

TEMPLE UNIVERSITY HEALTH SYSTEM
Financial Summary
For the twelve months ended June 30, 2018

Temple University Health System

Management Discussion and Analysis

June 30, 2018

Overview

Temple University Health System (“TUHS”) reported a net income of \$28,970,000 for the twelve months ended June 30, 2018 versus a budgeted net income of \$10,995,000 and a prior year net income of \$7,365,000 for a favorable budget variance of \$17,975,000 and a favorable year-over-year variance of \$21,605,000. The reported net income includes proceeds of the approved Temple University Academic Health Center (“TU AHC”) Non Preferred Appropriation from the Commonwealth of Pennsylvania of \$6,210,000 which was equal to budget and slightly below prior year.

The quarter ended June 30, 2018 reported net income of \$62,065,000 which was a significant improvement over performance in Q1 which was a net loss of (\$13,038,000), a net loss in Q2 of (\$20,763,000) and a net income in Q3 of \$706,000. The improvement in Q4 was related to net Commonwealth funding of \$27,400,000, favorable employee medical benefits and professional liability (“PL”) expenses as well as stronger performance in population health particularly with risk arrangements, increased research revenues and stronger patient margins.

Actual versus Budget Summary

TUHS reported a net income of \$28,970,000 for the twelve months ended June 30, 2018 versus a budgeted net income of \$10,995,000 for a favorable budget variance of \$17,975,000. Total net patient service revenue saw a favorable variance to budget of \$44,587,000 and net Commonwealth funding was favorable \$21,883,000, primarily due to the release of reserves related to the fiscal year 2014 disproportionate share upper payment limit (“DSH UPL”) audit. Also contributing to the favorable variance were employee benefits (primarily medical costs) and PL expenses which were \$18,862,000 and \$19,483,000 favorable, respectively. Shortfalls in population health (primarily risk arrangement performance) (\$7,907,000) and contribution revenue (\$2,931,000) along with unfavorable variances in supplies and pharmaceuticals (\$40,360,000), salaries (\$18,862,000), faculty support (\$13,681,000) and professional fees (\$6,752,000) partially offset the favorable variances.

Healthcare Performance:

Inpatient revenues were \$22,606,000 favorable to the budget primarily due to a favorable variance of \$28,469,000 at Temple University Hospital (“TUH”). The favorable variance at TUH was the result of a positive CMI variance of \$16,541,000, the impact of seventeen outlier claims valued at \$11,912,000, favorable Medicare cost report adjustments of \$3,963,000, an increase in the valuation of in-house cases of \$1,645,000, and a favorable payer mix variance of \$2,589,000. These favorable variances were partially offset by fewer discharges (\$10,897,000). Partially offsetting the favorable variance at TUH were unfavorable variances at American Oncologic Hospital (“AOH”) (\$4,433,000) and Jeanes Hospital (“JH”), both primarily due to unfavorable volumes relative to budget.

Outpatient revenues were \$21,981,000 favorable to budget primarily due to variances of \$18,727,000 at AOH. The favorable variance at AOH was favorable volume variances of 6.6% in infusions and 0.9% in radiation therapy procedures, partially offset by unfavorable retail pharmacy revenues of (\$2,010,000) due to lower than anticipated volumes in the first half of the year.

Research revenues were (\$1,130,000) unfavorable to budget primarily due to less than anticipated performance from agency grants and contracts at AOH's Institute For Cancer Research ("ICR"). Clinical trial revenues were also unfavorable to budget due to the suspension of the Horizon grant. However, research revenue performance in comparison to budget improved in the second half of the year with a favorable variance of \$1,374,000 from January through June.

Supplies and pharmaceuticals expenses were (\$40,360,000) unfavorable to budget primarily due to variances of (\$19,205,000) at TUH and (\$18,787,000) at AOH. Approximately 41% of the TUH variance was driven by volumes and acuity. The remaining 59% was driven by unrealized budgeted supply chain savings and higher cost per case for orthopedic and neurological procedures, partially offset by favorable outpatient pharmacy expenses. The variance at AOH was driven by strong volumes in the infusion room, which were 6.6% favorable to budget.

Salaries expenses were (\$18,862,000) unfavorable to budget primarily driven by higher than budgeted average daily census particularly in the critical care units driven by higher acuity, a union agreement, and unachieved budgeted savings at TUH as well as increased patient volumes at AOH.

Faculty support expenses were (\$13,681,000) unfavorable to budget due to less than budgeted practice savings, increases in service line investments, other purchased services charges and PL expenses.

Professional fees expenses were (\$6,752,000) unfavorable to budget primarily due to unbudgeted consulting fees, coverage for unfilled information systems positions and higher than budgeted supply management charges in the operating room at TUH. Also contributing to the unfavorable variance was JH's increased physician support primarily for hospitalists, intensivist and pulmonary services and legal fees.

