 4,064,321	\$ 4,064,321
Government securities	457,157,055	457,157,055
Common & preferred stock	172,867,639	172,867,639
Total investments	<u>\$ 634,089,015</u>	<u>\$ 634,089,015</u>

**16. Insurance Coverage**

Effective December 13, 2001, the Parent, established St. Luke's Health Network Insurance Company; a wholly-owned captive insurance company licensed by the State of Vermont providing claims-made coverage for professional and general liability coverages for the Network. St. Luke's converted its fronted captive to a risk retention group ("RRG") effective July 1, 2003. On January 1, 2005, the RRG was converted from a nonprofit risk retention group to a reciprocal risk retention group. As a reciprocal risk retention group, the St. Luke's Health Network Insurance Company is also permitted to provide primary medical professional liability coverage on an occurrence basis to independent physicians and physician's practices. Under this structure, each insured is a subscriber of the St. Luke's Health Network Insurance Company, a Reciprocal Risk Retention Group ("SLHNIC"). Only subscribers of the St. Luke's Health Network will be issued Class A subscriber units. Class A Subscribers of SLHNIC maintain control over SLHNIC. At June 30, 2018 and June 30, 2017, the Network was covered through the SLHNIC by a Hospital Professional Liability policy, with primary limits of \$500,000 for each medical incident and \$2,500,000 in the aggregate for Pennsylvania Mcare Fund eligible institutions and with Physicians Professional Liability coverage with primary limits of \$500,000 for each medical incident, and \$1,500,000 in the aggregate for Pennsylvania Mcare Fund eligible practitioners. The subscriber A program is claims-made coverage. The Subscriber B program is occurrence-based coverage. SLHNIC provides Non-Mcare Fund eligible Subscriber A insureds with primary coverage of \$1 million for each medical incident and \$3 million in the aggregate. The reserve for malpractice claims maintained at June 30, 2018 and 2017 was approximately \$41,485,212 and \$38,830,658, and was estimated using a discount rate of 4.35% and 4.25%, respectively. The discount for Class A and Class B subscribers was \$6,761,815 and \$6,706,140 for June 30, 2018 and 2017, respectively.

St. Luke's Health Network has recorded a receivable as of June 30, 2018 of \$21,366,787 for expected insurance indemnifications and a related liability for the accrued claims in the individual financial statements of the hospitals. St. Luke's Health Network has recorded a receivable as of June 30, 2017 of \$19,419,477 for expected insurance indemnifications and a related liability for the accrued claims in the individual financial statements of the hospitals. The insurance receivable amounts are included in other assets in the respective balance sheets.

The Network participates in the Medical Care Availability and Reduction of Error ("Mcare") Fund, which is a Pennsylvania governmentally authorized entity that for fiscal year 2018 covers claims above \$500,000 per medical incident up to \$1,500,000 aggregate per hospital/insured physician

# St. Luke's Health Network, Inc. and Controlled Entities

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subject to Mcare Fund coverage, as applicable. The assessment for the Mcare Fund payable by the Network is based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association ("JUA") multiplied by the annual assessment percentage. The Network recognizes its assessment as expense in the period incurred.

The Network maintains accrued insurance reserves for its self-insured portion of expected workers' compensation claims of approximately \$8,678,026 and \$10,165,729 for the years ended June 30, 2018 and 2017, respectively. The impact of the discount was \$1,884,697 and \$1,869,274 for the years ended June 30, 2018 and 2017, respectively.

#### 17. Deferred Compensation

The Network maintains a 457 Deferred Compensation Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. The Network has fully funded the obligation under the plan. The Network has recorded an asset and a corresponding liability of \$31,739,621 and \$25,786,797 for the years ended June 30, 2018 and 2017 respectively. The assets and corresponding liabilities are included within Annuity Contracts and Accrued Compensation Payable.

#### 18. Acquisitions/Merger Transactions

On September 11, 2017, SLHN entered into a definitive agreement (the "Affiliation Agreement") with Blue Mountain Health System, Inc. ("BMHS"). As of the date of the Affiliation Agreement, BMHS was the sole member of Blue Mountain Hospital ("BMH") and CMS Medical Care Corporation ("CMSMC") was a wholly controlled subsidiary of BMH.

On December 31, 2017, subsequent to the satisfaction of all conditions precedent, the affiliation was completed and consummated. Accordingly, pursuant to the terms of the Affiliation Agreement, BMHS merged into BMH. St. Luke's is now the sole member of each of BMH and CMSMC and has direct or indirect control of BMH and CMSMC. BMH and CMSMC are Pennsylvania nonprofit corporations and organizations described under Section 501(c)(3) of the Internal Revenue Code, as amended.

SLHN incurred \$1,110,185 in acquisition costs related to this affiliation, which was recorded as a component of nonoperating losses for the year ended June 30, 2018.

Pre-merger funding of \$10,476,200 was paid to BMHS to assist them in paying their daily operations and to buy-out a contract for services no longer needed. SLHN applied the business combination accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) (Topic 958-805): Not for Profit Entities – Business Combinations, to account for this transaction. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the fair value of the acquiree's net assets to the acquirer. (ASC) 958-805 prescribes that the acquirer recognize an excess of fair value of the acquisition date unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its consolidated statement of operations. Accordingly, SLHN recognized goodwill in the transaction of \$35,283,917 in its consolidated statements of financial position for the year ended June 30, 2018. SLHN also recorded an increase in restricted net assets of \$1,320,877 in its statements of changes in net assets for the year ended June 30, 2018 as a result of the BMHS affiliations.

## St. Luke's Health Network, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

#### June 30, 2018 and 2017

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On September 15, 2017, SLHN entered into a definitive agreement (the "Affiliation Agreement") with Sacred Heart Healthcare System ("SHHS"), Sacred Heart Hospital of Allentown ("SHH"), SH Realty Corporation ("SHRC"), Sacred Heart Ancillary Services, Inc. ("SHAS"), Quality Patient Care, LLC ("QPC"), and Sacred Heart Foundation ("SHF"). On March 1, 2018, subsequent to the satisfaction of all conditions precedent, the affiliation was completed and consummated. Accordingly, pursuant to the terms of the Affiliation Agreement: (i) SLUHN is now the sole member of SHHS and SHH; (ii) SHH is now the sole member of each of SHRC, SHF and QPC; and (iii) SHH is now the sole stockholder of SHAS. SHHS, SHH and SHF are Pennsylvania nonprofit corporations and organizations described under Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"). SHRC is a Pennsylvania nonprofit corporation and organization described under Section 501(c)(2) of the Code. QPC is a Pennsylvania for profit limited liability corporation and SHAS is a Pennsylvania for profit corporation.

SLHN incurred \$1,003,676 in acquisition costs related to this affiliation, which was recorded as a component of nonoperating losses for the year ended June 30, 2018.

