

November 26, 2018

COMPLIANCE CERTIFICATE – ANNUAL 2018

Manufacturers and Traders Trust Company
Corporate Trust Administration
Mail Code PA1-HM22
213 Market St., 2nd Floor
Harrisburg, PA 17101
Attention: Alphonse Miller

Dear Mr. Miller:

This Compliance Certificate is furnished to (the “Holder”) pursuant to Sections 3 and 4 for annual financial statements of that certain Continuing Disclosure Agreement dated June 1, 2012 (as extended, renewed, amended or restated from time to time, the “CDA”), among Tower Health (formerly Reading Health System) (the “System”), and together with the System, collectively referred to herein as the (“Members”) and Manufacturers and Traders Trust Company, as bond trustee. Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the CDA.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the Executive Vice President and CFO of the Obligated Group;
2. I have reviewed the terms of the CDA and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of Tower Health and its consolidated Affiliates during the accounting period covered by the attached financial statements and report;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default or Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below;
4. The financial statements and report on the utilization and payer mix of Tower Health and its consolidated Affiliates required by Section 4 (a)(ii) of the CDA and being furnished to you concurrently with this Compliance Certificate are true, correct and complete as of the date and for the periods covered thereby;
5. The audited financial statements required by Section 4(a)(i) of the CDA and being furnished to you concurrently with this Compliance Certificate have been prepared on substantially the same basis as the most recent financial statements delivered to the Bank. Each Member of the Obligated Group has made a review of the activities during the preceding fiscal year for the purpose of determining whether or not each Member of the Obligated Group has complied with all of the terms, provisions and conditions of the CDA, the Master Indenture, the Supplemental Master Indenture, the Bond Indentures, the Loan Agreements and the other Transactional Documents to which such Member is a party and (ii) to the best of my knowledge, each Member of the Obligated Group has kept, observed, performed and fulfilled each and every covenant, provision and condition of the CDA, the Master Indentures, the Supplemental Master

Indenture, the Bond Indentures, the Loan Agreements and the other Transactional Documents to which it is a party and all projects are being used in accordance with the terms of these documents.


Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Members has taken, is taking, or proposes to take with respect to each such condition or event:

N/A

The foregoing certifications and the financial statements delivered with this Compliance Certificate in support hereof, are made and delivered on November 26, 2018.

TOWER HEALTH

By



Gary F. Conner
Executive VP and CFO

TOWER HEALTH SUMMARY OF FINANCIAL INFORMATION DISCLOSURE

(dollars in thousands)

The following consolidated statements of operations and balance sheets for Tower Health and Subsidiaries as of and for the fiscal years ended June 30, 2018 are derived from the audited financial statements of the Tower Health and Subsidiaries.

Condensed Statements of Operations Tower Health and Subsidiaries

	<u>2018</u>	<u>2017</u>
Revenues		
Net Patient Service Revenue	\$ 1,566,530	\$ 997,739
Residential Revenue	5,959	23,143
Other revenue	48,459	31,474
Total Revenues	<u>1,620,948</u>	<u>1,052,356</u>
Expenses		
Salaries and benefits	870,916	595,442
Supplies	260,541	160,158
General operating expenses	354,625	188,247
Interest expense	36,580	12,524
Depreciation and amortization	90,491	84,039
Transaction Related Expenses	18,567	2,221
Total expenses	<u>1,631,720</u>	<u>1,042,631</u>
Income from Operations	<u>(10,772)</u>	<u>9,725</u>
Nonoperating Gains (Losses):		
Investment income and impairment loss	119,667	44,395
Gifts and bequests and other (loss) income	(7,518)	(11,601)
Realized and Unrealized loss on interest rate swaps	7,307	9,598
Nonoperating Gains (Losses):	<u>119,456</u>	<u>42,392</u>
Excess of revenue, gains, and other support over expenses	<u>\$ 108,684</u>	<u>\$ 52,117</u>
Operating margin*	<u>0.5%</u>	<u>1.1%</u>
Operating cash flow**	<u>134,866</u>	<u>108,509</u>
Operating cash flow margin***	<u>8.3%</u>	<u>10.3%</u>

* Operating Margin = Income (loss) from operations + transactions related expenses / total revenues