Insurance expense was \$19,483,000 favorable to budget due to positive development in fiscal year 2018 related to PL claims as well as the final discount rate used in the actuarial model.

Employee Benefits were \$18,277,000 favorable to budget primarily driven by employee medical costs which were favorable \$12,897,000. The favorable employee benefit medical costs were primarily a result of favorable inpatient utilization trends reflecting reductions in inpatient admissions, days, and readmissions that declined significantly year-over-year. There was also a large decrease in expenses related to high-cost claims. Also contributing to the favorable variance were pension forfeitures of \$3,800,000.

Contribution Revenue:

Contribution revenues were (\$2,931,000) unfavorable to budget due to a shortfall in contributions received relative to the budget, primarily at ICR.

Net Commonwealth Funding:

Net Commonwealth funding was \$21,883,000 favorable to budget primarily as a result of the release of reserves related to the FY 2014 DSH UPL audit in the amount of \$12,016,000. Also contributing to the favorable variance was net favorable Access to Care, HQI, Tobacco, Burn and OB/NICU Commonwealth funding of \$9,867,000.

Population Health Performance:

Population health activity consists partially of revenues earned through provider based pay-for-performance contracts coordinated by Temple Center for Population Health (“TCPH”). These agreements with third-party payers incentivize improvements in areas such as quality, utilization and cost effectiveness, chronic disease management, health and wellness, and transitions of care. TCPH pay-for-performance incentives were \$1,844,000 favorable. The second component of population health revenue is TUHS’s risk arrangements that were (\$9,751,000) unfavorable as a result of unfavorable performance tied to CY 2017 Medicare premiums. TUHS risk arrangement performance improved in calendar year 2018 (six months ending June 30, 2018) in comparison to calendar year 2017 (six months ending December 31, 2017):

	Actual	Budget	Variance
TUHS Total Risk - Six Months Ending December 31, 2017	\$ (12,054,320)	\$ 4,754,911	\$ (16,809,231)
TUHS Total Risk - Six Months Ending June 30, 2018	\$ 15,241,631	\$ 8,183,826	\$ 7,057,805

Year over Year Summary

TUHS reported a net income of \$28,970,000 for the twelve months ended June 30, 2018 compared to net income of \$7,365,000 in the prior year for a favorable variance of \$21,605,000. Included in the performance revenue from the approved Temple University Academic Health Center Non Preferred Appropriation from the Commonwealth of Pennsylvania of \$6,210,000 and \$6,229,000 for the twelve months ended June 30, 2018 and 2017, respectively. These funds are transferred to Temple University through an equity transfer.

Total net patient service revenue increased by \$133,048,000 driven by improved outpatient revenue of \$63,553,000, inpatient revenue of \$28,009,000 and gross Commonwealth funding of \$39,424,000. The increase in outpatient revenue was driven by the growth of the TUH outpatient pharmacy, including the administration of high cost specialty medications that were released at the end of fiscal year 2017, and higher outpatient volumes, gross charges and a full year of the retail pharmacy at AOH. AOH’s outpatient infusion and radiation therapy volumes increased by 4.1% and 5.0%, respectively, compared to the prior year. The increase in inpatient revenue was primarily driven by increased acuity and improved payer mix at TUH. CMI increased by .08 or 4.2% at TUH. AOH also contributed to the growth in inpatient revenue as a result of increased patient volumes. Total inpatient acute discharges at AOH were 4,304, which was 94, or 2.2% more cases than the prior year total of 4,210. Census patient days at AOH were 2.8% higher than the prior year.

Population Health revenue decreased by (\$28,075,000) primarily due to a decline in TUHS risk performance of (\$25,080,000) related primarily to CY 2017 Medicare premiums. There was also a decline in TCPH pay-for-performance incentive revenues.

Contribution revenues decreased by (\$5,489,000) due to the receipt of several large estate gifts by TUH and ICR in fiscal year 2017.

Other revenues decreased by (\$5,139,000) primarily due to a decrease in Meaningful Use incentive revenues earned as a result of timing of when milestones were achieved in Fiscal Year 2017 as well as a phasing out of the program.

Operating expenses increased by (\$81,477,000) or (4.7%) compared to the prior year period, primarily driven by supplies and pharmaceuticals, salaries, and faculty support, partially offset by lower costs attributed to the TUH implementation of the EPIC Inpatient Clinical Health Record ("EPIC") that took place in fiscal year 2017 as well as improved insurance expense. At TUH, approximately (\$9,078,000) of the (\$24,751,000) increase in supplies and pharmaceuticals expenses was due to an increase in inpatient volumes and acuity primarily driven by the growth in transplants. The remainder of the year-over-year increase primarily relates to the growth in the outpatient retail pharmacy of (\$9,353,000). At AOH, supplies and pharmaceuticals increased by (\$26,155,000) as a result of an increase in infusion volumes year-over-year as well as increases in drug costs. Increase in expense is also due to a full year of retail pharmacy activity. The increase in salaries was driven by higher patient volumes at AOH and higher acuity at TUH, partially offset by the aforementioned EPIC implementation costs. The decrease in insurance expense is a result of favorable PL claims experience and final discount rate used.