Pre-merger funding of \$14,227,666 was paid to SHHS and SHH to assist them in paying their daily operations and to reduce the indebtedness of system. SLHN applied the business combination accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) (Topic 958-805): Not for Profit Entities – Business Combinations, to account for this transaction. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the fair value of the acquiree's net assets to the acquirer. (ASC) 958-805 prescribes that the acquirer recognize an excess of fair value of the acquisition date unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its consolidated statement of operations. Accordingly, SLHN recognized goodwill in the transaction of \$7,480,076 in its consolidated statements of financial position for the year ended June 30, 2018. SLHN also recorded an increase in restricted net assets of \$2,477,921 in its statements of changes in net assets for the year ended June 30, 2018 as a result of the SHHS and SHS affiliations.

The following table summarized the estimated fair values of the assets acquired and liabilities assumed as of the date of the affiliations of BMHS and SHHS/SHH:

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

	BMHS December 31, 2017	SHHS & SHH March 1, 2018	Total Combined
<b>Assets:</b>			
Current assets	\$ 8,716,034	\$ 28,075,442	\$ 36,791,476
Property and equipment	21,297,448	33,170,078	54,467,526
Other long-term assets	8,586,606	13,214,926	21,801,532
<b>Total assets</b>	<b>\$ 38,600,088</b>	<b>\$ 74,460,446</b>	<b>\$ 113,060,534</b>
<b>Liabilities:</b>			
Current liabilities	\$ 43,183,485	\$ 75,218,861	\$ 118,402,346
Long-term debt	23,177,221	3,594,399	26,771,620
Other long-term liabilities	6,815,572	649,341	7,464,913
<b>Total liabilities</b>	<b>73,176,278</b>	<b>79,462,601</b>	<b>152,638,879</b>
<b>Net assets acquired:</b>			
Unrestricted - SLHN	(35,897,067)	(7,480,076)	(43,377,143)
Temporarily restricted	36,557	368,207	404,764
Permanently restricted	1,284,320	2,109,714	3,394,034
<b>Total net assets</b>	<b>(34,576,190)</b>	<b>(5,002,155)</b>	<b>(39,578,345)</b>
<b>Total liabilities and net assets</b>	<b>\$ 38,600,088</b>	<b>\$ 74,460,446</b>	<b>\$ 113,060,534</b>

**19. Goodwill**

Accounting standards do not allow goodwill to be amortized but requires that it be tested for impairment annually or more frequently when events or circumstances indicates that the carrying value of a reporting unit more likely than not either exceeds or is less than its fair value.

As a result of the annual goodwill impairment testing, the Network recognized \$1,790,512 and \$6,233,287 in impairment losses for the years ended June 30, 2018 and 2017, respectively. The factors that management considered in determining whether the fair value of the entities containing goodwill was less than its carrying amount included industry and market conditions and overall financial performance compared to actual and projected results.

Goodwill recorded on the consolidated statements of financial position at June 30, 2018 and 2017 totaled \$72,821,531 and \$29,236,903, respectively.

The changes in the carrying amount of goodwill for the Network for the years ended June 30, 2018 and 2017 are as follows:

<b>Balance as of June 30, 2016</b>	\$ 35,105,029
Goodwill additions during the year	365,161
Goodwill impairment during the year	(6,233,287)
<b>Balance as of June 30, 2017</b>	<b>29,236,903</b>
Goodwill additions during the year	45,375,140
Goodwill impairment during the year	(1,790,512)
<b>Balance as of June 30, 2018</b>	<b>\$ 72,821,531</b>

# St. Luke's Health Network, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### 20. Subsequent Events

The Network has performed an evaluation of subsequent events through October 27, 2018, which is the date the financial statements were available to be issued.

On October 3, 2018 the Network issued the Pocono Mountains Industrial Park Authority Hospital Revenue Bonds, Series 2018C, maturing on August 15, 2049, in the amount of \$60,880,000. The Bonds were issued to (i) allow the Network to replenish unrestricted fund balances, (ii) provide for working capital for the general corporate purposes of the Network, (iii) finance the purchase of equipment and other capital improvements for the Network, and (iv) finance the payment of the cost of issuance of the Series 2018C Bonds.

SLUHN and Geisinger Health System announced in March 2018 that the organizations had entered into a joint venture to build a new acute care hospital in the Borough of Orwigsburg in southern Schuylkill County. The 80-bed hospital, scheduled to open in late 2019, is to feature an emergency department and a range of specialties and services. Under terms of the agreement, the new hospital will operate under SLUHN and Geisinger Health System as a joint venture, with funding and governance shared equally between the two nonprofit health systems. SLUHN will build and manage the hospital. SLUHN and Geisinger will both contribute physicians and specialty support staff and expertise.

## **Consolidating Supplemental Information**

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2018**

**Schedule I**

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
<b>Assets</b>											
<b>Current</b>											
Cash and cash equivalents	\$ -	\$ 91,276,557	\$ 15,460	\$ -	\$ -	\$ 8,010	\$ -	\$ 3,639,013	\$ -	\$ 4,882,861	\$ 577,729
Investment in controlled entities	833,151,088	-	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net	-	92,820,473	24,464,931	9,666,147	1,075,016	4,143,413	22,618,783	10,167,978	5,761,967	6,482,058	4,248,908
Other accounts receivable	-	59,614,535	1,169,074	73,872	-	23,822	546	270,692	288,016	1,217,715	9,206,501
Investments	-	116,991,253	-	-	-	-	-	393,302	-	-	-
Inventories	-	14,781,357	-	730,124	-	732,946	2,437,307	1,849,083	1,731,200	1,555,471	1,702,460
Prepaid expenses	-	16,551,148	1,975,537	357,703	46,155	267,716	964,312	889,272	685,212	846,639	979,704
Estimated third-party payor settlements	-	1,525,746	-	-	-	-	444,049	932,981	-	-	-
Total current assets	833,151,088	393,561,069	27,625,002	10,827,846	1,121,171	5,175,907	26,464,997	18,142,321	8,466,395	14,984,744	16,715,302
<b>Noncurrent</b>											
Funds held by trustee	-	77,790,029	-	-	-	-	-	570,904	2,952	-	-
Funds held under bond indenture	-	3,271,200	-	-	-	-	-	-	-	3,952,121	86,670
Board designated funds	-	382,370,468	-	2,354,775	-	-	59,203	-	-	1,234,315	4,724,032
Property and equipment, net	-	495,931,947	23,743,786	25,770,432	2,117,508	28,304,087	157,625,941	81,288,649	114,659,877	22,944,008	25,832,875
Goodwill, net	-	14,631,890	214,030	-	-	824,000	-	13,156,777	-	35,897,067	7,480,076
Due from affiliates	-	296,018,574	-	-	-	6,449,199	-	-	-	-	-
Investments temporarily restricted as to use	-	33,082,016	-	1,763,690	9,924	680,886	446,259	1,008,401	38,910	232,185	-
Investments permanently restricted as to use	-	36,970,861	-	3,583,440	5,624	10,005	-	392,572	-	1,307,114	1,034,428
Deferred compensation plan assets	-	31,739,621	-	-	-	-	-	-	-	-	-
Other assets	-	57,284,625	-	3,067,666	-	1,851,957	27,777	1,268,386	-	988,224	-
Total assets	\$ 833,151,088	\$ 1,822,652,300	\$ 51,582,818	\$ 47,367,849	\$ 3,254,227	\$ 43,296,041	\$ 184,624,177	\$ 115,828,010	\$ 123,168,134	\$ 81,539,778	\$ 55,873,383