** Operating cash flow = Income (loss) from operations + interest + depreciation + transaction related expenses

*** Operating cash flow margin = Operating cash flow / total revenues

Total Expenses - Tower Health System

	<u>2018</u>	
	<u>Dollars</u>	<u>Percent of Revenues</u>
Total Revenues	\$ 1,620,948	100.0%
Expenses:		
Salaries and benefits	870,916	53.7%
Utilities	18,515	1.1%
Interest	36,580	2.3%
Depreciation	90,491	5.6%
Purchased Services	99,169	6.1%
Repairs and maintenance	52,834	3.3%
Other	444,648	27.4%
Acquisition related expenses	18,567	1.1%
Total expenses	\$ 1,631,720	100.7%

Consolidated Balance Sheets
Tower Health and Subsidiaries
June 30, 2018 and 2017
(\$ in thousands)

Assets	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	67,502	55,535
Patient accounts receivable, less allowance for uncollectible accounts of \$84,771 and \$34,640, respectively	314,232	123,553
Other receivables	5,339	5,460
Receivables from affiliates	142	—
Inventories	37,133	15,034
Estimated third-party payor receivables	14,087	7,262
Prepaid expenses and other current assets	27,763	15,101
Assets held for sale	19,875	—
Assets whose use is limited – required for current liabilities: Self-insurance funding arrangements	7,482	7,482
Total current assets	493,555	229,427
Assets whose use is limited:		
Self-insurance funding arrangements	11,988	11,804
Under regulatory requirements	2,000	2,666
By board for capital improvements	850,868	857,972
Total assets whose use is limited, net of current portion	864,856	872,442
Restricted investments	33,229	28,149
Temporarily restricted funds	372	302
Property, plant and equipment, net	1,054,776	834,146
Goodwill	128,127	—
Investments in joint ventures	19,940	12,317
Other assets	4,348	5,387
Total assets	2,599,203	1,982,170
Liabilities and Net Assets	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current installments of long-term debt	5,600	5,719
Capital Leases	2,120	—
Accounts payable	77,589	54,756
Estimated third-party payor settlements	8,965	4,112
Current portion of estimated self-insurance costs	13,669	10,885
Accrued expenses	56,445	29,713
Accrued vacation	40,997	30,160
Other current liabilities	13,202	8,906
Total current liabilities	218,587	144,251
Long-term debt, net of current portion and unamortized discount/premium and deferred financing costs	1,126,194	568,800
Capital Leases	19,651	—
Accrued pension liabilities	201,974	252,256
Deferred revenue	5,388	42,811
Other liabilities	1,964	2,694
Estimated self-insurance costs, net of current portion	28,536	37,499
Swap contracts	26,776	40,790
Total liabilities	1,629,070	1,089,101
Net assets:		
Unrestricted	935,296	862,951
Temporarily restricted	1,608	1,667
Permanently restricted	33,229	28,451
Total net assets	970,133	893,069
Total liabilities and net assets	2,599,203	1,982,170

SUMMARY OF FINANCIAL DATA – TOWER HEALTH OBLIGATED GROUP

The following financial information of the Tower Health Obligated Group for the year ended June 30, 2018 and 2017 have been prepared by Management and are derived from the audited financial statements of the Tower Health and Subsidiaries.

Condensed Consolidated Financial Information

Tower Obligated Group (Tower Health Parent, Reading Hospital, Brandywine, Chestnut Hill, Jennersville, Pottstown, Phoenixville)

Fiscal Year Ended June 30,

	<u>2018</u>	<u>2017</u>
Revenues		
Net Patient Service Revenue	\$ 1,383,819	\$ 876,535
Residential Revenue	—	—
Other revenue	40,220	22,849
Total Revenues	<u>1,424,039</u>	<u>899,384</u>
Expenses		
Salaries and benefits	605,006	418,474
Supplies	250,488	150,830
General operating expenses	308,768	153,245
Interest expense	36,293	11,327
Depreciation and amortization	87,078	77,908
Transaction related expenses	18,567	2,221
Total expenses	<u>1,306,200</u>	<u>814,005</u>
Income from Operations	<u>117,840</u>	<u>85,379</u>
Nonoperating Gains (Losses):		
Investment income and impairment loss	116,986	41,435
Gifts and bequests and other (loss) income	(7,539)	(11,087)
Realized and Unrealized loss on interest rate swaps	7,307	9,598
Nonoperating Gains (Losses):	<u>116,754</u>	<u>39,946</u>
Excess of revenue, gains, and other support over expenses	<u>\$ 234,594</u>	<u>\$ 125,325</u>
Operating margin*	<u>9.6%</u>	<u>9.7%</u>
Operating cash flow**	<u>259,778</u>	<u>176,835</u>
Operating cash flow margin***	<u>18.2%</u>	<u>19.7%</u>

