

**St. Luke's Health Network, Inc.
and Controlled Entities**
Consolidated Financial Statements
June 30, 2020 and 2019

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

Index

June 30, 2020 and 2019

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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, 2020 and 2019 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 as of June 30, 2020 and 2019, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Notes 2 and 15 to the consolidated financial statements, the Network changed the manner in which it accounts for its leases in 2020. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Baltimore, Maryland
October 23, 2020

St. Luke's Health Network, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2020 and 2019

	2020	2019
Assets		
Current		
Cash and cash equivalents	\$ 315,796,451	\$ 100,693,579
Patient accounts receivable, net	181,103,651	207,714,461
Other accounts receivable	31,681,446	16,959,148
Investments	163,651,030	197,921,758
Inventories	40,288,793	28,357,607
Prepaid expenses	30,332,997	30,638,215
Total current assets	<u>762,854,368</u>	<u>582,284,768</u>
Noncurrent		
Investments	800,195,107	480,932,484
Property and equipment, net	1,123,980,670	1,097,984,981
Goodwill	81,062,089	80,195,038
Investments in joint ventures	56,021,404	39,214,583
Operating lease right-of-use assets, net	173,941,841	-
Deferred compensation plan assets	43,832,611	38,145,857
Other assets	65,668,596	55,107,779
Total assets	<u>\$ 3,107,556,686</u>	<u>\$ 2,373,865,490</u>
Liabilities and Net Assets		
Current		
Accounts payable	\$ 150,571,155	\$ 139,878,071
Accrued salaries, wages and taxes	161,537,806	93,726,919
Accrued vacation	65,020,041	58,019,960
Current portion of self insurance reserves	34,389,395	28,439,156
Current portion of long-term debt	20,679,552	26,167,269
Current portion of operating lease obligations	26,247,657	-
Current portion of accrued compensation payable	3,940,950	3,210,921
Accrued interest on long-term debt	12,870,443	11,577,899
Estimated third-party payor settlements	35,472,035	13,440,439
Other current liabilities	275,007,133	25,519,381
Total current liabilities	<u>785,736,167</u>	<u>399,980,015</u>
Noncurrent		
Long-term debt, net of current portion	988,937,070	847,962,378
Long-term operating lease obligations	149,666,897	-
Accrued compensation payable	94,582,810	77,062,112
Self insurance reserves	69,820,894	57,740,105
Swap contracts	97,785,332	67,175,340
Asset retirement obligation	3,562,721	3,562,721
Other noncurrent liabilities	33,900,248	27,354,915
Total liabilities	<u>2,223,992,139</u>	<u>1,480,837,586</u>
Net assets		
Net assets without donor restrictions	769,277,232	791,152,854
Net assets with donor restrictions	114,287,315	101,875,050
Total net assets	<u>883,564,547</u>	<u>893,027,904</u>
Total liabilities and net assets	<u>\$ 3,107,556,686</u>	<u>\$ 2,373,865,490</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, 2020 and 2019

	2020	2019
Revenues, gains and other support		
Net patient service revenue	\$ 2,119,725,904	\$ 2,077,733,621
Other operating revenue and gains	119,715,706	36,749,198
Net assets released from restrictions used for operations	<u>2,288,858</u>	<u>2,104,997</u>
Total revenue and gains	<u>2,241,730,468</u>	<u>2,116,587,816</u>
Operating expenses		
Salaries and employee benefits	1,299,584,522	1,178,917,185
Supplies and other	787,036,926	732,092,689
Depreciation and amortization	116,131,105	103,193,653
Interest	<u>36,530,012</u>	<u>32,222,420</u>
Total expenses	<u>2,239,282,565</u>	<u>2,046,425,947</u>
Income from operations	<u>2,447,903</u>	<u>70,161,869</u>
Nonoperating gains (losses)		
Unrestricted investment income	17,619,839	15,200,149
Realized gains on investments	6,708,069	33,341,436
Change in unrealized gains (losses) on investments	5,492,039	(11,058,744)
(Loss) income from equity method investments	(9,195,482)	1,046,764
(Loss) on disposal of property and equipment	(3,986,638)	(2,290,317)
Donations and grants to other organizations	(20,233,505)	(15,983,892)
Change in fair market value of derivatives	(30,609,992)	(18,685,702)
(Loss) on retirement/purchase of bonds	(4,764,703)	-
Pension and annuity settlement cost	(132,703)	(9,815,656)
Other nonoperating	<u>(8,777,277)</u>	<u>(4,747,940)</u>
Nonoperating (losses)	<u>(47,880,353)</u>	<u>(12,993,902)</u>
(Deficit)/Excess of revenue and gains over expenses	<u>\$ (45,432,450)</u>	<u>\$ 57,167,967</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, 2020 and 2019