Liquidity

Liquidity at June 30, 2018 was \$399,053,000 compared to budgeted liquidity of \$338,675,000 and liquidity at June 30, 2017 of \$356,717,000. The favorable variance to budget is primarily related to lower than budgeted capital spending of \$33,728,000, increase in and timing of net Commonwealth funding of \$34,946,000 and receipt of risk arrangement distributions of \$16,469,000, partially offset by timing of payments of accrued expenses of (\$10,125,000). The favorable variance to prior year is primarily related to increase in and timing of net Commonwealth funding of \$17,045,000, receipt of risk arrangement distributions of \$16,469,000, a decrease in capital spending of \$12,235,000 and market performance of investments of \$4,562,000. These favorable variances were partially offset by repayments on the PNC line of credit (\$15,000,000). The PNC line of credit had been expanded to \$40,000,000 in June 2018 from the previous limit of \$20,000,000 primarily to help offset potential delays in Commonwealth funding receipts, however, the Health System did not have a need to draw upon this at June 30, 2018.

TEMPLE UNIVERSITY HEALTH SYSTEM
Consolidated Financial Management Report
For the twelve months ended June 30, 2018
Actual versus Budget

Temple University Health System
Key Operating Indicators
For the twelve months ended June 30, 2018

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TUHS Consolidated

	YTD Actual	%	YTD Budget	%	Variance
Patient Discharges:					
Inpatient Acute Discharges	35,514	73.6%	36,466	74.1%	(952)
Behavioral Health Discharges	2,135	4.4%	2,400	4.9%	(265)
Subtotal Acute Discharges (Med/Surg & Behavioral Hlth.)	37,649	78.0%	38,866	79.0%	(1,217)
CDU Observation Discharges	1,121	2.3%	1,216	2.5%	(95)
Non-CDU Observation Discharges	9,472	19.6%	9,105	18.5%	367
Subtotal Observation Discharges	10,593	22.0%	10,321	21.0%	272
Total Discharges including Observations	48,242	100.0%	49,187	100.0%	(945)
Births	2,488		2,724		(236)
Case Mix Index - Total	1.88		1.82		0.05
PATIENT LENGTH OF STAY - ALL EXCEPT BIRTHS					
Inpatient Acute Discharges	5.89		5.48		(0.41)
Behavioral Health LOS	20.80		17.49		(3.31)
CDU Observation LOS	1.33		1.41		0.08
Non-CDU Observation LOS	1.56		1.58		0.02
Patient Days Including Observation	269,821		257,777		12,044
Census Patient Days Including Observation Cases	271,429		258,322		13,107
Average Daily Census Including Observation	744		708		36
Staffed Beds (% Occupancy including Observations)	81.37%		77.69%		3.69%

Temple University Health System
Key Operating Indicators
For the twelve months ended June 30, 2018

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TUHS Consolidated

	YTD	%	YTD	%	Variance
	Actual		Budget		
Inpatient Acute Discharges - Payer Mix					
Medicaid	13,666	36.3%	15,326	39.4%	(1,660)
Medicare	16,935	45.0%	16,198	41.7%	737
Blue Cross	4,182	11.1%	4,786	12.3%	(604)
Managed Care	2,437	6.5%	2,370	6.1%	67
Other	<u>429</u>	<u>1.1%</u>	<u>186</u>	<u>0.5%</u>	<u>243</u>
Total Acute Discharges- All Except Births	37,649	100.0%	38,866	100.0%	(1,217)
EMERGENCY DEPARTMENT:					
Inpatient Discharges (admitted from ED)	20,996		21,100		(104)
Percentage of Acute Inpatient Discharges (admitted from ED)	59.1%		57.9%		1.3%
ED Visits	169,893		177,114		(7,221)
OPERATING ROOM:					
Inpatient	11,557		12,052		(495)
Outpatient	<u>13,771</u>		<u>14,235</u>		<u>(464)</u>
Total Operations	<u><u>25,328</u></u>		<u><u>26,287</u></u>		<u><u>(959)</u></u>
Transplants	347		355		(8)
Total Outpatient Registrations	491,700		514,579		(22,879)
FULL TIME EQUIVALENTS - TOTAL HEALTH SYSTEM					
Based on total paid hours	8,608		8,422		(185)
Based on total adjusted hours including contracted services, excluding residents	8,108		7,917		(190)

Temple University Health System
Operating Statement
(In thousands)
For the twelve months ended June 30, 2018

