TOWER HEALTH AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Consolidating Information

June 30, 2020 and 2019

(With Independent Auditors’ Report Thereon)

TOWER HEALTH AND SUBSIDIARIES

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Tower Health:

We have audited the accompanying consolidated financial statements of Tower Health and Subsidiaries, 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, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Tower Health and Subsidiaries as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(w) to the consolidated financial statements, Tower Health and Subsidiaries adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Supplementary Consolidating Information in Schedules I – IV is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
November 6, 2020

TOWER HEALTH AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020 and 2019

(Dollars in thousands)

Assets		2020	2019
Current assets:			
Cash and cash equivalents	$	356,892	3,818
Patient accounts receivable		260,970	314,630
Other receivables		37,992	10,757
Receivables from affiliates		—	312
Inventories		66,072	48,392
Estimated third-party payor receivables		25,623	21,461
Prepaid expenses and other current assets		46,631	32,515
Assets held for sale		—	19,875
Assets whose use is limited – required for current liabilities:			
Self-insurance funding arrangements		7,533	7,483
Total current assets		801,713	459,243
Assets whose use is limited:			
Self-insurance funding arrangements		26,199	19,902
Under regulatory requirements		4,000	2,000
By board for capital improvements		538,464	698,438
Investments with donor restrictions		37,700	40,998
Total assets whose use is limited, net of current portion		606,363	761,338
Property, plant and equipment, net		1,163,479	1,131,464
Right of use assets		151,749	—
Goodwill		206,640	155,191
Investments in joint ventures		19,524	17,350
Other assets		6,920	1,580
Total assets	$	2,956,388	2,526,166

(Continued)

TOWER HEALTH AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020 and 2019

(Dollars in thousands)

Liabilities and Net Assets		**2020**	**2019**
Current liabilities:			
Current installments of long-term debt	$	3,750	6,312
Line of credit		55,000	17,802
Operating lease liabilities – current		21,864	—
Finance leases – current		2,241	2,215
Financing obligations – current		13,147	—
Accounts payable		139,555	136,622
Estimated third-party payor settlements		6,479	4,277
Current portion of estimated self-insurance costs		9,916	9,430
Accrued expenses		103,417	51,742
Accrued vacation		66,785	50,515
Current installments of long-term affiliated payables		30,000	—
CMS advances – current		19,124	—
Other current liabilities		45,679	24,372
Total current liabilities		516,957	303,287
Long-term debt, net of current portion and unamortized discount/premium and deferred financing costs		1,302,400	1,117,656
Operating lease liabilities, net of current portion		129,885	—
Finance leases, net of current portion		17,140	18,887
Accrued pension liabilities		289,775	226,031
CMS advances, net of current portion		153,565	—
Other liabilities		22,598	9,114
Financing obligations, net of current portion and deferred financing costs		183,813	—
Estimated self-insurance costs, net of current portion		31,463	25,099
Swap contracts		—	31,387
Total liabilities		2,647,596	1,731,461
Net assets:			
Without donor restrictions:			
Tower Health and Subsidiaries		240,287	754,955
Noncontrolling interest		32,327	—
With donor restrictions		36,178	39,750
Total net assets		308,792	794,705
Total liabilities and net assets	$	2,956,388	2,526,166

See accompanying notes to consolidated financial statements.

TOWER HEALTH AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2020 and 2019

(Dollars in thousands)

		2020	2019
Revenues and other support:			
Net patient service revenue	$	1,713,763	1,688,264
Other revenue		204,540	65,464
Total revenues and other support		1,918,303	1,753,728
Expenses:			
Salaries and benefits		1,314,189	1,038,286
Supplies		315,513	291,284
Interest		49,076	42,010
Depreciation		100,658	94,412
Purchased services		283,854	258,189
Repairs and maintenance		80,820	64,676
Other		159,043	122,015
Transaction related expenses		30,426	21,637
Total expenses		2,333,579	1,932,509
Loss from operations before impairment		(415,276)	(178,781)
Impairment		23,578	—
Loss from operations		(438,854)	(178,781)
Nonoperating (losses) gains:			
Investment income		17,835	49,592
Change in fair value of swap contracts, including net settlement payments		(5,467)	(9,072)
Loss on early extinguishment of debt		(4,124)	—
Other losses		(3,176)	(3,605)
Nonoperating gains, net		5,068	36,915
Deficiency of revenues, gains and other support over expenses		(433,786)	(141,866)
Income attributable to noncontrolling interest		3,209	—
Deficiency of revenues, gains and other support over expenses attributable to Tower Health and Subsidiaries	$	(436,995)	(141,866)

See accompanying notes to consolidated financial statements.