	2020	2019
Net assets without donor restrictions		
Excess of revenue and gains over expenses	\$ (45,432,450)	\$ 57,167,967
Net assets contributed and released from restrictions used for purchase of property and equipment	1,691,513	1,044,269
Pension adjustment	22,263,625	(7,274,836)
Other changes in net assets without donor restrictions	<u>(398,310)</u>	<u>700,283</u>
Increase (decrease) in net assets without donor restrictions	<u>(21,875,622)</u>	<u>51,637,683</u>
Net assets with donor restrictions		
Contributions received	13,308,751	7,560,553
Net realized/unrealized gains on investments	3,223,159	4,645,229
Net assets released from restrictions	<u>(4,119,645)</u>	<u>(3,966,649)</u>
Increase in net assets with donor restrictions	<u>12,412,265</u>	<u>8,239,133</u>
Increase (decrease) in net assets	<u>(9,463,357)</u>	<u>59,876,816</u>
Net assets		
Beginning of year	<u>893,027,904</u>	<u>833,151,088</u>
End of year	<u>\$ 883,564,547</u>	<u>\$ 893,027,904</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 Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows provided by operating activities		
Change in net assets	\$ (9,463,357)	\$ 59,876,816
Adjustments to reconcile change in net assets to net cash from operating activities		
Loss on disposal of equipment	3,986,638	2,290,317
Depreciation and amortization	116,131,105	103,193,653
Equity loss (gain) from joint ventures and partnerships	9,195,482	(1,046,764)
Change in unrealized (gain) loss on unrestricted investments	(5,492,039)	11,058,744
Net realized gain on restricted investments	(2,568,055)	(5,153,463)
Net unrealized (gain) loss on restricted investments	(655,104)	508,234
Net realized gain on unrestricted investments	(6,708,069)	(33,297,751)
Pension adjustments	(22,263,625)	7,274,836
Swap contracts	30,609,992	18,685,702
Restricted contributions received	(13,308,751)	(7,560,553)
Change in cash due to changes in operating assets and liabilities		
Patient accounts receivable	26,610,810	(23,669,266)
Other receivables	(14,722,298)	(2,865,583)
Inventories	(11,931,186)	(2,451,802)
Prepaid expenses	305,218	(6,808,686)
Deferred compensation plan assets	(5,686,754)	(6,406,236)
Other assets	(10,781,486)	(4,870,845)
Accounts payable and accrued liabilities	399,308,074	47,539,533
Net estimated third-party payor settlements	22,031,596	4,075,898
Net cash provided by operating activities	<u>504,598,191</u>	<u>160,372,784</u>
Cash flows used by investing activities		
Purchases of property, plant and equipment	(143,242,234)	(205,822,427)
Proceeds from sale of equipment	647,630	376,800
Cash paid in acquisition, net of cash acquired	(867,051)	(7,415,532)
Investments in joint ventures and partnerships	(26,002,303)	(20,759,892)
Purchases of investments	(820,701,356)	(466,021,625)
Proceeds from sales of investments	551,132,728	489,298,921
Net cash used in investing activities	<u>(439,032,586)</u>	<u>(210,343,755)</u>
Cash flows provided by financing activities		
Proceeds from issuance of long-term debt	272,053,056	123,795,000
Repayments of long-term debt	(60,834,541)	(87,003,028)
Repurchase of St. Luke's bonds	(74,989,999)	-
Proceeds from restricted contributions	13,308,751	7,560,553
Net cash provided by financing activities	<u>149,537,267</u>	<u>44,352,525</u>
Increase/(Decrease) in cash and cash equivalents	215,102,872	(5,618,446)
Cash and cash equivalents		
Beginning of year	100,693,579	106,312,025
End of year	<u>\$ 315,796,451</u>	<u>\$ 100,693,579</u>
Construction in progress included in accounts payable	<u>\$ 4,039,700</u>	<u>\$ 9,479,246</u>
Cash paid for interest	<u>\$ 38,865,618</u>	<u>\$ 37,364,433</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, 2020 and 2019

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
- CMS Medical Care Corporation
- Blue Mountain Hospital, Inc.
- St. Luke's Ambulatory Services, Inc.
- Mahoning Self Storage, LLC

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 10 for additional information on investments in joint ventures and partnerships.

2. Summary of Significant Accounting Policies

Adoption of Accounting Pronouncements

In February 2016, the FASB issued ASC 842, Leases. The FASB retained a dual model that includes financing 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 is 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 Network adopted this new accounting standard in fiscal year 2020.

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. The Network adopted this new accounting standard in fiscal year 2020.

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 adopted this new accounting standard in fiscal year 2020.

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 adopted this new accounting standard in fiscal year 2020. Under ASU 2016-08, the Network has made the policy election to exclude cash equivalents from the restricted cash presentation on the Consolidated Statement of Cash Flows.

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

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

Notes to Consolidated Financial Statements

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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. The Network adopted this new accounting standard in fiscal year 2020, applying the changes to all periods presented. ASC 715 changes the presentation of net periodic pension cost by requiring components other than service costs to be presented outside of the operating indicator.

Certain amounts in the prior year were reclassified to conform to the presentation requirements under accounting standards adopted in the current fiscal year.

Recent Accounting Pronouncements

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 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.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 above 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 net assets with donor restrictions.

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.
- Realized gain on sale of investments is included within realized gains on investments within the statement of operations.
- Net unrealized gains (losses) on investments are included within nonoperating change in unrealized gains on investments.

	2020	2019
Interest and dividend income	\$ 17,619,841	\$ 15,200,149
Realized gains on investments	6,708,069	33,341,436
Net unrealized gains (losses) on investments	5,492,039	(11,058,744)

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

Inventories of supplies are composed of medical supplies and pharmaceuticals, and are recorded at the lower of cost or net realizable value using the first-in, first-out method.

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 finance 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.

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.

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

Notes to Consolidated Financial Statements

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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.

Under ASC 280-10-50-1, "Segment Reporting," an "operating segment" is defined as a component of an entity that has all of the following characteristics:

- a. it engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other companies of the same entity);
- b. its operating results are regularly reviewed by the enterprise's chief operating decision maker ("CODM") in order to make decisions about resources to be allocated to the segment and assess its performance; and
- c. It has discrete financial information available.

Based on the guidance outline above, Management has determined that one operating segment exists. This determination was reached based on the following (in order of the literature above):

- a. St. Luke's engages in similar business activities relating to patient care at all locations, incurring similar revenues and expenses.
- b. Results are reviewed at a Corporate, consolidated level by the CODM in order to make decisions about resources to be allocated to the Company and assess its performance. These resources are then further allocated by someone other than the CODM to the components that fall under Corporate;
- c. The Company has discrete financial information available.

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.

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 2.58% and 2.58%, respectively, in 2020 and 4.35% and 4.35%, respectively, in 2019. 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 2.58%.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 1.8%) 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.

Net assets with donor restrictions

Net assets with donor restrictions include assets whose use by the Network has been limited by donors to a specific time period or purpose.

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 with restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires or the purpose restriction is accomplished, previously restricted net assets are reclassified as net assets without restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts, grants and bequests in the accompanying consolidated financial statements.

(Deficiency) Excess of Revenues Over Expenses

The (deficiency) excess of revenues over expenses (the performance indicator), consistent with industry practice, includes all revenues, expenses, and net gains and losses for the reporting period classified as without donor restrictions. Net assets released from restriction to fund capital purchases and certain pension liability adjustments are reported outside the performance indicator.

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 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

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 \$3.76 million and \$3.87 million at June 30, 2020 and June 30, 2019, respectively, 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, 2020.

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.

Swap Contracts

The Network follows accounting guidance on derivative financial instruments based on whether the derivative instrument meets the criteria for designation as a cash flow or fair value hedge. The criteria for designating a derivative as a hedge includes the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. At June 30, 2020 and 2019, both of the Network's derivative financial instruments are interest rate swap agreements accounted for as a nonoperating change in fair market value of derivatives. These swap agreements are recorded at fair value and the change in value is included in interest rate swap agreements on the statement of operations.

The value of interest rate swap agreements entered into by the Network are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. Entering into interest rate swap agreements involves elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Consolidated Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. The Network does not hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty.