* Operating Margin = Income (loss) from operations + transactions related expenses / total revenues

** Operating cash flow = Income (loss) from operations + interest + depreciation + acquisitions related expenses

*** Operating cash flow margin = Operating cash flow / total revenues

Trends in Liquidity

The table below sets details the cash position and liquidity of Tower Health and the Subsidiaries at June 30, 2018 and 2017. Liquidity includes operating cash, short-term investments and assets limited by the Board to capital improvements. Excluded are trustee-held bond funds, funds held under self-insurance funding arrangements, and funds held for workers' compensation.

Selected Capitalization Indicators - Tower Health and Subsidiaries (\$000s)

Fiscal Year Ended June 30,

	<u>2018</u>	<u>2017</u>
Unrestricted Cash and Investments (1)	\$ 918,322	\$ 912,555
Average Daily Operating Expenses (2)	\$ 4,223	\$ 2,626
Days Cash on Hand (Days) (3)	217.5	347.5
Cash to Debt (%) (4)	81%	159%

- (1) Includes all cash and cash equivalents and Board designated investments that are not restricted by donors or other third parties.
- (2) Annual expenses exclusive of depreciation divided by number of days in the year
- (3) Unrestricted cash and investments divided by Average Daily Operating Expenses
- (4) Unrestricted cash and investments divided by long term debt, net

Selected Capitalization Indicators - Tower Health and Subsidiaries (\$000s)

Fiscal Year Ended June 30,

	<u>2018</u>	<u>2017</u>
Outstanding Long-Term Debt, net	\$ 1,131,794	\$ 574,519
Unrestricted Net Assets	935,296	862,951
Debt to Capitalization(%) (1)	54.8%	40.0%

- (1) Outstanding long-term debt, net divided by the sum of (a) outstanding long-term debt, net and (b) unrestricted net assets

Debt Service Coverage

The following table details income available for debt service for each of the years ended June 30, 2018 and 2017 for the Tower Health Obligated Group and the coverage of the maximum annual principal and interest requirement on debt outstanding as of June 30, 2018 and 2017 for the Tower Health Obligated Group.

Coverage of Maximum Annual Debt Service (\$000s)

Fiscal Year Ended June 30,

Tower Health Obligated Group

	<u>2018</u>	<u>2017</u>
Income from Operations	\$ 117,840	\$ 85,379
Adjustments:		
Depreciation and Amortization	87,078	77,908
Interest	36,293	11,327
Investment Income	116,986	41,435
Gifts and Bequests & Other Gains		
(Losses)	(7,539)	(6,976)
Realized and Unrealized Gains (and loss) on interest rate swaps	7,307	9,598
Other-than-temporary Impairment losses on investments	-	(4,111)
Total Adjustments	240,125	129,181
Income Available for Debt Service	\$ 357,965	\$ 214,560
Maximum Annual Debt Service Requirement	\$ 67,915	\$ 34,560
Coverage of Maximum Annual Debt Service Requirement	5.27	6.21

Management Discussion and Analysis – Audit Disclosure Note

Management recorded a post-closing entry of approximately \$17.8 Million to increase accounts receivable reserves, which is incorporated in the 2018 audited financial statements. This action was taken in consultation with Tower Health's auditor, KPMG.

Tower Health, like many health systems nationally, is experiencing an aging of certain accounts with a high deductible component, which take longer to collect. Management has implemented new processes and engaged new vendors, in connection with the execution of its Operating Excellence Plan, which are designed to improve collections. Tower Health's early experience with its new processes and vendors has been favorable.

Management also recorded \$18.6 million in one-time, nonrecurring transaction related costs, primarily attributable to the acquisition of the Montgomery/Chester hospitals from CHS, EPIC installation costs (transaction and integration costs) at the Montgomery/Chester hospitals, and expenses related to the sale of The Highlands at Wyomissing. Excluding the \$18.6 million in one-time, nonrecurring expenses, Tower Health had an operating margin of 0.5% and an operating cash flow margin of 8.3% for fiscal 2018.