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2018**

**Schedule I**

	St. Luke's Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	Eliminations	Consolidated Totals
<b>Assets</b>											
<b>Current</b>											
Cash and cash equivalents	\$ 236,794	\$ 2,576,853	\$ -	\$ 188,158	\$ 37,375	\$ 1,161,888	\$ 64,275	\$ 13,169	\$ 1,633,883	\$ -	\$ 106,312,025
Investment in controlled entities	-	-	-	-	-	-	-	-	-	(833,151,088)	-
Patient accounts receivable, net	1,070,744	590,347	-	72,591	-	529,122	64,613	-	268,104	-	184,045,195
Other accounts receivable	15,300	-	-	20,814	1,453,520	229,501	6,024	244,125	2,631,005	(62,371,497)	14,093,565
Investments	-	-	-	-	-	-	-	-	-	-	117,384,555
Inventories	-	-	-	-	-	306,137	6,363	-	73,357	-	25,905,805
Prepaid expenses	82,533	5,205	1,125	38,501	-	16,549	12,300	2,401	107,517	-	23,829,529
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	-	(2,902,776)	-
Total current assets	1,405,371	3,172,405	1,125	320,064	1,490,895	2,243,197	153,575	259,695	4,713,866	(898,425,361)	471,570,674
<b>Noncurrent</b>											
Funds held by trustee	-	-	-	-	-	-	-	-	-	-	78,363,885
Funds held under bond indenture	-	-	-	-	-	-	-	-	-	-	7,309,991
Board designated funds	-	-	-	-	-	-	-	-	-	-	390,742,793
Property and equipment, net	2,419,917	-	1,361,558	84,433	-	42,752	55,860	6,731,086	260,508	1	989,175,225
Goodwill, net	617,691	-	-	-	-	-	-	-	-	-	72,821,531
Due from affiliates	-	-	35,341	-	40,155	-	-	24,377	-	(302,567,646)	-
Investments temporarily restricted as to use	-	-	-	-	-	-	-	-	-	-	37,262,271
Investments permanently restricted as to use	-	-	-	-	879,763	-	-	-	-	-	44,183,807
Deferred compensation plan assets	-	-	-	-	-	-	-	-	-	-	31,739,621
Other assets	-	-	-	-	27,776	-	-	-	3,119,094	(10,000)	67,625,505
Total assets	\$ 4,442,979	\$ 3,172,405	\$ 1,398,024	\$ 404,497	\$ 2,438,589	\$ 2,285,949	\$ 209,435	\$ 7,015,158	\$ 8,093,468	\$ (1,201,003,006)	\$ 2,190,795,303

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2018**

**Schedule I**

	St. Luke's University Health Network, Inc.	Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
<b>Liabilities and Net Assets</b>											
<b>Current</b>											
Accounts payable	\$ -	\$ 86,178,231	\$ 3,228,625	\$ 741,348	\$ 97,536	\$ 918,310	\$ 2,983,710	\$ 1,541,758	\$ 1,791,677	\$ 4,795,959	\$ 10,677,082
Accrued salaries, wages and taxes	-	37,929,640	28,416,695	27,176	3,394	30,826	31,849	33,996	26,083	1,111,540	51,582
Accrued vacation and bonus	-	33,251,776	18,815,607	1,548,992	325,276	1,720,002	2,181,489	2,788,373	1,436,395	1,217,384	1,225,143
Current portion of self insurance reserves	-	26,107,163	-	-	-	-	-	421,248	-	65,636	523,600
Deferred income	-	4,726,421	8,809	-	2,801	-	150,063	5,064	-	-	-
Advance from third-party payors	-	2,099,500	-	38,400	-	260,201	-	-	-	475,355	-
Patient credit balances	-	3,217,579	-	400,139	-	222,741	574,019	539,836	230,530	-	598,655
Current portion of long-term debt	-	19,072,205	-	-	20,280	-	-	-	-	1,948,290	1,114,735
Current portion of accrued compensation payable	-	2,532,433	-	-	-	-	-	-	-	8,886	-
Accrued interest on long-term debt	-	8,536,858	-	-	1,045	-	-	644,688	-	64,636	-
Other current liabilities	-	5,563,979	-	80,592	-	24,363	73,717	571,828	2,545	17,699,399	33,182,939
Estimated third-party payor settlements	-	-	-	834,157	-	190,355	-	-	3,271,664	6,503,506	1,467,635
Total current liabilities	-	229,215,785	50,469,736	3,670,804	450,332	3,366,798	5,994,847	6,546,791	6,758,894	33,890,591	48,841,371
Due to affiliates	-	10,192,047	139,114,276	6,751,839	15,631,174	-	86,056,219	6,609,498	42,222,106	15,133,015	6,531,307
Long-term debt, net of current portion	-	668,798,357	-	-	84,210	-	-	38,504,835	83,252,032	21,616,035	3,580,512
Asset retirement obligation	-	3,247,932	-	65,030	-	249,759	-	-	-	-	-
Accrued compensation payable	-	60,778,387	-	-	-	-	-	-	-	213,268	-
Self insurance reserves	-	53,005,453	-	-	-	-	-	855,261	-	133,262	1,063,068
Other noncurrent liabilities	-	22,288,800	-	28,892	-	1,866,459	-	566,276	-	18,371	-
Swap contracts	-	48,489,638	-	-	-	-	-	-	-	-	-
Total liabilities	-	1,096,016,399	189,584,012	10,516,565	16,165,716	5,483,016	92,051,066	53,082,661	132,233,032	71,004,542	60,016,258
<b>Net assets</b>											
Unrestricted net assets (liabilities)	739,515,171	684,001,907	(138,001,194)	28,459,257	(12,927,037)	35,295,362	92,099,075	60,642,266	(9,103,808)	8,995,937	(5,177,303)
Less: Amounts due from affiliates	-	(33,682,373)	-	-	-	-	-	-	-	-	-
Net unrestricted net assets (liabilities)	739,515,171	650,319,534	(138,001,194)	28,459,257	(12,927,037)	35,295,362	92,099,075	60,642,266	(9,103,808)	8,995,937	(5,177,303)
Temporarily restricted net assets	49,452,110	39,345,506	-	4,808,587	9,924	2,507,658	474,036	1,710,511	38,910	232,185	-
Permanently restricted net assets	44,183,807	36,970,861	-	3,583,440	5,624	10,005	-	392,572	-	1,307,114	1,034,428
Total net assets (liabilities)	833,151,088	726,635,901	(138,001,194)	36,851,284	(12,911,489)	37,813,025	92,573,111	62,745,349	(9,064,898)	10,535,236	(4,142,875)
Total liabilities and net assets	\$ 833,151,088	\$ 1,822,652,300	\$ 51,582,818	\$ 47,367,849	\$ 3,254,227	\$ 43,296,041	\$ 184,624,177	\$ 115,828,010	\$ 123,168,134	\$ 81,539,778	\$ 55,873,383