Leases

Effective July 1, 2019, the Network accounts for leases in accordance with ASC 842. In accordance with ASC 842, the Network determines if an arrangement is or contains a lease at contract inception and recognizes an asset and a lease liability at the lease commencement date. Contract terms determine if a lease will be accounted for as an operating or finance lease.

For Operating leases, the lease liability is measured at the present value of the unpaid lease payments. The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense is recognized on a straight-line basis over the lease term.

For finance leases, the lease liability is initially measured in the same manner as operating leases and is subsequently measured at amortized cost using the effective-interest method. The asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or lease term, unless the lease transfers ownership to the

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Network. Amortization of the asset and interest expense of the lease liability are recognized and presented separately.

The Network has elected not to recognize ROU assets and lease liabilities for short term leases that have a term of twelve month or less and recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

Several key estimates and judgments are used to determine the ROU assets and operating lease liabilities including the discount rate used to discount the unpaid lease payments to present value, lease term and lease payments ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. The incremental borrowing rate is the rate of interest the Network would have to pay to borrow an amount equal to the lease payments under similar terms and conditions.

3. Revenue Recognition and Accounts Receivable

The Network recognized revenue from contracts with customers in accordance with ASC 606. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

Net Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which St Luke's expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, The Network bills its patients and third-party payors a few days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by The Network. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Network believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care and subacute care services or patients receiving multiple scheduled services in our outpatient departments. The Network measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when there are no further services required for the patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Network does not believe it is required to provide additional goods or services to the patient.

Because all of its patient service performance obligations relate to contracts with a duration of less than one year, the Network has elected to apply the optional exemption provided in ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The

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performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Network determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Network's policy, and implicit price concessions provided to uninsured patients. The Network determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Fixed discounts are by legislative statute in the case of Medicare and Medicaid, and negotiated in the case of commercial payors. The Network determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a payer specific approach. This approach is being used as the Network has a large volume of similar contracts with similar classes of customers. Management's judgment to group the contracts by payer is based on the payment behavior expected in each payer category. The Network reasonably expects that the effect of applying a payer approach to a group of contracts would effectively consider each contract separately.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. No significant amounts of revenues were recognized in the current year due to changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's or third party payor's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and was not significant for the years ended June 30, 2020 and 2019.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors is discussed in Footnote 8.

The Network is paid prospectively based upon negotiated rates for commercial insurance carriers and predetermined rates per discharge for Medicaid and Medicare program beneficiaries.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Network's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Network and its Affiliates. In addition, the contracts the Network and its Affiliates have with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Network historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the

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uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

During the year ended June 30, 2020, St Luke's received final audits for Medicare cost report years 2015 and 2016. As of June 30, 2020, the Network has Medicare cost report years 2012, 2013, 2014, 2017, 2018, 2019 and 2020 open.

The Network has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Network expects to collect based on its collection history with those patients. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Network does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to \$46,429,986 and \$42,302,000 for the years ended June 30, 2020 and 2019, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Network total expenses divided by gross patient service revenue.

The composition of net patient care service revenue by primary payor for the years ended June 30 is as follows:

	2020		2019	
Financial Statements				
Medicare/Medicare MCO	\$ 814,875,058	38.44%	\$ 812,217,142	39.09%
Blue Cross	540,983,329	25.52%	565,021,721	27.19%
Commercial / HMO	503,691,938	23.76%	503,399,106	24.23%
Medicaid / Medicaid MCO	201,815,016	9.52%	165,949,311	7.99%
Other	34,089,510	1.61%	24,810,392	1.19%
Self Pay	24,271,053	1.15%	6,335,949	0.30%
	\$ 2,119,725,904		\$ 2,077,733,621	

Revenue from patient's deductibles and coinsurance is included in the preceding categories based on the primary payor.

The Network has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Network expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Network does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Other Revenue

Other revenues consist principally of grants and contribution revenue, program income, cafeteria income, nursing school and medical school tuition, and rental income. For the majority of its grants, the Network has determined that there is not exchange back to the granting authority.

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Therefore, the Network accounts for these grants under the contribution model, which is outside the scope of ASC 606 and revenue is recognized as conditions have been met. Revenue for the services listed below is recorded in the period in which these services are performed.

	<u>2020</u>		<u>2019</u>	
Grants and Contribution revenue	\$ 4,447,504	3.7%	\$ 4,892,692	13.3%
Program income	6,496,379	5.4%	6,500,530	17.7%
Nutrition services - Cafeteria income	953,271	0.8%	5,608,027	15.3%
Nursing School & Medical School Tuition	5,516,539	4.6%	4,839,670	13.2%
Rental income	3,733,778	3.1%	4,170,792	11.3%
Clinical Trials	3,004,917	2.5%	3,328,444	9.1%
Quality Based initiatives	3,668,526	3.1%	3,095,065	8.4%
Other	1,981,864	1.7%	2,015,539	5.5%
Covid 19 - Cares Act Stimulus Funds	85,428,449	71.4%	-	0.0%
Gain on insurance captive	3,647,862	3.0%	1,464,814	4.0%
Interest income	836,617	0.7%	833,625	2.3%
Other revenue	<u>\$ 119,715,706</u>	<u>100.0%</u>	<u>\$ 36,749,198</u>	<u>100.0%</u>

4. Contributions Received

Recently adopted accounting pronouncement. 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". The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are conditional or unconditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. Once a contribution is determined to be unconditional, the determination of whether there is a donor-imposed restriction can be made. This ASU modifies the simultaneous release option currently in GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns. There was no significant impact on the Consolidated Financial Statements.

The Network receives contributions in the form of conditional government grants and other conditional donor contributions in the form of estates and trusts. The grants are carried out for research activities that benefit the general public, and not for the government's own use. The grants are considered conditional due to the requirement of spending the awarded funds on qualifying expenses and a right of return exists for unexpended funds. The grants are reimbursed after the expenses have been incurred. As of June 30, 2020, the Network had no conditional contributions for which the condition had not been met.

5. 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

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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.

6. 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 \$500,000 per depositor.

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 mix of receivables from patients and third-party payors at June 30, 2020 and 2019 was as follows:

	2020	2019
Medicare	19.7 %	20.2 %
Medical Assistance	7.9 %	7.5 %
Commercial	61.1 %	59.6 %
Self pay (includes balances of patients filing for Medicaid eligibility, but not yet approved)	11.3 %	12.7 %
	<u>100.0 %</u>	<u>100.0 %</u>

7. 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

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services. Additionally, the Network provides services through the emergency room and clinics at a substantial loss.