TUHS Consolidated

	Line #	Year-to-Date		
		Actual	Budget	Variance
REVENUES:				
Net patient service revenue:				
Inpatient	1	787,108	764,502	22,606
Outpatient	2	673,236	651,256	21,981
Physician revenue	3	88,597	89,998	(1,401)
Commonwealth reimbursement	4	224,556	184,017	40,540
Net patient service revenue before provision for doubtful accounts	5	1,773,498	1,689,773	83,725
Provision for doubtful accounts	6	(27,593)	(24,744)	(2,849)
Total Net Patient Service Revenue	7	1,745,905	1,665,028	80,877
Research Revenue	8	39,296	40,426	(1,130)
Population Health	9	8,506	16,413	(7,907)
Contribution Revenue	10	5,761	8,692	(2,931)
Other Revenue - F/S	11	44,303	46,471	(2,168)
Investment Income - Revenue	12	650	1,153	(503)
Total Revenues	13	1,844,421	1,778,184	66,237
EXPENSES:				
Salaries	14	718,121	699,259	(18,862)
Employee benefits	15	193,740	212,017	18,277
Professional fees	16	46,583	39,831	(6,752)
Faculty support	17	143,996	111,658	(32,338)
Supplies and pharmaceuticals	18	403,785	363,425	(40,360)
Purchased services and other expense	19	122,074	123,736	1,662
Maintenance	20	19,230	20,671	1,441
Utilities	21	20,725	22,646	1,921
Leases	22	20,802	18,903	(1,898)
Insurance	23	17,685	37,168	19,483
Depreciation and amortization	24	51,236	55,024	3,788
Interest	25	26,841	29,880	3,039
Assessment Programs	26	46,787	46,787	0
Asset impairment	27	1,737	0	(1,737)
Loss or (Gain) on Disposal of Fixed Assets	28	55	0	(55)
Total Expenses	29	1,833,397	1,781,005	(52,392)
Healthcare Performance	30	11,024	(2,821)	13,845
Non preferred appropriations	31	6,210	6,210	0
Operating Income(Loss)	32	17,234	3,389	13,844
Other investment income	33	11,067	7,606	3,462
Non operating income (loss)	34	669	0	669
Net Income (Loss)	35	28,970	10,995	17,976

Temple University Health System
Operating Statement
(In thousands)
For the twelve months ended June 30, 2018

TUHS Consolidated

		Year-to-Date		
		Actual	Budget	Variance
OTHER CHANGES IN UNRESTRICTED NET ASSETS	Line #			
Unrestricted unrealized gain/loss	36	4,562	0	4,562
Net asset released from restriction used for purchase of PPE	37	609	0	609
Transfers from (to) affiliates	38	0	(2)	2
Transfers from (to) non affiliates	39	(7,680)	(1,470)	(6,210)
Other comprehensive income pension	40	36,156	0	36,156
TOTAL INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	41	<u>62,619</u>	<u>9,523</u>	<u>53,096</u>
TEMPORARILY RESTRICTED NET ASSETS				
Contribution income	42	5,396	0	5,396
Investment income (loss)	43	2,735	0	2,735
Net assets released from restrictions	44	(9,422)	0	(9,422)
Net unrealized gains (losses) on investments	45	<u>(62)</u>	<u>0</u>	<u>(62)</u>
Temporarily restricted net assets	46	<u>(1,352)</u>	<u>0</u>	<u>(1,352)</u>
PERMANENTLY RESTRICTED NET ASSETS				
Change in value of beneficial interests	47	7,684	0	7,684
Contributions	48	239	0	239
Investment income (loss)	49	0	0	0
Net unrealized gains (losses) on investments	50	<u>368</u>	<u>0</u>	<u>368</u>
Permanently restricted net assets	51	<u>8,290</u>	<u>0</u>	<u>8,290</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS		<u><u>69,557</u></u>	<u><u>9,523</u></u>	<u><u>60,034</u></u>

TEMPLE UNIVERSITY HEALTH SYSTEM
Consolidated Financial Management Report
For the twelve months ended June 30, 2018
Year Over Year Comparison

Temple University Health System
Key Operating Indicators Year Over Year
For the twelve months ended June 30, 2018

TUHS Consolidated

	Year-to-Date				
	Actual	%	Prior Year Actual	%	Prior Year Variance
Patient Discharges:					
Inpatient Acute Discharges	35,514	73.6%	35,510	73.7%	4
Behavioral Health Discharges	2,135	4.4%	2,277	4.7%	(142)
Subtotal Acute Discharges (Med/Surg & Behavioral Hlth.)	37,649	78.0%	37,787	78.4%	(138)
CDU Observation Discharges	1,121	2.3%	1,077	2.2%	44
Non-CDU Observation Discharges	9,472	19.6%	9,318	19.3%	154
Subtotal Observation Discharges	10,593	22.0%	10,395	21.6%	198
Total Discharges including Observations	48,242	100.0%	48,182	100.0%	60
Births	2,488		2,650		(162)
Case Mix Index - Total	1.88		1.82		0.06
PATIENT LENGTH OF STAY - ALL EXCEPT BIRTHS					
Inpatient Acute Discharges	5.89		5.78		(0.11)
Behavioral Health LOS	20.80		17.15		(3.64)
CDU Observation LOS	1.33		1.39		0.06
Non-CDU Observation LOS	1.56		1.60		0.04
Patient Days Including Observation	269,821		260,598		9,223
Census Patient Days Including Observation Cases	271,429		264,176		7,253
Average Daily Census Including Observation	744		724		20
Staffed Beds (% Occupancy including Observations)	81.37%		81.03%		0.35%