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2018**

**Schedule I**

	St. Luke's Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	Eliminations	Consolidated Totals
<b>Liabilities and Net Assets</b>											
<b>Current</b>											
Accounts payable	\$ 280,239	\$ 93,433	\$ 4,406	\$ -	\$ 787	\$ 813,031	\$ 32,048	\$ 12,248	\$ 1,993,419	\$ (1)	\$ 116,183,846
Accrued salaries, wages and taxes	1,782,930	720,467	-	-	-	8,000	-	-	232,427	-	70,406,605
Accrued vacation and bonus	462,217	7,776	-	-	-	28,787	45,733	-	336,073	-	65,391,023
Current portion of self insurance reserves	-	-	-	-	-	-	-	-	-	1	27,117,648
Deferred income	-	-	-	-	-	-	-	-	-	-	4,893,158
Advance from third-party payors	-	-	-	-	-	-	-	-	-	-	2,873,456
Patient credit balances	-	-	-	-	-	-	-	-	-	-	5,783,499
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	22,155,510
Current portion of accrued compensation payable	-	-	-	-	-	-	-	-	5,167	-	2,546,486
Accrued interest on long-term debt	-	-	-	-	-	-	-	-	-	-	9,247,227
Other current liabilities	-	-	4,658,023	940,560	90	183,299	4,193,547	2,507,238	5,540,757	(62,371,496)	12,851,380
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	-	(2,902,776)	9,364,541
Total current liabilities	2,525,386	821,676	4,662,429	940,560	877	1,033,117	4,271,328	2,519,486	8,107,843	(65,274,272)	348,814,379
Due to affiliates	4,418,083	2,350,729	-	193,212	-	82,523	54,489	-	909,501	(336,250,018)	-
Long-term debt, net of current portion	-	-	-	-	-	-	-	-	-	-	815,835,981
Asset retirement obligation	-	-	-	-	-	-	-	-	-	-	3,562,721
Accrued compensation payable	-	-	-	-	-	-	-	-	124,000	-	61,115,655
Self insurance reserves	-	-	-	-	-	-	-	-	-	(1)	55,057,043
Other noncurrent liabilities	-	-	-	-	-	-	-	-	-	-	24,768,798
Swap contracts	-	-	-	-	-	-	-	-	-	-	48,489,638
Total liabilities	6,943,469	3,172,405	4,662,429	1,133,772	877	1,115,640	4,325,817	2,519,486	9,141,344	(401,524,291)	1,357,644,215
<b>Net assets</b>											
Unrestricted net assets (liabilities)	(2,500,490)	-	(3,264,405)	(729,275)	1,233,156	1,170,309	(4,116,382)	4,495,672	(1,047,876)	(721,568,894)	757,471,448
Less: Amounts due from affiliates	-	-	-	-	-	-	-	-	-	33,682,373	-
Net unrestricted net assets (liabilities)	(2,500,490)	-	(3,264,405)	(729,275)	1,233,156	1,170,309	(4,116,382)	4,495,672	(1,047,876)	(687,886,521)	757,471,448
Temporarily restricted net assets	-	-	-	-	324,793	-	-	-	-	-	49,452,110
Permanently restricted net assets	-	-	-	-	879,763	-	-	-	-	-	44,183,807
Total net assets (liabilities)	(2,500,490)	-	(3,264,405)	(729,275)	2,437,712	1,170,309	(4,116,382)	4,495,672	(1,047,876)	(781,522,438)	851,107,365
Total liabilities and net assets	\$ 4,442,979	\$ 3,172,405	\$ 1,398,024	\$ 404,497	\$ 2,438,589	\$ 2,285,949	\$ 209,435	\$ 7,015,158	\$ 8,093,468	\$ (1,183,046,729)	\$ 2,208,751,580

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2017**

**Schedule I**

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	New Valley Rehab LLC
<b>Assets</b>											
<b>Current</b>											
Cash and cash equivalents	\$ -	\$ 66,375,277	\$ 13,123	\$ -	\$ -	\$ -	\$ 4,946	\$ 152	\$ 6,817,056	\$ -	\$ -
Investment in controlled entities	674,120,820	-	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net	-	71,248,602	23,050,956	7,646,435	917,673	-	1,273,017	22,072,477	12,764,699	5,022,658	-
Other accounts receivable	-	6,874,822	1,838,250	75,721	-	-	39,378	352,957	42,140	193,317	-
Investments	-	107,054,746	-	-	-	-	-	-	358,684	-	-
Inventories	-	13,452,266	-	753,704	-	-	752,343	2,243,534	1,832,866	1,197,483	-
Prepaid expenses	-	29,096,156	2,344,932	281,444	30,347	-	262,353	420,946	631,249	548,490	-
Estimated third-party payor settlements	-	2,589,069	-	-	-	-	-	923,888	313,902	-	-
Total current assets	674,120,820	296,690,938	27,247,261	8,757,304	948,020	-	2,332,037	26,013,954	22,760,596	6,961,948	-
<b>Noncurrent</b>											
Funds held by trustee	-	121	-	-	-	-	-	-	569,679	32,548	-
Funds held under bond indenture	-	13,905,022	-	-	-	-	-	-	-	-	-
Board designated funds	-	385,034,750	-	2,182,387	-	-	-	55,923	-	-	-
Property and equipment, net	-	421,180,862	30,147,541	20,615,822	1,742,025	-	24,804,962	149,889,204	82,092,891	102,922,694	-
Goodwill, net	-	14,638,435	-	-	-	-	824,000	-	13,156,777	-	-
Due from affiliates	-	261,778,826	-	-	-	-	6,403,598	-	-	-	-
Investments temporarily restricted as to use	-	30,710,680	-	1,468,534	19,747	-	355,497	654,469	747,473	10,000	-
Investments permanently restricted as to use	-	34,257,894	-	3,445,095	5,800	-	10,005	-	380,518	-	-
Deferred compensation plan assets	-	25,786,797	-	-	-	-	-	-	-	-	-
Other assets	-	51,429,677	-	56,601	-	-	1,936,968	454,389	1,903,701	-	-
Total assets	\$ 674,120,820	\$ 1,535,414,002	\$ 57,394,802	\$ 36,525,743	\$ 2,715,592	\$ -	\$ 36,667,067	\$ 177,067,939	\$ 121,611,635	\$ 109,927,190	\$ -