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 \$45,583,689 and \$83,694,270 in 2020 and 2019, respectively. The costs incurred to provide such care is determined using a cost to charge ratio and were approximately \$5,300,000 and \$10,000,000 for 2020 and 2019, respectively.

8. Third-Party Agreements

For the years ended June 30, 2020 and 2019, 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.

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 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. The New Jersey Medicaid program also reimburses St. Luke's Warren Hospital for inpatient services on a prospective basis similar to the Pennsylvania program; however, outpatient services (other than those that are paid under a Medicaid managed care plan) are paid based on an interim ratio of cost to charges and reconciled to actual cost less 5.8% operating costs and 10% capital costs via a cost report.

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

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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 2019, 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 patient revenue for fiscal year 2011. The cost of the assessment due to the state was \$28,719,586 and \$26,733,725 in 2020 and 2019, respectively and are reflected within net patient service revenue. The Network recognized additional net patient service revenue of \$19,607,143 and \$16,552,720 for the years ended June 30, 2020 and 2019, respectively, from the Pennsylvania Medicaid Modernization program.

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.

Included in net patient service revenue are changes in liability adjustments from third party payors with an overall net favorable adjustment of \$3,745,784 for 2020 as compared to a favorable adjustment of \$7,673,992 for 2019.

9. 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.
- 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.

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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.

The Network investment portfolio on the balance sheet includes:

	2020	2019
Current investments	\$ 163,651,030	\$ 197,921,758
Assets limited as to use		
Funds held by trustee	7,417,871	579,860
Funds held under bond indenture	806	6,604,547
Board designated funds	697,488,623	384,966,321
Investments restricted as to use	<u>95,287,807</u>	<u>88,781,756</u>
Total current and noncurrent investments	<u>\$ 963,846,137</u>	<u>\$ 678,854,242</u>
Premier investment (included in other assets)	<u>\$ 20,006,486</u>	<u>\$ 19,401,564</u>

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Financial instruments carried at fair value as of June 30, 2020 and 2019 are as follows:

	June 30, 2020			
	Quoted Prices in Active (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)	Total Fair Value
Investments				
Cash equivalents & money market funds	\$ 205,315,203	\$ -	\$ -	\$ 205,315,203
Government securities	64,061,697	-	-	64,061,697
Corporate bonds	108,733,003	-	-	108,733,003
Common & preferred stock	2,721,440	-	-	2,721,440
Mutual funds	583,014,794	-	-	583,014,794
Total investments	<u>\$ 963,846,137</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 963,846,137</u>
Deferred compensation plan assets				
Mutual funds	<u>\$ 43,832,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,832,611</u>
Premier Class B Common Units				
Domestic Stock Equivalent	<u>\$ -</u>	<u>\$ 20,006,486</u>	<u>\$ -</u>	<u>\$ 20,006,486</u>
Derivative financial instruments				
Interest rate swaps-liability	<u>\$ -</u>	<u>\$ 97,785,332</u>	<u>\$ -</u>	<u>\$ 97,785,332</u>
	June 30, 2019			
	Quoted Prices in Active (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)	Total Fair Value
Investments				
Cash equivalents & money market funds	\$ 8,598,828	\$ -	\$ -	\$ 8,598,828
Government securities	45,779,131	-	-	45,779,131
Corporate bonds	107,292,237	-	-	107,292,237
Common & preferred stock	14,974,664	-	-	14,974,664
Mutual funds	502,209,382	-	-	502,209,382
Total investments	<u>\$ 678,854,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 678,854,242</u>
Deferred compensation plan assets				
Mutual funds	<u>\$ 38,145,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,145,857</u>
Premier Class B Common Units				
Domestic Stock Equivalent	<u>\$ -</u>	<u>\$ 19,401,564</u>	<u>\$ -</u>	<u>\$ 19,401,564</u>
Derivative financial instruments				
Interest rate swaps-liability	<u>\$ -</u>	<u>\$ 67,175,340</u>	<u>\$ -</u>	<u>\$ 67,175,340</u>

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10. 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 AdaptHealth, 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.

St. Luke's Health Network holds a 50% equity interest in GSL Consolidated (Hospital and Physician Group). The investment has been accounted for under the equity method of accounting. As of June 30, St. Luke's Health Network reported an investment in GSL of \$36,083,171 and \$18,579,212 for 2020 and 2019, respectively. St. Luke's proportionate share of the loss in the amount of \$11,248,195 and \$536,940 are reported within the loss from equity method investments on the statement of operations for the years ended June 30, 2020 and 2019, respectively.

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 \$56,021,404 and \$39,214,583 for the years ended June 30, 2020 and 2019, respectively, are included in Investments in joint ventures on the consolidated balance sheets.

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11. Property and Equipment

Property and equipment and related accumulated depreciation at June 30, 2020 and 2019 consisted of the following:

	2020	2019
Land	\$ 119,481,732	\$ 116,102,186
Buildings and improvements	1,157,189,033	992,089,054
Equipment	1,166,908,329	1,113,432,815
Parking garage	<u>26,812,227</u>	<u>26,812,227</u>
Total property, plant, & equipment, gross	2,470,391,321	2,248,436,282
Less: Accumulated depreciation	<u>1,396,600,454</u>	<u>1,311,714,428</u>
Total property, plant & equipment, net	1,073,790,867	936,721,854
Construction-in-progress (CIP)	<u>50,189,803</u>	<u>161,263,127</u>
Total property, plant & equipment, net and CIP	<u>\$ 1,123,980,670</u>	<u>\$ 1,097,984,981</u>

Depreciation expense was approximately \$112,524,349 and \$100,605,800 for the years ended June 30, 2020 and 2019, respectively. Interest that was capitalized was approximately \$4,066,640 and \$5,040,753 for the years ended June 30, 2020 and 2019, respectively.