TOWER HEALTH AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total net assets
Net assets at June 30, 2018	$	935,296	34,837	970,133
Changes in net assets:				
Deficiency of revenues, gains, and other support over expenses		(141,866)	—	(141,866)
Net unrealized gains on investments		341	127	468
Net realized gains on investments		—	855	855
Change in pension liability		(39,841)	—	(39,841)
Donor restricted contributions		—	5,310	5,310
Net assets released from restrictions		—	(2,493)	(2,493)
Change in beneficial interest in trusts		—	133	133
Other		1,025	981	2,006
Change in net assets		(180,341)	4,913	(175,428)
Net assets at June 30, 2019		754,955	39,750	794,705
Changes in net assets:				
Deficiency of revenues, gains, and other support over expenses		(433,786)	—	(433,786)
Net in unrealized gains (losses) on investments		354	(268)	86
Net in realized gains on investments		—	419	419
Change in pension liability		(75,276)	—	(75,276)
Donor restricted contributions		—	1,897	1,897
Net assets released from restrictions		(1,451)	(4,641)	(6,092)
Change in beneficial interest in trusts		—	(114)	(114)
Noncontrolling interest contribution		29,118	—	29,118
Other		(1,300)	(865)	(2,165)
Change in net assets		(482,341)	(3,572)	(485,913)
Net assets at June 30, 2020	$	272,614	36,178	308,792

See accompanying notes to consolidated financial statements.

TOWER HEALTH AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(Dollars in thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(485,913)	(175,428)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Unrealized loss (gains) on investments and beneficial interest in trusts		12,248	(18,120)
Change in fair value of swap contracts		5,378	4,611
Amortization of bond discount		35	60
Amortization of bond premium		(4,234)	(2,378)
Amortization of deferred financing costs		597	525
Change in pension liability, net		63,744	24,057
Depreciation		100,658	94,412
Impairment		23,578	—
Noncontrolling interest contribution		(29,118)	—
Investment income		(30,145)	(31,336)
Equity in earnings of affiliates		5,451	(7,213)
Contributions and investment income donor restricted for long-term investment and capital		(3,714)	(5,310)
Loss on early extinguishment of debt		4,124	—
Gain on acquisition of affiliate		—	(3,550)
Change in cash due to changes in operating assets and liabilities:			
Receivable from patients and others		30,376	(5,038)
Inventories		(11,661)	(11,259)
Prepaid expenses and other assets		(19,193)	(1,829)
Accounts payable and other liabilities		75,351	61,065
Estimated self-insurance costs		6,850	(7,676)
Third-party payor settlements		(1,961)	(12,062)
CMS advances		172,689	—
Net cash used in operating activities		(84,860)	(96,469)
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(109,708)	(157,118)
Contribution restricted for capital purchase		1,817	—
Acquisition of businesses, net of cash received		(58,236)	(23,510)
Investment in equity investees		(10,251)	(430)
Distribution from equity investees		2,627	6,589
Sales of investments and assets whose use is limited, net		230,251	309,045
Purchases of investments and assets whose use is limited, net		(57,429)	(118,082)
Net cash provided by investing activities		(929)	16,494
Cash flows from financing activities:			
Contributions and investment income donor restricted for long-term investment and capital		1,897	5,310
Payments for debt extinguishment		(319,258)	—
Proceeds from long-term debt issuance		511,911	—
Proceeds from long-term affiliate payable		30,000	—
Payment of deferred financing costs		(11,382)	—
Repayments of long-term debt		(5,840)	(6,033)
Proceeds from financing obligations		203,704	—
Proceeds from line of credit		761,939	31,531
Repayments on line of credit		(724,740)	(13,729)
Payments on finance leases		(1,721)	(788)
Payment to terminate swap contracts		(36,765)	—
		29,118	—
Net cash provided by financing activities		438,863	16,291
Net increase (decrease) in cash and cash equivalents		353,074	(63,684)
Cash and cash equivalents:			
Beginning of year		3,818	67,502
End of year	$	356,892	3,818
Supplemental cash flow information:			
Cash paid during the year for interest, net of capitalized interest of $217 and $2,638 for 2020 and 2019	$	42,429	42,045
Fixed asset additions included in accounts payable and accrued expenses at June 30		29,540	14,696
Noncash consideration of affiliate		—	3,466

See accompanying notes to consolidated financial statements.