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2017**

**Schedule I**

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
<b>Assets</b>							
<b>Current</b>							
Cash and cash equivalents	\$ 886,956	\$ -	\$ 189,931	\$ -	\$ 238	\$ -	\$ 74,287,679
Investment in controlled entities	-	-	-	-	-	(674,120,820)	-
Patient accounts receivable, net	1,512,667	-	710,410	-	-	-	146,219,594
Other accounts receivable	15,300	-	-	-	-	-	9,431,885
Investments	-	-	-	-	-	-	107,413,430
Inventories	-	-	-	-	-	-	20,232,196
Prepaid expenses	223,283	-	17,708	-	-	-	33,856,908
Estimated third-party payor settlements	-	-	-	-	-	(1,247,408)	2,579,451
Total current assets	2,638,206	-	918,049	-	238	(675,368,228)	394,021,143
<b>Noncurrent</b>							
Funds held by trustee	-	-	-	-	-	-	602,348
Funds held under bond indenture	-	-	-	-	-	-	13,905,022
Board designated funds	-	-	-	-	-	-	387,273,060
Property and equipment, net	2,655,029	-	-	-	1,411,936	-	837,462,966
Goodwill, net	617,691	-	-	-	-	-	29,236,903
Due from affiliates	-	-	-	-	808,667	(268,991,091)	-
Investments temporarily restricted as to use	-	-	-	-	-	-	33,966,400
Investments permanently restricted as to use	-	-	-	-	-	-	38,099,312
Deferred compensation plan assets	-	-	-	-	-	-	25,786,797
Other assets	-	-	-	-	-	-	55,781,336
Total assets	\$ 5,910,926	\$ -	\$ 918,049	\$ -	\$ 2,220,841	\$ (944,359,319)	\$ 1,816,135,287

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2017**

**Schedule I**

	St. Luke's University Health Network, Inc.	Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	New Valley Rehab LLC
<b>Liabilities and Net Assets</b>											
<b>Current</b>											
Accounts payable	\$ -	\$ 65,241,894	\$ 560,268	\$ 581,423	\$ 42,456	\$ -	\$ 550,371	\$ 1,652,214	\$ 1,153,149	\$ 528,343	\$ -
Accrued salaries, wages and taxes	-	15,719,689	32,154,633	865,505	16,373	-	943,967	159,710	1,792,472	80,567	-
Accrued vacation and bonus	-	27,777,035	16,293,514	1,217,068	214,023	-	1,192,861	1,976,556	2,683,197	1,053,166	-
Current portion of self insurance reserves	-	24,607,123	-	-	-	-	-	-	330,449	-	-
Deferred income	-	4,238,400	8,062	-	2,801	-	-	-	-	-	-
Advance from third-party payors	-	2,099,500	-	38,400	-	-	260,201	-	-	-	-
Patient credit balances	-	2,276,434	-	320,205	-	-	231,966	672,995	864,666	448,805	-
Current portion of long-term debt	-	17,016,880	-	-	19,981	-	-	-	-	-	-
Current portion of accrued compensation payable	-	3,404,593	-	-	-	-	-	-	-	-	-
Accrued interest on long-term debt	-	8,692,615	-	-	1,245	-	-	-	644,696	-	-
Other current liabilities	-	5,121,830	-	106,881	-	-	36,384	73,720	651,696	2,323	-
Estimated third-party payor settlements	-	-	-	470,011	-	-	327,397	-	-	450,000	-
Total current liabilities	-	176,195,993	49,016,477	3,599,493	296,879	-	3,543,147	4,535,195	8,120,325	2,563,204	-
Due to affiliates	-	-	146,379,519	130,586	11,491,941	-	-	98,186,528	9,225,789	30,885,424	-
Long-term debt, net of current portion	-	530,058,457	-	-	104,489	-	-	-	38,545,130	83,368,109	-
Asset retirement obligation	-	3,247,932	-	65,030	-	-	249,759	-	-	-	-
Accrued compensation payable	-	81,710,238	-	-	-	-	-	-	-	-	-
Self insurance reserves	-	49,959,918	-	-	-	-	-	-	670,911	-	-
Other noncurrent liabilities	-	19,954,147	-	30,281	-	-	21,335	-	1,106,326	-	-
Swap contracts	-	77,899,007	-	-	-	-	-	-	-	-	-
Total liabilities	-	939,025,692	195,395,996	3,825,390	11,893,309	-	3,814,241	102,721,723	57,668,481	116,816,737	-
<b>Net assets</b>											
Unrestricted net assets (liabilities)	591,521,007	557,768,247	(138,001,194)	27,753,882	(9,203,264)	-	30,571,691	73,237,358	62,017,788	(6,899,547)	-
Less: Amounts due from affiliates	-	(33,682,373)	-	-	-	-	-	-	-	-	-
Net unrestricted net assets (liabilities)	591,521,007	524,085,874	(138,001,194)	27,753,882	(9,203,264)	-	30,571,691	73,237,358	62,017,788	(6,899,547)	-
Temporarily restricted net assets	44,500,501	38,044,542	-	1,501,376	19,747	-	2,271,130	1,108,858	1,544,848	10,000	-
Permanently restricted net assets	38,099,312	34,257,894	-	3,445,095	5,800	-	10,005	-	380,518	-	-
Total net assets (liabilities)	674,120,820	596,388,310	(138,001,194)	32,700,353	(9,177,717)	-	32,852,826	74,346,216	63,943,154	(6,889,547)	-
Total liabilities and net assets	\$ 674,120,820	\$ 1,535,414,002	\$ 57,394,802	\$ 36,525,743	\$ 2,715,592	\$ -	\$ 36,667,067	\$ 177,067,939	\$ 121,611,635	\$ 109,927,190	\$ -

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Balance Sheet**  
**June 30, 2017**

**Schedule I**

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
<b>Liabilities and Net Assets</b>							
Current							
Accounts payable	\$ 1,038,923	\$ -	\$ 1,693	\$ -	\$ 3,025	\$ (2)	\$ 71,353,757
Accrued salaries, wages and taxes	1,926,548	-	456,956	-	-	-	54,116,420
Accrued vacation and bonus	312,971	-	-	-	-	-	52,720,391
Current portion of self insurance reserves	-	-	-	-	-	-	24,937,572
Deferred income	-	-	-	-	1,956	-	4,251,219
Advance from third-party payors	-	-	-	-	-	-	2,398,101
Patient credit balances	-	-	-	-	-	-	4,815,071
Current portion of long-term debt	-	-	-	-	-	-	17,036,861
Current portion of accrued compensation payable	-	-	-	-	-	-	3,404,593
Accrued interest on long-term debt	-	-	-	-	-	-	9,338,556
Other current liabilities	-	-	-	-	4,658,023	-	10,650,857
Estimated third-party payor settlements	-	-	-	-	-	(1,247,408)	-
Total current liabilities	3,278,442	-	458,649	-	4,663,004	(1,247,410)	255,023,398
Due to affiliates	5,914,275	-	459,400	-	-	(302,673,462)	-
Long-term debt, net of current portion	-	-	-	-	-	-	652,076,185
Asset retirement obligation	-	-	-	-	-	-	3,562,721
Accrued compensation payable	-	-	-	-	-	-	81,710,238
Self insurance reserves	-	-	-	-	-	-	50,630,829
Other noncurrent liabilities	-	-	-	-	-	-	21,112,089
Swap contracts	-	-	-	-	-	-	77,899,007
Total liabilities	9,192,717	-	918,049	-	4,663,004	(303,920,872)	1,142,014,467
Net assets							
Unrestricted net assets (liabilities)	(3,281,791)	-	-	-	(2,442,163)	(591,521,007)	591,521,007
Less: Amounts due from affiliates	-	-	-	-	-	33,682,373	-
Net unrestricted net assets (liabilities)	(3,281,791)	-	-	-	(2,442,163)	(557,838,634)	591,521,007
Temporarily restricted net assets	-	-	-	-	-	(44,500,501)	44,500,501
Permanently restricted net assets	-	-	-	-	-	(38,099,312)	38,099,312
Total net assets (liabilities)	(3,281,791)	-	-	-	(2,442,163)	(640,438,447)	674,120,820
Total liabilities and net assets	\$ 5,910,926	\$ -	\$ 918,049	\$ -	\$ 2,220,841	\$ (944,359,319)	\$ 1,816,135,287