Temple University Health System
Key Operating Indicators Year Over Year
For the twelve months ended June 30, 2018

TUHS Consolidated

	Year-to-Date				
	Actual	%	Prior Year Actual	%	Prior Year Variance
Inpatient Acute Discharges - Payer Mix					
Medicaid	13,666	36.3%	14,117	37.4%	(451)
Medicare	16,935	45.0%	16,619	44.0%	316
Blue Cross	4,182	11.1%	4,601	12.2%	(419)
Managed Care	2,437	6.5%	2,319	6.1%	118
Other	429	1.1%	131	0.3%	298
Total Acute Discharges- All Except Births	37,649	100.0%	37,787	100.0%	(138)
EMERGENCY DEPARTMENT:					
Inpatient Discharges (admitted from ED)	20,996		20,904		92
Percentage of Acute Inpatient Discharges (admitted from ED)	59.1%		58.9%		0.3%
ED Visits	169,893		175,192		(5,299)
OPERATING ROOM:					
Inpatient	11,557		11,571		(14)
Outpatient	13,771		14,289		(518)
Total Operations	25,328		25,860		(532)
Transplants	347		326		21
Total Outpatient Registrations	491,700		497,406		(5,706)
FULL TIME EQUIVALENTS - TOTAL HEALTH SYSTEM					
Based on total paid hours	8,608		8,426		(181)
Based on total adjusted hours including contracted services, excluding residents	8,108		7,941		(166)

Temple University Health System
Operating Statement Year Over Year
(In thousands)
For the twelve months ended June 30, 2018

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TUHS Consolidated

		Year-to-Date		
		Actual	Prior Year Actual	Prior Year Variance
REVENUES:	Line #			
Net patient service revenue:				
Inpatient	1	787,108	759,100	28,009
Outpatient	2	673,236	609,683	63,553
Physician revenue	3	88,597	85,174	3,423
Commonwealth reimbursement	4	224,556	185,132	39,424
Net patient service revenue before provision for doubtful accounts	5	1,773,498	1,639,090	134,408
Provision for doubtful accounts	6	(27,593)	(26,233)	(1,360)
Total Net Patient Service Revenue	7	1,745,905	1,612,857	133,048
Research Revenue	8	39,296	35,189	4,107
Population Health	9	8,506	36,582	(28,075)
Contribution Revenue	10	5,761	11,251	(5,489)
Other Revenue - F/S	11	44,303	49,441	(5,139)
Investment Income - Revenue	12	650	843	(193)
Total Revenues	13	1,844,421	1,746,162	98,259
EXPENSES:				
Salaries	14	718,121	694,391	(23,730)
Employee benefits	15	193,740	197,072	3,331
Professional fees	16	46,583	52,066	5,483
Faculty support	17	143,996	122,894	(21,101)
Supplies and pharmaceuticals	18	403,785	353,092	(50,694)
Purchased services and other expense	19	122,074	123,221	1,148
Maintenance	20	19,230	17,945	(1,285)
Utilities	21	20,725	18,783	(1,943)
Leases	22	20,802	18,523	(2,278)
Insurance	23	17,685	26,949	9,263
Depreciation and amortization	24	51,236	51,131	(105)
Interest	25	26,841	28,595	1,755
Assessment Programs	26	46,787	46,786	0
Asset impairment	27	1,737	213	(1,525)
Loss or (Gain) on Disposal of Fixed Assets	28	55	260	205
Total Expenses	29	1,833,397	1,751,920	(81,477)
Healthcare Performance	30	11,024	(5,758)	16,782
Non preferred appropriations	31	6,210	6,229	(19)
Operating Income(Loss)	32	17,234	471	16,763
Other investment income	33	11,067	6,894	4,174
Non operating income (loss)	34	669	0	669
Net Income (Loss)	35	28,970	7,365	21,606

Temple University Health System

Operating Statement Year Over Year

(In thousands)