Investment Policy

Cash and investments are managed by the Investment Committee, a subcommittee of the Board of Directors. The Investment Committee and Tower Health's senior management meet bimonthly, determines the allocation of Unrestricted Long-Term Capital and Pension investments according to policy asset classes, selects Advisors for each investment allocation, and reviews Advisor performance based on a benchmark rate of return established for that Advisor portfolio. The Investment Committee also reviews and modifies, as appropriate, both Unrestricted Long-Term Capital and Pension Investment Policy Statements at least annually.

The following table sets forth the operating cash and market value of unrestricted investments by asset class and the percentage which each asset class represents of the total as of June 30, 2018.

<u>Asset Class (\$000s)</u>	<u>Market Value</u>	<u>Percentage of Total</u>
As of June 30, 2018		
Cash and Cash Equivalents	\$ 80,359	8.8%
Common, Preferred, and foreign stock	16,416	1.8%
Equity Mutual Funds	351,482	38.3%
Fixed Income Funds	328,891	35.8%
Hedge, private equity and other common collective trusts funds	141,175	15.4%
Total	\$ 918,322	100.0%

⁽¹⁾ Cash and Cash Equivalents includes Balance Sheet operating cash and investment portfolio cash.

Liquidity and Leverage

Tower Health has historically balanced the incurrence of incremental indebtedness with the maintenance of substantial balance sheet liquidity. The System maintains a conservative total return investment philosophy emphasizing choosing liquidity and minimizing risk. In FY2018 the System restructured and simplified its Long-Term Capital Investment portfolio to a more direct fund structure that resulted in a one-time gain of \$85.0 Million and saves approximately \$2.5 Million in annual investment fees.

Excluding corporate cash which is for daily liquidity needs, approximately 82% of the System's Long-Term Capital portfolio is available within T+3. The System's Investment Policy Statement - IPS is reviewed and updated annually by the investment consultant and Investment Committee. The IPS is intended to provide investment guidelines for the System, its investment consultants, advisors and managers.

Interest Rate Swaps

The System has certain interest rate and basis swap agreements in place for a portion of its outstanding debt. The fair value of these swaps was a liability of \$26.8 Million as of June 30, 2018. The System has the right to terminate swaps, at market at any time but has no present intention of exercising such right; the respective counterparty, J.P. Morgan Chase or Royal Bank of Canada, may exercise a right to terminate only upon the occurrence of certain prescribed events. In addition, the swap documents provide for collateralization of a portion of the mark to market valuation; however, based upon the current credit ratings of the System, no such collateralization obligation exists.

Medical Staff

Tower Health's medical staff consisted of 2,246 practitioners in thirteen departments. The physicians serving on the Medical Staff are divided into categories, as shown in the table below:

MEDICAL STAFF - Tower Health

Overview Physicians serving on the Medical Staff - Tower Health

Fiscal Year Ended June 30, 2018

<u>Physician Status</u>	<u>Number</u>	<u>% of Total</u>
Active with Privileges	1,492	66.4%
Active without Privileges	11	0.5%
Affiliate	188	8.4%
Community	10	0.4%
Consulting	203	9.0%
Courtesy	201	8.9%
Telemedicine	141	6.3%
Total	2,246	100.0%

Since the acquisition of the Montgomery Chester Hospitals, Tower Health is consolidating medical staff category requirements across all facilities. The acute care facilities have collaborated to create revised bylaws, based on a common template, governing each of the six independent medical staffs, aligning toward a common purpose. Effective January 2018 the following applies to all Tower Health hospitals.

Following initial granting of privileges appointees to Active Staff undergo a Focused Professional Practice Evaluation (FPPE) to verify competency. Active Staff members are expected to be involved in at least twenty-four (24) patient contacts per two-year appointment term.

Any member who has fewer than 24 patient contacts during his/her two-year appointment term will be transferred to another staff category that best reflects his/her relationship to the Medical Staff and the Hospital (Integrated Network, Courtesy, Consulting, Affiliate or Coverage).

As stated in the Medical Staff Bylaws, all applicants for appointment to the medical staff must:

- have a current, unrestricted license to practice in Pennsylvania that is not subject to probation and have never had a license to practice revoked or suspended by any state licensing agency
- where applicable to their practice, have a current, unrestricted DEA registration
- demonstrate clinical activity in their primary area of practice during the last two years
- maintain certification in their primary area of practice at the Hospital by the appropriate/subspecialty board of the American Board of Medical Specialties, the AOA, the American Board of Oral and Maxillofacial Surgery, the ADA or the American Board of Foot and Ankle Surgery. Applicants who are not board certified at the time of application, must achieve board certification in their primary area of practice within five years from the date of completion of the residency or fellowship training. Existing medical staff members who were granted a permanent waiver in the past shall be grandfathered.