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Statement of Operations**  
**Year Ended June 30, 2018**

**Schedule II**

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 879,004,456	\$ 273,203,474	\$ 84,464,843	\$ 6,710,587	\$ 80,494,357	\$ 219,539,925	\$ 123,577,943	\$ 108,886,440	\$ 43,441,528	\$ 27,658,291
Provision for bad debts	-	(13,592,317)	(27,691,413)	(1,354,960)	(911,202)	(3,332,301)	(5,680,514)	(3,899,975)	(2,021,390)	(3,071,397)	(2,010,996)
Net patient service revenue less provision for bad debts	-	865,412,139	245,512,061	83,109,883	5,799,385	77,162,056	213,859,411	119,677,968	106,865,050	40,370,131	25,647,295
Other operating revenue and gains	-	23,261,702	1,645,848	695,162	97,562	780,846	2,004,311	1,064,468	1,204,150	356,261	587,755
Net assets released from restrictions used for operations	-	1,945,745	38,776	93,401	34	31,050	165,727	121,689	42,803	-	-
Equity in net income from controlled entities	147,994,164	-	-	-	-	-	-	-	-	-	-
Total revenue	147,994,164	890,619,586	247,196,685	83,898,446	5,896,981	77,973,952	216,029,449	120,864,125	108,112,003	40,726,392	26,235,050
<b>Operating expenses</b>											
Salaries and employee benefits	-	365,070,633	332,103,837	33,512,937	7,648,683	34,101,394	67,623,210	51,956,284	40,210,925	20,769,668	15,201,074
Supplies and other	-	301,693,024	80,373,123	33,870,610	1,306,866	23,809,673	76,548,956	41,227,585	31,718,720	13,962,411	10,384,683
Depreciation and amortization	-	36,745,887	8,353,599	3,535,374	554,365	4,129,571	14,440,837	10,567,710	12,442,693	1,006,856	713,905
Interest	-	14,626,641	-	919,734	1,667	580,908	5,851,430	2,939,403	4,227,786	446,478	73,460
Total expenses	-	718,136,185	420,830,559	71,838,655	9,511,581	62,621,546	164,464,433	106,690,982	88,600,124	36,185,413	26,373,122
Income (loss) from operations	147,994,164	172,483,401	(173,633,874)	12,059,791	(3,614,600)	15,352,406	51,565,016	14,173,143	19,511,879	4,540,979	(138,072)
<b>Nonoperating gains (losses)</b>											
Unrestricted investment income from assets limited as to use	-	10,200,534	-	127,852	-	40,866	162,073	90,428	82,489	98,672	-
Realized gains on unrestricted investment	-	7,354,371	-	-	-	-	-	-	-	-	-
Gifts, grants and bequests	-	80,711	-	2,504	8,000	1,882	3,280	112,578	-	3,735	116,541
Unrestricted investment income from restricted net assets	-	392,203	-	(4,486)	-	(9,676)	-	-	-	269,872	-
Unrestricted investment income, other	-	4,651,087	-	-	-	-	-	-	-	67,602	18,373
Income from equity method investments	-	1,228,073	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of property and equipment	-	(540,417)	(287,132)	(926)	1,000	(302,669)	(2,319)	(1,241)	(1,201)	17,512	-
Restructuring costs	-	(795,276)	(779,859)	(49,300)	(128,172)	(35,847)	(41,644)	(428,237)	(14,189)	(154,403)	(128,539)
Pre-acquisition/merger costs	-	(2,113,861)	-	-	-	-	-	-	-	-	-
Donations to other organizations	-	(432,451)	-	(55,035)	-	(26,350)	(3,391,403)	(3,200)	(7,055,358)	(500)	(10,042)
Change in fair market value of total return interest rate swaps	-	12,664,871	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	(1,790,512)	-	-	-	-	-	-	-	-
Gain (loss) on retirement/purchase of bonds	-	1,097,356	-	(41,812)	-	(26,409)	(104,735)	(56,045)	(54,250)	-	(123,323)
Nonoperating gains/(losses)	-	33,787,201	(2,857,503)	(21,203)	(119,172)	(358,203)	(3,374,748)	(285,717)	(7,042,509)	302,490	(126,990)
Excess (deficiency) of revenue and gains in excess of expenses	147,994,164	206,270,602	(176,491,377)	12,038,588	(3,733,772)	14,994,203	48,190,268	13,887,426	12,469,370	4,843,469	(265,062)
Net assets released from restrictions used for purchase of property and equipment	-	527,803	-	2,000	9,999	23,070	112,772	-	38,080	(8,395)	-
Contribution of building	-	-	-	-	-	320,000	-	-	-	-	-
Other changes in unrestricted assets	-	-	-	-	-	-	-	-	-	-	-
Net asset transfer to/from affiliate	-	-	-	-	-	-	-	-	-	-	(2,201,917)
Pension adjustment	-	7,785,746	-	-	-	-	-	-	-	4,547,305	-
Physician practice support	-	(110,461,386)	176,491,377	(11,409,118)	-	(10,592,615)	(29,358,089)	(15,248,556)	(14,670,169)	-	-
Change in unrealized gains/(losses) on investments	-	5,366,397	-	73,905	-	(20,987)	(83,234)	(14,392)	(41,542)	-	-
Change in fair market value of interest rate swaps	-	16,744,498	-	-	-	-	-	-	-	-	-
	147,994,164	126,233,660	-	705,375	(3,723,773)	4,723,671	18,861,717	(1,375,522)	(2,204,261)	9,382,379	(2,466,979)
Increase (decrease) in unrestricted net assets	\$ 147,994,164	\$ 126,233,660	\$ -	\$ 705,375	\$ (3,723,773)	\$ 4,723,671	\$ 18,861,717	\$ (1,375,522)	\$ (2,204,261)	\$ 9,382,379	\$ (2,466,979)

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Statement of Operations**  
**Year Ended June 30, 2018**