For the twelve months ended June 30, 2018

TUHS Consolidated

UNAUDITED
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		Year-to-Date		
		Actual	Prior Year Actual	Prior Year Variance
OTHER CHANGES IN UNRESTRICTED NET ASSETS				
Unrestricted unrealized gain/loss	36	4,562	15,534	(10,972)
Net asset released from restriction used for purchase of PPE	37	609	1,728	(1,118)
Transfers from (to) affiliates	38	0	0	0
Transfers from (to) non affiliates	39	(7,680)	(7,822)	142
Interfund Transfer	40	0	0	0
Other comprehensive income pension	41	36,156	30,590	5,566
TOTAL INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	42	62,619	47,395	15,224
TEMPORARILY RESTRICTED NET ASSETS				
Contribution income	43	5,396	5,849	(453)
Investment income (loss)	44	2,735	2,610	125
Net assets released from restrictions	45	(9,422)	(8,690)	(732)
Net unrealized gains (losses) on investments	46	(62)	111	(173)
Temporarily restricted net assets	47	(1,352)	(121)	(1,231)
PERMANENTLY RESTRICTED NET ASSETS				
Change in value of beneficial interests	48	7,684	13,590	(5,906)
Contributions	49	239	2,050	(1,811)
Investment income (loss)	50	0	(283)	283
Net unrealized gains (losses) on investments	51	368	948	(580)
Permanently restricted net assets	52	8,290	16,305	(8,015)
TOTAL INCREASE (DECREASE) IN NET ASSETS		69,557	63,579	5,978

TEMPLE UNIVERSITY HEALTH SYSTEM
Consolidated Statement of Cash Flows
For the twelve months ended June 30, 2018

Temple University Health System
TUHS Consolidated
Statement of Cash Flows
(In Thousands)

UNAUDITED
CONFIDENTIAL

For the years ended June 30, 2018 and 2017

	2018	2017		2018	2017
OPERATING ACTIVITIES:			INVESTING ACTIVITIES:		
Increase in net assets from continuing operations	\$ 69,557	\$ 63,578	Decrease in restricted assets	\$ 10,638	\$ 2,954
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			Purchases of property, plant and equipment	(21,967)	(34,202)
Net realized and unrealized gains on investments	(10,713)	(21,179)	Purchases of investments	(542,496)	(276,366)
Net realized and unrealized gains on beneficial interests in perpetual trusts and assets held by Episcopal Foundation and Fox Chase Cancer Center Foundation	(7,683)	(13,590)	Proceeds from sales of investments	545,310	291,875
Depreciation, amortization and accretion	50,361	50,212	Proceeds from sales of fixed assets	198	491
Intangible amortization	875	920			
Impairment on intangibles	1,737	146	Net cash used in investing activities	(8,317)	(15,248)
Amortization of bond premium, discount, debt issuance costs, and underwriter's discount	(1,167)	60			
Allowance for doubtful accounts	27,593	26,233	FINANCING ACTIVITIES:		
Adjustment to funded status of pension and postretirement liabilities	(35,457)	(31,087)	Proceeds from contributions and investments restricted to property, plant and equipment and endowments	609	1,728
Adjustment to funded status of long-term liability disabilities	(700)	497	Repayment of long-term debt	(16,261)	(16,072)
Capitalized interest	-	(164)	Repayment of capital lease obligations	(3,177)	(2,213)
Gain on extinguishment of debt	(107)	-	Repurchase of bonds	(255,930)	-
Asset impairment	-	67	Proceeds from line of credit	15,000	15,000
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(609)	(1,728)	Repayment of line of credit	(30,000)	-
Loss on disposal of fixed assets	55	261	Proceeds from issuance of long-term debt	267,062	15,229
Permanently restricted gifts and donations received	(239)	(2,050)	Permanently restricted gifts and donations received	239	2,050
Net transfers to the University	7,680	7,822	Net transfers to the University	(7,680)	(7,822)
Changes in operating assets and liabilities:					
Patient accounts receivable	(30,730)	(48,438)	Net cash (used in) provided by financing activities	(30,138)	7,900
Other receivables	27,069	20,303			
Pledges receivable — net	663	(967)	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,864	(787)
Inventories and other current assets	(3,231)	3,565			
Expenditures reimbursable by research grants and awards	(3,413)	307	CASH AND CASH EQUIVALENTS — Beginning of year	150,537	151,324
Other assets	(2,371)	(9,718)			
Accounts payable	(1,622)	(15,859)	CASH AND CASH EQUIVALENTS — End of year	\$ 187,401	\$ 150,537
Accrued expenses	7,911	(11,833)			
Estimated settlements with third-party payors	5,633	(11,928)			
Self-insurance program receivables and liabilities	(493)	(2,874)			
Unexpended research grants and awards	(547)	887			
Other liabilities	(24,733)	3,118			
Net cash provided by operating activities	75,319	6,561			

TEMPLE UNIVERSITY HEALTH SYSTEM
Consolidated Balance Sheet
For the twelve months ended June 30, 2018