The six ACGME general competencies (patient care, medical knowledge, professionalism, system-based practice, practice-based learning, and interpersonal communication) are evaluated as part of the appointment and reappointment process.

- The following tables summarizes the number of Active and Affiliate Medical Staff by Category of medical practices.

Active Medical Staff by Medical / Surgical Specialty - Tower Health

Fiscal Year Ended June 30, 2018

<u>Department</u>	<u>Number of Physicians</u>	<u>Average Age</u>
Medicine:		
Anesthesiology	103	52
Dentistry	17	49
Diagnostic Imaging	57	53
Emergency Medicine	91	47
Family And Community Medicine	122	54
Internal Medicine	138	52
Medicine	747	50
Obstetrics & Gynecology	68	56
Pathology And Laboratory Medicine	18	60
Pediatrics	142	50
Physical Medicine & Rehabilitation	12	57
Psychiatry	48	55
Radiology	194	52
Medicine Total	1,757	
Surgery:		
Cardiothoracic Surgery	20	56
Gastroenterology	4	52
General Dentistry	3	72
General Surgery	53	53
Neurosurgery	19	51
Obstetrics/gynecology	3	60
Ophthalmology	79	53
Oral And Maxillofacial Surgery	10	56
Orthopedic Surgery	87	52
Otolaryngology	44	54
Pain Management	3	57
Pathology	3	51
Plastic & Reconstructive Surgery	36	53
Podiatric Surgery	77	51
Trauma, Acute Care Surgery, & Surgical Critical Care	9	50
Urology	32	55
Vascular Surgery	7	49
Surgical Total	489	
Combined Totals	2,246	51

The following table sets forth the top ten admitting physicians at Tower Health for FY2018, with their age, specialties, and affiliations.

Top 10 Admitting Physicians - Tower Health

Fiscal Year Ended June 30, 2018

<u>Specialty</u>	<u>Ages</u>	<u>Admissions</u>	<u>Percent of Discharges</u>	<u>Employment Status</u>
Family Medicine	49	3,025	5.0%	Independent
Internal Medicine	61	1,890	3.1%	Independent
Internal Medicine	52	823	1.3%	Employed by Tower
Orthopedic Surgery	58	672	1.1%	Independent
Internal Medicine	53	537	0.9%	Independent
Orthopedic Surgery	39	523	0.9%	Independent
Internal Medicine	51	516	0.8%	Independent
Internal Medicine	35	504	0.8%	Employed by Tower
Pulmonary Disease	63	480	0.8%	Independent
Internal Medicine	32	469	0.8%	Independent
Total		9,439	15.5%	

Employed Physicians

Of the 2,246 physician members of the medical staff of Tower Health, 606 are employed by the Health System. Collectively, employed physicians are part of Tower Health Physician Group. There were an additional 130 Residents training within the System who are not included in the 2,246 members of medical staff. The remainder of the medical staff consists of independent, private practitioners from the community. One physician serves on the Tower Health Board of Directors.

EMPLOYEES

Tower Health

As of June 30, 2018, Tower Health employed 11,338 employees, which equates to 9,552 full-time equivalent (FTE) employees.

Full-Time Employees of the System

Fiscal Year Ended June 30, 2018

<u>Company</u>	<u>Total Employees</u>	Total Full-Time <u>Equivalent</u>
Reading Hospital (RH)	5,722	4,898
Tower Health Partners (THP)	5	5
Tower Health Medical Group (THMG)	1,463	1,351
Montgomery/Chester Hospitals	4,148	3,297
Total	11,338	9,552

Management believes that Tower Health provides compensation and a comprehensive package of fringe benefits that are competitive with other hospitals in the area. Regular salary and benefits surveys are conducted by Human Resources to ensure Tower Health compensates its employees at levels competitive with other healthcare systems locally and regionally. The employee benefit plans include a pension plan, life insurance, health and dental insurance and a Section 403(b) benefit plan.