**Schedule II**

	St. Luke's Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	Eliminations	Consolidated Totals
Patient service revenue (net of contractual allowances and discounts)	\$ 18,507,760	\$ 6,994,502	\$ -	\$ 1,046,188	\$ -	\$ 1,917,392	\$ 200,127	\$ -	\$ 2,557,752	\$ (1,502,938)	\$ 1,876,702,627
Provision for bad debts	(939,657)	(2,478,384)	-	114,552	-	(12,904)	283	-	(121,597)	-	(67,004,172)
Net patient service revenue less provision for bad debts	17,568,103	4,516,118	-	1,160,740	-	1,904,488	200,410	-	2,436,155	(1,502,938)	1,809,698,455
Other operating revenue and gains	55,403	-	(602,271)	-	38,447	1,611	2,807	433,479	295,916	610,530	32,533,987
Net assets released from restrictions used for operations	-	-	-	-	73,956	-	-	-	-	-	2,513,181
Equity in net income from controlled entities	-	-	-	-	-	-	-	-	-	(147,994,164)	-
Total revenue	17,623,506	4,516,118	(602,271)	1,160,740	112,403	1,906,099	203,217	433,479	2,732,071	(148,886,572)	1,844,745,623
<b>Operating expenses</b>											
Salaries and employee benefits	19,620,312	4,169,650	-	2,172,692	38,616	336,381	348,229	-	5,162,209	1	1,000,046,735
Supplies and other	12,010,847	346,468	169,593	101,327	102,294	1,835,700	130,176	399,621	335,573	(892,409)	629,434,841
Depreciation and amortization	418,657	-	50,378	2,438	-	4,328	5,527	67,768	30,555	-	93,070,448
Interest	-	-	-	-	-	-	-	-	-	-	29,667,507
Total expenses	32,049,816	4,516,118	219,971	2,276,457	140,910	2,176,409	483,932	467,389	5,528,337	(892,408)	1,752,219,531
Income (loss) from operations	(14,426,310)	-	(822,242)	(1,115,717)	(28,507)	(270,310)	(280,715)	(33,910)	(2,796,266)	(147,994,164)	92,526,092
<b>Nonoperating gains (losses)</b>											
Unrestricted investment income from assets limited as to use	-	-	-	-	-	-	-	-	-	-	10,802,914
Realized gains on unrestricted investment	-	-	-	-	-	-	-	-	-	-	7,354,371
Gifts, grants and bequests	-	-	-	-	-	-	-	-	-	-	329,231
Unrestricted investment income from restricted net assets	-	-	-	-	-	-	-	-	-	-	647,913
Unrestricted investment income, other	-	-	-	-	109	-	-	-	204,848	-	4,942,019
Income from equity method investments	-	-	-	-	-	-	-	-	-	-	1,228,073
Gain (loss) on disposal of property and equipment	(40,945)	-	-	-	-	-	-	-	-	-	(1,158,338)
Restructuring costs	-	-	-	-	-	-	-	-	17,389	-	(2,538,077)
Pre-acquisition/merger costs	-	-	-	-	-	-	-	-	-	-	(2,113,861)
Donations to other organizations	-	-	-	-	-	-	-	-	-	-	(10,974,339)
Change in fair market value of total return interest rate swaps	-	-	-	-	-	-	-	-	-	-	12,664,871
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	(1,790,512)
Gain (loss) on retirement/purchase of bonds	-	-	-	-	-	-	-	-	-	-	690,782
Nonoperating gains/(losses)	(40,945)	-	-	-	109	-	-	-	222,237	-	20,085,047
Excess (deficiency) of revenue and gains in excess of expenses	(14,467,255)	-	(822,242)	(1,115,717)	(28,398)	(270,310)	(280,715)	(33,910)	(2,574,029)	(147,994,164)	112,611,139
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	-	-	-	705,329
Contribution of building	-	-	-	-	-	-	-	-	-	-	320,000
Other changes in unrestricted assets	-	-	-	-	-	-	-	-	-	-	-
Net asset transfer to/from affiliate	-	-	-	-	-	-	-	-	2,201,917	-	-
Pension adjustment	-	-	-	-	-	-	-	-	-	-	12,333,051
Physician practice support	15,248,556	-	-	-	-	-	-	-	-	-	-
Change in unrealized gains/(losses) on investments	-	-	-	-	-	-	-	-	-	-	5,280,147
Change in fair market value of interest rate swaps	-	-	-	-	-	-	-	-	-	-	16,744,498
	781,301	-	(822,242)	(1,115,717)	(28,398)	(270,310)	(280,715)	(33,910)	(372,112)	(147,994,164)	147,994,164
Increase (decrease) in unrestricted net assets	\$ 781,301	\$ -	\$ (822,242)	\$ (1,115,717)	\$ (28,398)	\$ (270,310)	\$ (280,715)	\$ (33,910)	\$ (372,112)	\$ (147,994,164)	\$ 147,994,164

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Statement of Operations**  
**Year Ended June 30, 2017**