(1) Organizational Structure and Nature of Operations

Tower Health (Parent) is a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Parent is located in West Reading, Pennsylvania, and provides inpatient, outpatient and emergency care for residents of the greater Berks, Montgomery, and Chester County areas through its subsidiaries (collectively, the System).

(a) Subsidiaries of the Parent Include

Reading Hospital (Hospital), a tax-exempt not-for-profit corporation providing acute and post-acute care.

Chester/Montgomery/Philadelphia hospitals are tax-exempt not-for-profit corporations providing acute and post acute care. The five hospitals include: Brandywine Hospital in Coatesville; Chestnut Hill Hospital in Philadelphia; Jennersville Regional Hospital in West Grove; Phoenixville Hospital in Phoenixville and Pottstown Memorial Medical Center in Pottstown (collectively, Chester/Montgomery/Philadelphia Hospitals (CMP)).

Tower Health Medical Group (THMG), a tax-exempt entity established to assure access to high quality primary care physicians and specialty physicians in sufficient numbers to meet the community needs for charitable, educational, and scientific purposes. THMG also recruits physicians and provides administrative services for the Hospital, including supervision and instruction for medical students completing their residency training. The Chester/Montgomery/Philadelphia clinics and practices are part of THMG.

Tower Health Partners (THP), a Pennsylvania limited liability company, was formed to develop a physician network working in conjunction with the Parent to implement a clinical integration program. Clinical integration is the implementation of an active and ongoing program to evaluate and modify practice patterns by the network’s physician participants and create a high degree of interdependence and cooperation among the physicians to control costs and improve the quality and efficiency of health care in the community.

Reading Hospital Foundation (RHF), a not-for-profit corporation to support research, education, innovation and fund raising in support of the Parent and its subsidiaries, and the community. The Parent is the sole member of RHF.

Tower Health Enterprises (THE), a Pennsylvania limited liability company, was formed to hold the interest in joint ventures acquired as part of the acquisition of CMP on October 1, 2017. These joint ventures are recorded under the equity method of accounting and are included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $4,162 and $4,098 at June 30, 2020 and 2019, respectively. Also included is Tower Health Urgent Care, acquired on December 1, 2018 from Premier Immediate Medical Care, LLC (Premier), and Tower Health at Home, acquired on January 1, 2019.

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STC Healthcare Partners LLC (STC) is the parent company of St. Christopher's Hospital for Children and the physician company, STC Pediatrics, LLC. STC Healthcare Partners is owned by the System and Drexel University in equal shares. St. Christopher's is 188 bed facility in North Philadelphia. Tower Health System is the managing partner of STC.

(b) Other Noncontrolled Entities Include

The Reading Hospital Surgicenter at Springridge, LLC (Springridge, LLC), a limited liability company, was established to provide ambulatory surgery services to the surrounding community. The Hospital maintains a 50% ownership and during the years ended June 30, 2020 and 2019, the Hospital received distributions of $1,510 and $2,716, respectively. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $58 and $199 at June 30, 2020 and 2019, respectively.

The Parent, along with several other acute care service hospitals throughout the central Pennsylvania area, contributed capital to form Central Pennsylvania Alliance Laboratories (CPAL), a joint venture to combine laboratory operations. The Parent maintains a 20% ownership interest in CPAL. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $350 at both June 30, 2020 and 2019.

The Parent's ownership of Central Pennsylvania Homecare, Inc. (d.b.a. Affilia Home Health, AHH) is 44.1%. AHH provides visiting home nursing services to outpatients of the Hospital and other healthcare providers in the surrounding community. In the year ended June 30, 2019, the joint venture was dissolved and the Parent received a distribution of $2,500. On January 1, 2019 the Parent acquired Berks Visiting Nurse Association (VNA), Pottstown VNA and Advantage Home Care, Inc (BHC), see note 3(c). These transactions resulted in a net gain of $3,550 in the year ended June 30, 2019.

The Parent is a 20% owner of Quest Behavioral Health, Inc. (Quest). Quest is a not-for-profit corporation providing full service managed behavioral healthcare. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $367 and $164 at June 30, 2020 and 2019, respectively.

Horizon is a for-profit limited liability partnership of which the Parent is a 25% owner. The investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $2,234 and $2,222 at June 30, 2020 and 2019, respectively.

AllSpire Health Partners, LLC is an alliance of five systems in New Jersey and Pennsylvania of which the Parent is a 20% owner. The consortium will carry out joint activities in traditional areas of patient care services, research and education to enhance the value of health care that communities receive. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $462 and $406 at June 30, 2020 and 2019, respectively.