The number of employed in nursing roles is listed below:

Full-Time Employees in nursing roles

Fiscal Year Ended June 30, 2018

<u>Nursing Category</u>	<u>Total Employees</u>	Total Full-Time <u>Equivalent</u>
Registered Nurse	3,482	2,811
Licensed Practical Nurse	118	114
Medical Assistant	267	258
Total	3,867	3,183

UTILIZATION STATISTICS

Utilization Statistics - Tower Health System

Fiscal Year Ended June 30,

2018

Beds in Service:	
Medical / Surgical	1,109
Obstetrics / Gynecology	60
NICU	30
Pediatrics	19
Skilled Nursing	50
Acute Rehab	76
Psych	152
Total Acute Skilled Rehab Psych	1,496
Newborn	73
Total	<u>1,569</u>

Admissions:	
Medical / Surgical	45,552
Obstetrics / Gynecology	4,758
NICU	395
Pediatrics	1,296
Skilled Nursing	1,274
Acute Rehab	1,613
Psych	2,174
Subtotal	57,062
Newborn	3,994
Total	<u>61,056</u>

Patient Days:	
Medical / Surgical	207,722
Obstetrics / Gynecology	12,141
NICU	7,529
Pediatrics	2,289
Skilled Nursing	17,006
Acute Rehab	20,052
Psych	23,119
Subtotal	289,858
Newborn	8,095
Total	<u>297,953</u>

Acuity:	
Case Mix Index	<u>1.43</u>

Length of Stay:	
Medical / Surgical	4.56
Obstetrics / Gynecology	2.55
NICU	19.06
Pediatrics	1.77
Skilled Nursing	13.35
Acute Rehab	12.43
Psych	10.63
Subtotal	5.08
Newborn	2.03
Total	<u>4.88</u>

Occupancy Rate:	
Medical / Surgical	59.5%
Obstetrics / Gynecology	55.4%
NICU	68.8%
Pediatrics	33.0%
Skilled Nursing	93.2%
Acute Rehab	75.8%
Psych	51.2%
Subtotal	60.6%
Newborn	35.1%
Total	<u>59.4%</u>

SELECT STATISTICS – TOWER HEALTH

Selected Statistics:	FY2018
Laboratory Tests	<u>6,215,805</u>
Ambulatory Surgical	<u>30,203</u>
Diagnostic Radiology	<u>321,630</u>
EKG	<u>151,708</u>
Outpatient Clinic	<u>243,308</u>
Emergency Dept. Visits	<u>243,296</u>

Sources of Revenue

Tower Health's revenues come directly from patients, commercial insurance carriers or from governmental sources such as Medicare and Medicaid. The following is a summary of net patient service revenue by source for the year ended June 30, 2018.

Sources of Revenue - Reading Hospital and Montgomery Chester Hospitals - Obligated Group

(\$000s)	2018		
	<u>Gross</u>	<u>Net *</u>	<u>%</u>
Medicare	\$ 4,352,519	\$ 641,443	14.7%
Medicaid	1,079,933	130,914	12.1%
Highmark & Blue Cross	1,022,618	379,310	37.1%
Other Commercial	541,470	272,257	50.3%
Self Pay	144,880	109,273	75.4%
Subtotal	\$ 7,141,420	\$ 1,533,196	21.5%
Uncompensated Care		(113,613)	
Eliminations		(35,766)	
Total - Obligated Group		\$ 1,383,818	

Medicare and Medicaid. Medicare and Medicaid are the commonly accepted names for hospital payment programs created by certain provisions of the Federal Social Security Act. Medicare is exclusively a Federal Program and Medicaid is a combined Federal and state program. Effective April 2015, the Medicaid program was expanded in the Commonwealth of Pennsylvania, which lowered the uninsured rate and increased the number of patients covered by Medicaid.

Highmark Blue Shield. Highmark Blue Shield reimburses Tower Health under an agreement which provides for payment based on a fixed rate payment for each MS DRG. The contract is evergreen with payment increases tied to increases in charges. The contract cycle is typically three years.

Capital Blue Cross. CBC reimburses Tower Health under an agreement which provides for payment based on a percentage of charges. The initial rates were determined at budget neutral levels relative to the expiring contract. An annual increase is applied at the contract anniversary based on a Bureau of Labor Statistics index. Outpatient activity is also reimbursed based on a percentage of charges.

Other Commercial, Non-Governmental Insurers. United Healthcare, Cigna, Aetna, HealthAmerica, Geisinger and EHP all have similar contracts based on a percentage of charges, except for Independence Blue Cross which is based on a fixed rate DRG payment.

Non-contracted Commercial Insurance. Other commercial insurance plans reimburse their subscribers or make direct payments to Tower Health for covered services at prevailing area room rates plus ancillary service charges, subject to various limitations, insurance provisions and deductibles.