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12. Long-Term Debt

Long-term debt at June 30, 2020 and 2019 consisted of the following:

	2020	2019
Hospital Revenue Bonds, Series 2010A, 2010B, 2010C, issued by Northampton County General Purpose Authority, net of unamortized premium	\$ -	\$ 17,394,903
Hospital Revenue Bonds, Series 2013A & 2013B, issued by Northampton County General Purpose Authority, net of unamortized premium	24,274,209	64,290,225
Hospital Refunding Bonds, Series 2013, issued by New Jersey Health Care Facilities Financing Authority, net of unamortized premium	38,887,870	38,949,628
Hospital Revenue Bonds - Series 2015A, issued by Pocono Mountains Industrial Park Authority, net of unamortized premium	84,110,330	84,268,419
Hospital Revenue Bonds, Series 2016A, issued by Northampton County General Purpose Authority, net of unamortized premium	240,157,263	245,615,186
Hospital Revenue Bonds, Series 2018A & 2018B, issued by Northampton County General Purpose Authority, net of unamortized premium	151,382,393	151,430,062
Hospital Revenue Bonds, Series 2018C, issued by Northampton County General Purpose Authority, net of unamortized premium	60,880,000	60,880,000
Hospital Revenue Bonds, Series 2012, issued by Carbon County General Purpose Authority, net of unamortized premium	-	1,190,000
Hospital Revenue Bonds, Series 2015, issued by Carbon County General Purpose Authority, net of unamortized premium	-	19,571,392
Hospital Revenue Bonds, Series 2017B, issued by Lehigh County General Purpose Authority, net of unamortized premium	61,995,000	62,915,000
Hospital Revenue Bonds, Series 2019, issued by Bucks County Industrial Development Authority, net of unamortized premium	109,086,959	-
Hospital Revenue Bonds, Series 2020, issued by Northampton County General Purpose Authority, net of unamortized premium	89,555,000	-
TD Bank, N.A. and BB&T Notes Payable	-	39,315,000
TD Bank, N.A. Notes Payable	45,245,698	47,441,494
Wells Fargo Equipment Finance, Inc.	149,617	1,406,937
Bank of America Loans	18,582,390	25,041,833
Fulton Bank	50,000,000	-
TD Bank Blue Mountain Bridge Loan	23,270,453	-
77 South Commerce	18,988,556	19,327,284
Various notes and mortgage notes payable at various interest rates	2,615,907	3,975,220
Deferred Financing Costs	(9,565,023)	(8,882,936)
	<u>1,009,616,622</u>	<u>874,129,647</u>
Less: Current portion	<u>20,679,552</u>	<u>26,167,269</u>
	<u>\$ 988,937,070</u>	<u>\$ 847,962,378</u>

Effective interest rates on fixed debt obligations range from 4.0% - 5%, and 1.93% - 3.70% on variable rate obligations.

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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
2021	24,646,505
2022	22,870,802
2023	18,212,167
2024	17,797,426
2025	18,268,247
2026	18,016,591
Thereafter	<u>859,965,884</u>
	979,777,622
Less: Amount of unamortized bond discount/premium/imputed interest	<u>(29,839,000)</u>
	<u>\$ 1,009,616,622</u>

The Network reported long-term debt of \$988,937,070 and \$847,962,378 for years ended June 30, 2020 and 2019, 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.

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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.

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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.

Hospital Revenue Bonds, Series 2018C

On October 1, 2018 the Pocono Mountains Industrial Park Authority issued \$60,880,00 aggregate principal amount of Hospital Revenue Bonds, Series 2018C (St. Luke's University Health Network Project) (Federally Taxable) (The Series 2018C Bonds).

The proceeds of the series 2018C Bonds were used by St. Luke's and other members of the Network to: provide working capital, finance the purchase of equipment and other capital improvements and finance the payment of the cost of issuance of the series 2018C Bonds.

Hospital Revenue Bonds, Series 2017B Bonds

On September 20, 2017 the Lehigh County General Purpose Authority issued \$63,820,000 Hospital Revenue Bonds, Series 2017B; the Bonds are issued under and initially entitled to the security of the Trust Indenture dated as of December 1, 2017 between the issuer and The Bank of New York Mellon Trust Company, N.A., as trustee. The Authority and the trustee entered into the First Supplemental Trust Indenture dated January 1, 2019.

The purpose of the 2017B Bonds is to provide funds for a project consisting of the redemption and retirement of a portion of the outstanding Lehigh County General Purpose Authority Revenue Bonds, Series 2007 (St. Luke's Hospital Project) and the payment of certain costs of issuance of the Bonds.

Hospital Revenue Bonds, Series 2019 Bonds

On September 1, 2019 The Bucks County Industrial Development Authority issued \$103,855,000 aggregate principal amount of Hospital Revenue Bonds. The 2019 Bonds are issued under that certain Loan and Trust Agreement, dated as of September 1, 2019 between the Authority and the Bank of New York Mellon Trust Company as trustee. The proceeds of the Bonds will be loaned to St Luke's Hospital, St Luke's Hospital Anderson Campus and St Luke's Hospital Quakertown Campus for the purpose of the reimbursement and financing of the construction, acquisition, renovation and installation of capital improvements or the acquisition and installation of equipment in the facilities.

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Interest on the series 2019 Bonds will accrue at a fixed rates and will be payable on each February 15 and August 15, commencing on February 15, 2020. Interest on the Series 2019 Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The Series 2019 Bonds are subject to redemption prior to their maturity.

Hospital Revenue Bonds, Series 2020 Bonds

On June 15, 2020 the Northampton County General Purpose Authority issued \$89,555,000 of its Hospital Revenue Bonds. The \$89,555,000 Northampton County General Purpose Authority Hospital Revenue Bonds, consisting of Part C \$3,215,000 aggregate principal amount of Hospital Revenue Bonds, Part D, \$9,705,000 aggregate principal amount of Hospital Revenue Bonds, Part E \$40,210,000 aggregate principal amount of Hospital Revenue Bonds and part F \$36,425,000 aggregate principal amount of Hospital Revenue Bonds. The Bank of New York Mellon Trust Company serves as the trustee and Truist Bank as the lender.

The funds were used for the redemption of 2013 B Bonds, the 2017 A Bonds and the remaining balance of the 2010 Bonds.

13. Derivative Financial Instruments

At June 30, 2020 and 2019, the Network had entered into two interest rate swaps to manage its interest rate risk. The swap agreements pay interest at fixed rates and receive interest at variable rates. The notional amount of swap agreements was \$245 million as of June 30, 2020 and \$249 million as of June 30, 2019, respectively. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative agreements, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Network also incorporates credit valuation adjustments to appropriately reflect its own credit (risk of loss due to nonpayment) and nonperformance risk (the risk the obligation will not be fulfilled), as well as the credit and nonperformance risk of the counterparty. In adjusting the fair value of the derivative contracts for the effect of nonperformance risk, the Network has considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

The following table outlines the terms and fair values of the interest rate swap agreements that are included in the Consolidated Balance Sheets as of June 30, 2020 and 2019:

	Swap 1	Swap 2
Notional amount at June 30, 2020	\$ 148,450,000	\$ 96,355,000
Effective date	2/21/2007	2/21/2007
Termination date	8/15/2042	8/15/2033
Fixed rate	4.65%	4.56%
Fair value at June 30, 2019	\$ (49,067,308)	\$ (18,108,032)
Unrealized losses	<u>(24,509,543)</u>	<u>(6,100,449)</u>
Fair value at June 30, 2020	<u>\$ (73,576,851)</u>	<u>\$ (24,208,481)</u>

The Network pays fixed rates ranging from 4.56% to 4.65% and receives cash flows based upon percentages of LIBOR, ranging from 2.05% to 2.71%.