(Continued)

AllSpire Health GPO, LLC formed May 31, 2016 is an alliance of the five system's that are part of AllSpire Health Partners, LLC of which the Parent is a 20% owner. The alliance was created to help manage expenses by group establishing purchasing volumes, streamlining suppliers and implementing efficiencies across all partners. The goal is to identify clinical optimization and revenue opportunities to provide access to quality products to providers and patients. In the year ended June 30, 2020, the Parent received a distribution of $430. This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $276 and $2,510 at June 30, 2020 and 2019, respectively.

UPMC (University of Pittsburgh Medical Center) Health Plan and the Parent created a joint venture on January 1, 2017, of which each member is a 50% equity owner. UPMC Health Plan provides third party administration and flexible spending account administration services for the System. Additional benefits result in enhanced cost savings, value-based healthcare to residents and companies in the greater Berks County area and access to the System as an in-network provider. In the year ended June 30, 2020 and 2019, the Parent received a distribution of $464 and $1,373, respectively This investment is recorded under the equity method of accounting and is included in investments in joint ventures on the accompanying consolidated balance sheets, totaling $1,577 and $7,401 at June 30, 2020 and 2019, respectively.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). The significant accounting policies followed by the System are as follows:

(a) Principles of Consolidation

The consolidated financial statements of the System include the accounts of the Parent, the Hospital, CMP, THMG, THP, RHF, THE and STC. All entities where the Parent, Hospital, or THE exercises significant influence but for which it does not have control are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Deficiency of Revenues, Gains and Other Support over Expenses

The consolidated statements of operations include the deficiency of revenues, gains and other support over expenses. Changes in net assets without donor restrictions that are excluded from this performance indicator, consistent with industry practice, include changes in unrealized gains (losses) on marketable securities classified as other than trading securities, adjustments for defined benefit and other postretirement benefits, and contributions of long-lived assets (including assets acquired using contributions, which by donor-restriction were to be used for the purposes of acquiring such assets).

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At June 30, 2020 and 2019, the System had cash balances in financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

(e) Net Patient Service Revenue

The System's net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and include an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/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 System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a reasonable representation 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 inpatient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

The majority of the System's services are rendered to patients with third party coverage. Reimbursement under these programs for all payors is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medicaid programs are subject to review and final determination by program intermediaries or their agents. The contracts the System has with commercial payors also provide for retroactive audit and review of claims. Agreements with third-party payors typically provide for payments at amounts less than established charges. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Implicit price concessions are determined based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the

(Continued)

(Dollars in thousands)

change are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. The System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g. 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 System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. The System has determined that it has provided sufficient implicit price concessions for these accounts. Price concessions, consisting of charity care are not reported as revenue.

The System's estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts, which are determined using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Estimates for uncollectible amounts are based on the aging of the accounts receivable, historical collection experience for similar payors and patients, current market conditions, and other relevant factors.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2020 and 2019 was not significant to the consolidated financial statements.

The percentages of net patient service revenue from patients and third-party payors for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Medicare	22 %	19 %
Medicare Advantage	12	11
Medicaid	4	3
Managed Medicaid	10	9
Blue Cross	26	33
Commercial	18	19
Self-pay and other	8	6
	100 %	100 %

During 2020, the System received $172,689 as part of the expansion of the Center for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payment Program (the Program) under the CARES Act (note 18). The Program provided cash flow to acute and critical access hospitals in the form of interest-free advances to ensure providers and suppliers had the resources needed to respond to the COVID-19 pandemic. These funds will be recouped by CMS over time as claims submitted for services to Medicare beneficiaries are processed. Beginning at one year from the date the initial payment was issued and continuing for 11 months, Medicare payments owed to providers will be recouped at a rate of 25%. After the 11 months end, Medicare payments owed to providers will be recouped at a rate of 50% for another 6 months. After the 6 months end, any remaining balance of the accelerated or advance payment will be required to be repaid.

(Dollars in thousands)

(f) Accounts Receivable

The System has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheets. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The percentages of net patient accounts receivable from patients and third-party payors as of June 30, 2020 and 2019 were as follows:

	2020	2019
Medicare	12 %	14 %
Medicare Advantage	16	13
Medicaid	9	7
Managed Medicaid	21	12
Blue Cross	11	16
Commercial	11	18
Self-pay and other	20	20
	100 %	100 %

(g) Inventories

Inventories are stated at lower of cost (determined by the first-in, first-out method) or market.

(h) Assets Whose Use is Limited

Assets whose use is limited includes designated assets set aside by the Board of Directors for future capital improvements, assets held by trustees under indenture agreements and self-insurance trust arrangements. The Board of Directors retains control over Board-designated assets and may at its discretion subsequently use these assets for other purposes.