Temple University Health System

TUHS Consolidated
Balance Sheet
(In Thousands)
June

UNAUDITED
CONFIDENTIAL

	June FY18	June FY17
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	187,401	150,536
Patient accounts receivable, net	220,562	217,425
Other receivables , including current portion pledges	49,104	77,153
Due from affiliates - Short term	0	0
Due from Temple University	3,565	3,030
Expenditures reimbursable by research grants and awards	5,948	2,535
Inventory and other current assets	40,860	37,629
Current portion of assets limited as to use	28,107	37,558
Short term investments	163,332	150,813
Current portion of self-insurance assets	<u>10,765</u>	<u>10,696</u>
 Total current assets	 709,643	 687,375
 Total assets limited as to use, less current portion	 127,065	 129,395
Property, plant and equipment, net	312,934	340,065
Long term investments	47,361	50,496
Due from affiliates	0	0
Self insurance assets	22,964	24,355
Estimated retroactive adjustments, third-party-payors	0	0
Goodwill and other intangibles, less accumulated amortization	18,436	21,044
Beneficial interest in perpetual trusts	41,417	40,042
Beneficial interest in the assets held by Episcopal Foundation	28,418	27,348
Beneficial interest in the Fox Chase Cancer Center Foundation	56,615	51,377
Other assets	<u>39,112</u>	<u>36,961</u>
 TOTAL ASSETS	 <u>1,403,965</u>	 <u>1,408,457</u>

	June FY18	June FY17
LIABILITIES and NET ASSETS:		
CURRENT LIABILITIES:		
Current portion of long-term debt	18,036	18,397
Lines of credit	0	15,000
Cash overdraft	0	0
Short term notes payable	0	0
Accounts payable	52,382	50,502
Accrued expenses	88,078	80,167
Due to affiliates	0	0
Interco payable TU-other	34,200	39,969
Current portion of accrued retirement benefits	0	0
Current portion of estimated retroactive adjustments, third-party payor	15,520	9,887
Current portion of self-insurance program liability	32,290	31,192
Unexpended research grants and awards	1,436	1,983
Other current liabilities	<u>41,687</u>	<u>50,460</u>
Total current liabilities	283,630	297,557
 Long term debt	 496,768	 502,044
Long term due to affiliate	0	0
Estimated retroactive adjustments, third-party - payors	0	0
Self-insurance program-liability	113,105	115,666
Liability for insurance - non Temple University	950	959
Unfunded accumulated retirement benefits	19,001	57,068
Other long-term liabilities	<u>36,488</u>	<u>50,696</u>
Total liabilities	<u>949,942</u>	<u>1,023,991</u>
NET ASSETS:		
Unrestricted	290,815	228,196
Temporarily restricted	22,756	24,108
Permanently restricted	<u>140,452</u>	<u>132,162</u>
Total net assets	<u>454,023</u>	<u>384,466</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1,403,965</u>	<u>1,408,457</u>

**Temple University Health System Obligated Group
Financial Summary (Unaudited)
For the twelve months ended June 30, 2018**

Temple University Health System Obligated Group
Consolidated Statement of Operations (unaudited)

(In Thousands)

For the twelve months ended June 30, 2018

UNAUDITED
CONFIDENTIAL

	Actual	Budget	Variance
REVENUES:			
Net patient service revenue:			
Inpatient	787,108	764,502	22,606
Outpatient	673,237	651,256	21,981
Physician revenue	88,596	89,998	(1,401)
Commonwealth reimbursement	224,556	184,017	40,540
Net patient service revenue before provision for doubtful accounts	1,773,498	1,689,773	83,725
Provision for doubtful accounts	(27,593)	(24,744)	(2,849)
Total Net Patient Service Revenue	1,745,905	1,665,028	80,877
Research Revenue	39,296	40,426	(1,130)
Population Health	9,293	13,449	(4,156)
Contribution Revenue	5,761	8,692	(2,931)
Other Revenue - F/S	43,570	45,543	(1,973)
Investment Income - Revenue	650	1,153	(503)
Total Revenues	1,844,476	1,774,292	70,184
EXPENSES:			
Salaries	715,372	696,795	(18,576)
Employee benefits	192,475	210,946	18,471
Professional fees	45,512	38,959	(6,553)
Faculty support	143,996	111,658	(32,338)
Supplies and pharmaceuticals	403,668	363,278	(40,390)
Purchased services and other expense	121,514	125,614	4,100
Maintenance	18,953	20,391	1,437
Utilities	20,312	22,172	1,860
Leases	23,054	21,008	(2,047)
Insurance	17,574	37,086	19,513
Depreciation and amortization	50,990	54,763	3,773
Interest	26,767	29,808	3,041
Assessment Programs	46,787	46,787	0
Asset impairment	1,737	0	(1,737)
Loss or (Gain) on Disposal of Fixed Assets	55	0	(55)
TOTAL EXPENSES	1,828,765	1,779,264	(49,501)
Healthcare Performance	15,711	(4,972)	20,683
Non preferred appropriations	6,210	6,210	0
Operating Income(Loss)	21,920	1,238	20,682
Other investment income	9,433	6,835	2,598
Excess of fair value of net assets acquired over consideration paid	0	0	0
Non operating income (loss)	669	0	669
Net Income (Loss)	32,023	8,073	23,950
Income (Loss) from Discontinued Operations	0	0	0
Net Income (Loss) after Discontinued Operations	32,023	8,073	23,950