**Schedule II**

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	New Valley Rehab LLC
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 778,233,083	\$ 244,837,055	\$ 75,698,090	\$ 6,837,739	\$ -	\$ 67,318,812	\$ 199,478,993	\$ 109,409,053	\$ 54,161,835	\$ -
Provision for bad debts	-	(24,226,295)	(24,519,406)	(2,308,621)	(1,091,125)	-	(2,351,719)	(4,779,861)	200,405	(9,163,402)	-
Net patient service revenue less provision for bad debts	-	754,006,788	220,317,649	73,389,469	5,746,614	-	64,967,093	194,699,132	109,609,458	44,998,433	-
Other operating revenue and gains	-	22,380,591	2,276,624	808,025	80,988	-	701,221	2,348,619	812,496	593,634	-
Net assets released from restrictions used for operations	-	1,784,012	61,400	78,609	10,020	-	27,745	133,202	102,985	-	-
Equity in net income from controlled entities	112,250,950	-	-	-	-	-	-	-	-	-	-
Total revenue	112,250,950	778,171,391	222,655,673	74,276,103	5,837,622	-	65,696,059	197,180,953	110,524,939	45,592,067	-
<b>Operating expenses</b>											
Salaries and employee benefits	-	338,060,315	278,047,184	31,201,729	6,694,319	-	28,595,267	60,619,965	53,053,006	22,846,043	-
Supplies and other	-	271,256,079	68,922,910	30,655,046	1,403,014	1	20,687,782	68,015,435	37,541,306	14,218,993	-
Depreciation and amortization	-	38,150,089	5,885,739	3,668,348	441,484	-	3,679,536	14,751,993	10,532,328	7,988,093	-
Interest	-	13,859,293	-	868,530	3,407	-	453,664	5,480,710	2,886,792	2,800,664	-
Total expenses	-	661,325,776	352,855,833	66,393,653	8,542,224	1	53,416,249	148,868,103	104,013,432	47,853,793	-
Income (loss) from operations	112,250,950	116,845,615	(130,200,160)	7,882,450	(2,704,602)	(1)	12,279,810	48,312,850	6,511,507	(2,261,726)	-
<b>Nonoperating gains (losses)</b>											
Unrestricted investment income from assets limited as to use	-	8,814,648	-	65,663	-	-	5,542	24,483	15,520	120,768	-
Realized gains on unrestricted investment	-	8,084,090	-	-	-	-	-	-	-	-	-
Gifts, grants and bequests	-	212,264	-	62,278	8,830	-	3,776	840	121,556	-	-
Unrestricted investment income from restricted net assets	-	292,008	-	(4,448)	-	-	1,387	-	-	-	-
Unrestricted investment income, other	-	4,084,385	-	-	-	-	-	-	-	-	-
Income from equity method investments	-	678,607	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of property and equipment	-	523,382	-	(12,354)	-	-	(33,639)	(38,002)	(30,557)	-	-
Restructuring costs	-	(756,240)	(18,194)	(58,377)	-	-	(80,664)	(70,591)	(479,646)	-	-
Pre-acquisition/merger costs	-	-	(964,043)	-	-	-	-	-	-	(276,599)	-
Donations to other organizations	-	(246,170)	-	(56,035)	-	-	(18,350)	(1,920,150)	(3,650)	(56,725)	-
Change in fair market value of total return interest rate swaps	-	2,960,138	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	(6,233,287)	-	-	-	-	-	-	-	-
Gain (loss) on retirement/purchase of bonds	-	(8,475,227)	-	-	-	-	-	(11,703,885)	-	-	-
Nonoperating gains/(losses)	-	16,171,885	(7,215,524)	(3,273)	8,830	-	(121,948)	(13,707,305)	(376,777)	(212,556)	-
Excess (deficiency) of revenue and gains in excess of expenses	112,250,950	133,017,500	(137,415,684)	7,879,177	(2,695,772)	(1)	12,157,862	34,605,545	6,134,730	(2,474,282)	-
Net assets released from restrictions used for purchase of property and equipment	-	52,089	-	-	-	-	27,820	382,664	5,039	-	-
Contribution of building	-	-	-	-	-	-	-	-	-	-	-
Other changes in unrestricted assets	-	-	-	-	-	-	-	-	(147,976)	-	-
Net asset transfer to/from affiliate	-	3,106,221	-	-	-	(3,106,221)	-	-	1,065,064	-	-
Pension adjustment	-	27,743,618	-	-	-	-	-	-	-	-	-
Physician practice support	-	(97,762,107)	137,415,684	(7,456,979)	-	-	(9,659,815)	(19,255,460)	(11,556,802)	(3,281,323)	-
Change in unrealized gains/(losses) on investments	-	16,668,855	-	171,202	-	-	-	-	39,164	(37,447)	-
Change in fair market value of interest rate swaps	-	27,553,608	-	-	-	-	-	-	-	-	-
Net asset transfer on acquisitions	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$ 112,250,950	\$ 110,379,784	\$ -	\$ 593,400	\$ (2,695,772)	\$ (3,106,222)	\$ 2,525,867	\$ 15,732,749	\$ (4,460,781)	\$ (5,793,052)	\$ -

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Consolidating Statement of Operations**  
**Year Ended June 30, 2017**

**Schedule II**

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Patient service revenue (net of contractual allowances and discounts)	\$ 18,851,959	\$ -	\$ 7,632,610	\$ -	\$ -	\$ (1,062,249)	\$ 1,561,396,980
Provision for bad debts	(822,714)	-	(2,902,618)	-	-	-	(71,965,356)
Net patient service revenue less provision for bad debts	18,029,245	-	4,729,992	-	-	(1,062,249)	1,489,431,624
Other operating revenue and gains	48,346	-	-	-	(689,806)	690,703	30,051,441
Net assets released from restrictions used for operations	-	-	-	-	-	-	2,197,973
Equity in net income from controlled entities	-	-	-	-	-	(112,250,950)	-
Total revenue	18,077,591	-	4,729,992	-	(689,806)	(112,622,496)	1,521,681,038
<b>Operating expenses</b>							
Salaries and employee benefits	17,281,653	-	3,846,079	-	-	(2)	840,245,558
Supplies and other	11,025,621	-	883,913	-	155,458	(371,545)	524,394,013
Depreciation and amortization	433,564	-	-	-	50,378	1	85,581,553
Interest	-	-	-	-	-	-	26,353,060
Total expenses	28,740,838	-	4,729,992	-	205,836	(371,546)	1,476,574,184
Income (loss) from operations	(10,663,247)	-	-	-	(895,642)	(112,250,950)	45,106,854
<b>Nonoperating gains (losses)</b>							
Unrestricted investment income from assets limited as to use	-	-	-	-	-	-	9,046,624
Realized gains on unrestricted investment	-	-	-	-	-	-	8,084,090
Gifts, grants and bequests	-	-	-	-	-	-	409,544
Unrestricted investment income from restricted net assets	-	-	-	-	-	-	288,947
Unrestricted investment income, other	-	3	-	-	-	-	4,084,388
Income from equity method investments	-	-	-	-	-	-	678,607
Gain (loss) on disposal of property and equipment	-	-	-	-	-	-	408,830
Restructuring costs	(5,850)	-	-	-	-	-	(1,469,562)
Pre-acquisition/merger costs	-	-	-	-	-	-	(1,240,642)
Donations to other organizations	-	-	-	-	-	-	(2,301,080)
Change in fair market value of total return interest rate swaps	-	-	-	-	-	-	2,960,138
Goodwill impairment	-	-	-	-	-	-	(6,233,287)
Gain (loss) on retirement/purchase of bonds	-	-	-	-	-	(1)	(20,179,113)
Nonoperating gains/(losses)	(5,850)	3	-	-	-	(1)	(5,462,516)
Excess (deficiency) of revenue and gains in excess of expenses	(10,669,097)	3	-	-	(895,642)	(112,250,951)	39,644,338
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	467,612
Contribution of building	-	-	-	-	-	-	-
Other changes in unrestricted assets	-	147,976	-	-	-	-	-
Net asset transfer to/from affiliate	-	(1,065,064)	-	-	-	-	-
Pension adjustment	-	-	-	-	-	-	27,743,618
Physician practice support	11,556,801	-	-	-	-	1	-
Change in unrealized gains/(losses) on investments	-	-	-	-	-	-	16,841,774
Change in fair market value of interest rate swaps	-	-	-	-	-	-	27,553,608
Net asset transfer on acquisitions	-	-	-	-	-	-	-
	887,704	(917,085)	-	-	(895,642)	(112,250,950)	112,250,950
Increase (decrease) in unrestricted net assets	\$ 887,704	\$ (917,085)	\$ -	\$ -	\$ (895,642)	\$ (112,250,950)	\$ 112,250,950

**St. Luke's Health Network, Inc. and Controlled Entities**  
**Note to Supplemental Information**  
**June 30, 2017 and 2016**

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**1. Basis of Presentation**

The accompanying supplemental information includes the Consolidating Balance Sheets and Consolidating Statement of Operations of the Network at June 30, 2018 and 2017. The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.