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The following tables outline the location and effect of the Network's derivative instruments in the accompanying Consolidated Balance Sheets and Statements of Operations for the years ended June 30:

	Derivatives reported as liabilities			
	2020		2019	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps	Swap contracts	<u>\$ 97,758,332</u>	Swap contracts	<u>\$ 67,175,340</u>
			Amount of (loss) gain recognized in change in net assets	
			2020	2019
Classification of derivative (loss) gain in Statement of Operations and Changes in Net Assets			<u>\$ (30,609,992)</u>	<u>\$ (18,685,702)</u>

The Hospital's derivative instruments contain provisions that require the Hospital to maintain minimum credit ratings from the major credit rating agencies. If the Hospital's rating were to fall below the minimums established, the counterparties to the derivative agreements could demand immediate posting of collateral or termination of the instruments and payment of the derivative agreements in liability positions. No collateral has been required to be posted.

For the years ended June 30, 2020 and 2019, the Hospital incurred and paid interest costs of approximately \$6.0 million and \$4.8 million, respectively.

14. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30, 2020 and 2019:

	2020	2019
Purchase of property and equipment	\$ 7,210,420	\$ 7,351,091
Health education	31,118,922	21,128,628
Research and development	451,861	455,141
Unrealized gains on restricted net assets for health care services	<u>24,626,266</u>	<u>24,166,663</u>
	<u>\$ 63,407,469</u>	<u>\$ 53,101,523</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as other operating and nonoperating income)	\$ 50,879,846	\$ 48,773,527

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Endowments

The Network's endowment consists of approximately \$53,846,148 individual donor restricted endowment funds and \$2,596,705 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 net assets with restrictions, (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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
- (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, 2020 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 53,846,148	\$ 53,846,148
Board-designated endowment funds	<u>2,596,705</u>	<u>-</u>	<u>2,596,705</u>
	<u>\$ 2,596,705</u>	<u>\$ 53,846,148</u>	<u>\$ 56,442,853</u>

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Endowment net asset composition by type of fund as of June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 51,067,902	\$ 51,067,902
Board-designated endowment funds	<u>105,709,387</u>	<u>-</u>	<u>105,709,387</u>
	<u>\$ 105,709,387</u>	<u>\$ 51,067,902</u>	<u>\$ 156,777,289</u>

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	<u>\$ 105,709,387</u>	<u>\$ 51,067,903</u>	<u>\$ 156,777,290</u>
Investment return			
Investment income	262,348	3,016,987	3,279,335
Net depreciation (realized and unrealized)	<u>(9,926,744)</u>	<u>817,847</u>	<u>(9,108,897)</u>
Total Investment return	(9,664,396)	3,834,834	(5,829,562)
Gifts	15,156	1,292,679	1,307,835
Income released to general fund for operations		(1,529,652)	(1,529,652)
Transfer balance of net depreciation			
Transfer balance to funded depreciation	<u>(93,463,442)</u>	<u>(819,616)</u>	<u>(94,283,058)</u>
Endowment net assets, end of year	<u>\$ 2,596,705</u>	<u>\$ 53,846,148</u>	<u>\$ 56,442,853</u>

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	<u>\$ 97,925,511</u>	<u>\$ 46,600,085</u>	<u>\$ 144,525,596</u>
Investment return			
Investment income	3,055,599	3,363,475	6,419,074
Net depreciation (realized and unrealized)	<u>4,632,056</u>	<u>2,263,964</u>	<u>6,896,020</u>
Total Investment return	7,687,655	5,627,439	13,315,094
Gifts	96,221	2,425,248	2,521,469
Income released to general fund for operations	-	(1,702,739)	(1,702,739)
Transfer balance of net depreciation	<u>-</u>	<u>(1,882,130)</u>	<u>(1,882,130)</u>
Endowment net assets, end of year	<u>\$ 105,709,387</u>	<u>\$ 51,067,903</u>	<u>\$ 156,777,290</u>

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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	\$ 50,645,840
Mortgage Endowment	<u>234,006</u>
Total endowment assets classified as Net assets with donor restrictions	<u>\$ 50,879,846</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 part of net assets with donor restrictions. Deficits of this nature reported in net assets with donor restrictions were \$0 as of June 30, 2020 and 2019.

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.

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.

15. Leases

The Network leases certain medical buildings, offices and equipment used in its operations. The Network has incurred finance lease liabilities totaling \$2.4 million as of June 30, 2020. Finance

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lease liabilities and their related assets are omitted from the disclosures below. The remaining lease term of all leases range from one month to sixty-six years.

At June 30, 2020, operating lease ROU assets and liabilities totaled \$173.9 million and \$175.9 million, respectively. The current portion of operating lease liabilities totaling \$26.2 million is included in current portion of operating lease obligations on the Consolidated Balance Sheet at June 30, 2020. The long-term portion, totaling \$149.7 million, is included in long-term operating lease obligations on the Consolidated Balance Sheet at June 30, 2020.

Prior to the adoption of ASC 842, operating lease rental expense was \$31,819,489 for the year ended June 30, 2019.

The components of the lease cost for the year ended June 30, 2020 were as follows:

Finance lease cost	
Amortization of leased assets	\$ 302,797
Interest on lease liabilities	158,745
Operating lease cost	34,498,173
Short-term lease cost	<u>4,818,905</u>
Total lease cost	<u>\$ 39,778,620</u>

Other information related to leases as of June 30, 2020 was as follows:

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow for operating leases	\$ 32,520,260
Right of use assets obtained in exchange for new operating lease liabilities	\$ 202,477,161

Weighted average remaining lease term 9.5 years

Weighted average discount rate 3.29%

Future maturities of operating lease liabilities as of June 30, 2020 are as follows:

2021	\$ 32,251,591
2022	27,511,175
2023	22,352,719
2024	21,196,753
2025	18,515,018
Thereafter	<u>87,116,302</u>
Total undiscounted future lease payments	208,943,558
Less: Present value discount	<u>(33,029,004)</u>
Discounted future lease payments	<u>\$ 175,914,554</u>