Temple University Health System Obligated Group
Consolidated Statement of Operations (unaudited)

(In Thousands)

For the twelve months ended June 30, 2018

	Actual	Budget	Variance
OTHER CHANGES IN UNRESTRICTED NET ASSETS:			
Unrestricted unrealized gain/loss	3,498	0	3,498
Net asset released from restriction used for purchase of PPE	609	0	609
Transfers from (to) affiliates	0	(2)	2
Transfers from (to) non affiliates	(7,680)	(1,470)	(6,210)
Interfund Transfer	0	0	0
Other comprehensive income pension	31,085	0	31,085
TOTAL INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>59,535</u>	<u>6,601</u>	<u>52,934</u>
TEMPORARILY RESTRICTED NET ASSETS			
Contribution income	5,396	0	5,396
Investment income (loss)	2,735	0	2,735
Net assets released from restrictions	(9,422)	0	(9,422)
Net unrealized gains (losses) on investments	(62)	0	(62)
Temporarily restricted net assets	<u>(1,352)</u>	<u>0</u>	<u>(1,352)</u>
PERMANENTLY RESTRICTED NET ASSETS			
Change in value of beneficial interests	7,684	0	7,684
Contributions	239	0	239
Investment income (loss)	0	0	0
Net unrealized gains (losses) on investments	368	0	368
Permanently restricted net assets	<u>8,290</u>	<u>0</u>	<u>8,290</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS	<u>66,473</u>	<u>6,601</u>	<u>59,872</u>

Temple University Health System
Obligated Group
Balance Sheet (In Thousands)
June
Fiscal Year 2018

UNAUDITED
CONFIDENTIAL

	June FY18	June FY17
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	175,132	145,071
Patient accounts receivable, net	220,562	217,425
Other receivables , including current portion pledges	44,557	74,229
Due from affiliates - Short term	14,601	2,079
Due from Temple University	3,565	2,927
Expenditures reimbursable by research grants and awards	5,948	2,535
Inventory and other current assets	40,845	37,609
Current portion of assets limited as to use	26,144	37,146
Short term investments	137,360	127,677
Current portion of self-insurance assets	<u>10,765</u>	<u>10,696</u>
 Total current assets	 679,479	 657,394
 Total assets limited as to use, less current portion	 78,991	 80,538
Property, plant and equipment, net	311,112	338,955
Long term investments	39,583	44,362
Due from affiliates	0	0
Self insurance assets	14,964	19,355
Estimated retroactive adjustments, third-party-payors	0	0
Goodwill and other intangibles, less accumulated amortization	18,436	21,044
Beneficial interest in perpetual trusts	41,417	40,042
Beneficial interest in the assets held by Episcopal Foundation	28,418	27,348
Beneficial interest in the Fox Chase Cancer Center Foundation	56,615	51,377
Other assets	<u>66,217</u>	<u>61,000</u>
 TOTAL ASSETS	 <u><u>1,335,232</u></u>	 <u><u>1,341,414</u></u>

	June FY18	June FY17
LIABILITIES and NET ASSETS:		
CURRENT LIABILITIES:		
Current portion of long-term debt	17,420	17,805
Lines of credit	0	15,000
Cash overdraft	0	0
Short term notes payable	0	0
Accounts payable	51,813	49,931
Accrued expenses	81,329	76,600
Due to affiliates	4,005	11,180
Interco payable TU-other	34,200	38,939
Current portion of accrued retirement benefits	0	0
Current portion of estimated retroactive adjustments, third-party payor	15,520	9,887
Current portion of self-insurance program liability	23,052	22,260
Unexpended research grants and awards	1,436	1,983
Other current liabilities	<u>41,682</u>	<u>43,866</u>
Total current liabilities	270,457	287,450
 Long term debt	 495,796	 500,457
Long term due to affiliate	0	0
Estimated retroactive adjustments, third-party - payors	0	0
Self-insurance program-liability	89,457	94,059
Liability for insurance - non Temple University	950	959
Unfunded accumulated retirement benefits	13,524	45,056
Other long-term liabilities	<u>33,844</u>	<u>48,702</u>
Total liabilities	<u>904,027</u>	<u>976,682</u>
NET ASSETS:		
Unrestricted	267,997	208,462
Temporarily restricted	22,756	24,108
Permanently restricted	<u>140,452</u>	<u>132,162</u>
Total net assets	<u>431,205</u>	<u>364,732</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1,335,232</u></u>	<u><u>1,341,414</u></u>