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As of June 30, 2019, prior to the adoption of ASC 842, the annual and total future minimum lease payments under noncancelable operating leases were as follows:

2020	\$ 33,764,336
2021	29,732,355
2022	24,682,574
2023	20,086,914
2024	18,967,286
Thereafter	<u>92,986,767</u>
Total minimum payments	<u>\$ 220,220,232</u>

16. Functional Expenses

The Network provides general health care services to residents within its geographic location. Health care services include functional services such as critical care, trauma and emergency medicine, surgery, cancer and blood disorders, allergy and immunology, autism, cardiology, pain management, nutrition, radiology, pulmonology, rheumatology, and psychiatry. The Network reports certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated based on the natural account and the rate from the cost report. Expenses related to providing these services for the year ended June 30 are as follows:

	<u>Year ended June 30, 2020</u>		
	Healthcare Services	General and Administrative Services	Total
Operating expenses			
Salaries and employee benefits	\$ 1,184,386,116	\$ 115,198,406	\$ 1,299,584,522
Purchased Services	148,434,261	14,437,344	162,871,605
Supplies and other	568,837,754	55,327,567	624,165,321
Depreciation and amortization	105,836,955	10,294,150	116,131,105
Interest	<u>33,291,901</u>	<u>3,238,111</u>	<u>36,530,012</u>
Total Operating expenses	<u>\$ 2,040,786,987</u>	<u>\$ 198,495,578</u>	<u>\$ 2,239,282,565</u>
	<u>Year ended June 30, 2019</u>		
	Healthcare Services	General and Administrative Services	Total
Operating expenses			
Salaries and employee benefits	\$ 1,060,773,277	\$ 117,139,378	\$ 1,177,912,655
Purchased Services	134,405,214	14,842,138	149,247,352
Supplies and other	524,883,365	57,961,972	582,845,337
Depreciation and amortization	92,931,398	10,262,255	103,193,653
Interest	<u>29,018,011</u>	<u>3,204,409</u>	<u>32,222,420</u>
Total Operating expenses	<u>\$ 1,842,011,265</u>	<u>\$ 203,410,152</u>	<u>\$ 2,045,421,417</u>

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17. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at June 30, 2020:

	2020
Cash and cash equivalents	\$ 315,796,451
Short term investments	163,651,030
Other unrestricted investments	697,488,623
Patient accounts receivable, net	181,103,651
Due from others, current portion	31,681,446
Assets whose use is limited	
By donors or grantors for:	
Pledges receivable	19,026,762
Other assets	<u>20,006,486</u>
	<u>\$ 1,428,754,449</u>

The table below represents financial assets available for general expenditures within one year at June 30, 2019:

	2019
Cash and cash equivalents	\$ 100,693,579
Short term investments	197,921,758
Other unrestricted investments	384,966,321
Patient accounts receivable, net	207,714,461
Due from others, current portion	16,959,148
Assets whose use is limited	
By donors or grantors for:	
Pledges receivable	13,120,709
Other assets	<u>19,401,564</u>
	<u>\$ 940,777,540</u>

The Network has certain board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year.

As part of the Network's liquidity management plan, cash in excess of daily requirements is invested in short-term and long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due.

As of June 30, 2020, the Network was in compliance with financial covenants.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

18. Pension Plan

Defined Benefit Plan

The Network entities 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.

The Network began a process of de-risking the defined benefit retirement plan during the fiscal year ended June 30, 2019. During fiscal year 2019, the System entered into several definitive agreements with insurance companies, which included the purchases of single premium group annuity contracts. Accordingly, the insurance companies assumed the obligation to make future annuity payments to retirees in amounts equal to the individual's pension benefit.

In connection with a redesign of the network's 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.

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.

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:

Years of Service	% of Annual Salary
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 \$57,586,087 for the year ended June 30, 2020. This liability is included in accrued compensation payable on the 2020 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.

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Pension Plan Financial Components

The net pension cost for all Plans and Plan participants during the years ended June 30, 2020 and 2019, includes the following components:

	2020	2019
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 667,959,050	\$ 648,659,590
Interest cost	24,299,008	27,706,367
Plan settlements	(97,239)	(49,343,764)
Benefits paid	(21,261,816)	(24,760,507)
Actuarial loss (gain)	<u>59,539,299</u>	<u>65,697,364</u>
Benefit obligation at end of year	<u>\$ 730,438,302</u>	<u>\$ 667,959,050</u>

	2020	2019
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 647,573,689	\$ 634,089,014
Actual return on plan assets	107,677,200	76,474,182
Employer contributions	97,239	11,114,764
Plan settlements	(97,239)	(49,343,764)
Benefits paid	<u>(21,261,816)</u>	<u>(24,760,507)</u>
Fair value of plan assets at end of year	<u>\$ 733,989,073</u>	<u>\$ 647,573,689</u>
Unfunded status at end of year	\$ 3,550,771	\$ (20,385,361)

Amounts recognized in the Consolidated Balance Sheets consist of:

	2020	2019
Current liabilities	\$ (48,708)	\$ (97,242)
Noncurrent liabilities	<u>3,599,479</u>	<u>(20,288,119)</u>
Net amount recognized in statement of financial position	<u>\$ 3,550,771</u>	<u>\$ (20,385,361)</u>

Amounts recognized in unrestricted net assets consist of:

	2020	2019
Unrecognized net loss (gain)	<u>\$ 127,538,506</u>	<u>\$ 149,802,131</u>
Accumulated other comprehensive income	<u>\$ 127,538,506</u>	<u>\$ 149,802,131</u>

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

	2020	2019
Projected benefit obligation	\$ 1,616,000	\$ 667,959,050
Accumulated benefit obligation	1,616,000	667,959,050
Fair value of plan assets	N/A	647,573,689

St. Luke's Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
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Components of net periodic benefit cost and other amounts recognized in unrestricted net assets:

	2020	2019
Total pension benefit cost		
Interest cost	\$ 24,299,008	\$ 26,783,998
Expected return on plan assets	(28,635,529)	(30,878,471)
Amortization of net (gain) loss	2,745,001	3,021,352
Settlement loss recognized	16,252	11,001,231
Net periodic benefit cost	<u>\$ (1,575,268)</u>	<u>\$ 9,928,110</u>

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

	2020	2019
Net (gain) loss	\$ (19,502,372)	\$ 21,421,714
Amortization of loss (gain)	<u>(2,761,253)</u>	<u>(14,022,583)</u>
Total recognized in unrestricted net assets	<u>(22,263,625)</u>	<u>7,399,131</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (23,838,893)</u>	<u>\$ 17,327,241</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 \$1,863,047, \$0 and \$0, respectively.

Weighted-average assumptions used to determine benefit obligations:

	2020	2019
Discount rate	3.04 %	3.74 %
Rate of compensation increase	N/A	N/A

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

	2020	2019
Expected long-term return on plan assets	4.50 %	5.25 %
Discount rate	3.70 %	4.35 %
Discount rate - Blue Mountain	N/A	4.03 %

Plan Assets

The St. Luke's Pension Plans weighted-average asset allocations at June 30, 2020 and 2019, by asset category, are as follows:

Asset Category	Plan Assets at June 30	
	2020	2019
Equity securities	8 %	14 %
Debt securities	92	86
	<u>100 %</u>	<u>100 %</u>

St. Luke’s Health Network, Inc. and Controlled Entities
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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
Contributions

The network expects to contribute \$48,708 to its pension plans in the 2021 fiscal year.

Estimated Future Benefit Payments

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

2021	\$ 24,696,133
2022	26,425,535
2023	28,070,996
2024	29,775,750
2025	32,500,523
2026-2030	<u>173,179,581</u>
	<u>\$ 314,648,518</u>

The following table presents the Plan’s financial instruments as of June 30, 2020, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 9:

	Quoted Prices in Active Markets (Level 1)	Total Fair Value
June 30, 2020		
Investments		
Mutual funds	<u>\$ 292,913,811</u>	<u>\$ 292,913,811</u>
Total investments	<u>\$ 292,913,811</u>	<u>\$ 292,913,811</u>

Pension Assets valued at NAV \$441,075,262

19. 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, 2020 and June 30, 2019, 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

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

Notes to Consolidated Financial Statements

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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, 2020 and 2019 was approximately \$50,209,147 and \$45,077,580 and was estimated using a discount rate of 4.25% and 4.25%, respectively. The discount for Class A and Class B subscribers was \$7,074,696 and \$6,936,753 for June 30, 2020 and 2019, respectively.

St. Luke's Health Network has recorded a receivable as of June 30, 2020 of \$26,346,563 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, 2019 of \$22,002,427 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 2020 covers claims above \$500,000 per medical incident up to \$2,500,000 aggregate per hospital/insured physician 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 \$10,700,366 and \$8,990,915 for the years ended June 30, 2020 and 2019, respectively. The impact of the discount was \$1,751,358 and \$2,198,539 for the years ended June 30, 2020 and 2019, respectively.

20. 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 \$43,832,611 and \$38,145,857 for the years ended June 30, 2020 and 2019 respectively. The assets and corresponding liabilities are included within Accrued Compensation Payable.

21. Goodwill

Goodwill recorded on the consolidated statements of financial position at June 30, 2020 and 2019 totaled \$81,062,089 and \$80,195,038, respectively. The Network's goodwill consists of the excess of purchase price over the fair value of identified net assets of businesses acquired. The Network performed its annual test on April 30th and concluded that no impairment was necessary.

St. Luke’s Health Network, Inc. and Controlled Entities
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The changes in the carrying amount of goodwill for the Network for the years ended June 30, 2020 and 2019 are as follows:

Balance as of June 30, 2018	\$ 72,779,506
Goodwill additions during the year	7,415,532
Goodwill impairment during the year	<u>-</u>
Balance as of June 30, 2019	80,195,038
Goodwill additions during the year	867,051
Goodwill impairment during the year	<u>-</u>
Balance as of June 30, 2020	<u>\$ 81,062,089</u>

22. COVID-19 Pandemic

In January 2020, the World Health Organization declared the novel strain of coronavirus (“COVID19”) a Public Health Emergency of International Concern. The COVID-19 pandemic has caused a disruption to our nation’s healthcare system. Such disruption includes reduction in availability of staffing and reductions in the availability of personal protective equipment to prevent spread of the disease during patient treatment. During the initial stages of the COVID-19 outbreak in the Lehigh Valley region in March 2020, and for several months thereafter, elective procedures were postponed in order to prepare for the increased volume of COVID-19 patients and reduce the risk of exposure to COVID-19. The Network continues to monitor developments and the directives of federal, state and local officials to determine what ongoing precautions, procedures, and protocols need to be followed by the organization. On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act), which allotted \$175 billion dollars to healthcare providers and suppliers through Medicare reimbursements, grants and other direct federal payments. As of June 30, 2020, the network received \$97,171,306 and recognized \$85,428,449, based on lost revenue calculation, of these funds within “Other revenue” on the Consolidated Statement of Operations and Changes in Net Assets. In addition, the Network received \$221,159,864 of advanced payments from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payments Program, which is recorded as Other Current Liabilities on the Consolidated Balance Sheet. Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer’s share of Social Security taxes. As of June 30, 2020, \$11,397,017 was deferred and recorded within “Accrued Salaries, Wages and Taxes” on the Consolidated Balance Sheet.

23. 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.

24. Subsequent Events

The Network has performed an evaluation of subsequent events through October 23, 2020, which is the date the financial statements were issued.

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

Notes to Consolidated Financial Statements

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On September 19, 2020, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements first require the Network and its affiliates to identify healthcare related expenses attributable to coronavirus that another source has not reimbursed. If those expenses do not exceed the funding received, the Network and its affiliates will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating income. *These new reporting requirements are considered a Type 2 subsequent event under ASC 855.*

HHS is entitled to recoup amounts received in excess of the healthcare related expenses plus the negative change in patient care operating income. Due to these new reporting requirements it is reasonably possible that amounts recorded under CARES Act provider relief fund by the Network may change in future periods.

On May 29, 2020, the Network entered into an Asset Purchase Agreement pursuant to which St. Luke's Hospital – Easton Campus, a subsidiary of SLHN, acquired substantially all of the assets of Easton Hospital from Steward Health Care of Dallas, Texas. The effective date of the agreement was July 1, 2020. The asset purchase agreement included a note payable to Steward for \$15 million. The Network recorded the assets and liabilities at FMV which resulted in a bargain purchase of \$14,464,489.

The Network has entered into a non-binding letter of intent to acquire a non-profit organization providing innovative services to address the mental health and substance abuse treatment needs of individuals in our community.

In the Continuing Appropriations Act, 2021 and Other Extensions Act (H.R. 8337), signed into law on October 1, 2020, Congress gave hospitals and other providers that received Medicare Accelerated and Advance Payments ("AAP") one year from when the first loan payment was made to begin making repayments, thus delaying the start of the repayment period from 120 days to one year from when the AAP was issued.