Assets whose use is limited includes cash and cash equivalents, marketable securities (including U.S. government and government agencies, corporate, state and local government), marketable equity securities (including common, preferred, and foreign stock), exchange traded/listed mutual funds (including fixed income funds), hedge funds, private equity funds, and limited partnerships.

(i) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets.

Investment income earned on securities (interest and dividends) is reported in the nonoperating gains (losses) section of the consolidated statements of operations within investment income. Realized gains or losses related to the sale of investments, impairment losses on other than trading investments, and unrealized gains or losses on alternative investments and other board designated investments, are included in the nonoperating gains (losses) section of the consolidated statements of operations in investment income unless the income or loss is restricted by donor or law.

Restricted investments and assets held for self-funding arrangements are classified as other than trading, and net unrealized gains on these instruments are included in the consolidated statements of changes in net assets. Impairment losses are included in the consolidated statements of operations within nonoperating gains (losses) as other than temporary impairment on other than trading investments.

The fair value option for financial assets and liabilities permits the System to elect to measure eligible items at fair value on an instrument by instrument basis. If elected, this option requires the System to report the unrealized gains and losses on these instruments as part of the performance indicator. Once elected, the fair value option is irrevocable for that instrument. Alternative investments include investments in managed funds, which include hedge funds, private equities, limited partnerships, and other investments that do not have readily determinable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private equities, limited partnerships, and other investments in managed funds (collectively Alternative Investments) are accounted for using the fair value option. The unrealized gains or losses from these Alternative Investments are included in the consolidated statements of operations as part of nonoperating gains (losses) within investment income.

(j) Fair Value Measurements

The System estimates fair value based on Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, which uses a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly in which the fair value is determined through the use of models or other valuation methodologies

(Dollars in thousands)

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; Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation.

In addition, the System also estimates the fair value of investments in certain investment companies for which the investment does not have a readily determinable fair value by using net asset value (NAV) per share or its equivalents as a practical expedient.

(k) Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable asset. Useful lives range as follows:

Land improvements	5–25 years
Buildings and building improvements	10–50 years
Fixed equipment	5–15 years
Movable equipment (including software and hardware)	3–15 years

Gains and losses resulting from the retirement or sale of property, plant and equipment are included in the consolidated statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Gifts of long-lived operating assets such as land, buildings or equipment are reported as contributions without donor restrictions and are excluded from the performance indicator unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor 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 support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Management has reviewed the carrying amount of these assets and has determined there was $23,578 of impairment in the year ended June 30, 2020 and no impairment in the year ended June 30, 2019.

(l) Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination. The System evaluates goodwill for impairment annually and whenever events or changes in circumstances indicate that the value of the asset may be impaired. Impairment testing consists of performing internal qualitative and/or quantitative assessments and considers other publicly available market information. If the carrying amount of the goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying value to the estimated fair value. Management has reviewed for impairment of goodwill and determined it is not currently impaired.

(m) Deferred Financing Costs

Deferred financing costs are amortized over the period the debt or financing obligations are outstanding using the straight-line method, which approximates the effective interest method. Amortization of deferred financing costs totaled $598 and $525 for the years ended June 30, 2020 and 2019, respectively. Accumulated amortization totaled $2,725 and $2,127 as of June 30, 2020 and 2019, respectively.

(n) Estimated Self-Insurance Costs

The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System self-insures its medical malpractice, general liability, and workers' compensation risks. Reserve estimates are subject to the impact of changes in claim trends as well as prevailing social, economic, and legal conditions. The ultimate net cost of settling these liabilities may vary from the estimated amounts. Accordingly, reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in the performance indicator.

(o) Accrued Vacation

The System records a liability for amounts due to employees for future paid leave, which are attributable to services performed in the current and prior periods.

(p) Bond Premiums and Discounts

Bond premiums and discounts are amortized to interest and expensed as direct additions or reductions of the carrying values of the related debt instruments from which the discounts or premiums arose. Bond premiums and discounts are amortized to interest expense over the period during which the debt is outstanding using the straight-line method, which approximates the effective interest method.

(q) Derivative Instruments

The System follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as an effective cash flow hedge. The process for designating a derivative as an effective hedge includes an assessment of the instrument's effectiveness in risk reduction, matching the derivative instrument to its underlying transactions and an assessment of the probability that the underlying transaction will occur. All of the System's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayments, and market risk in excess of the amounts recognized on the consolidated balance sheets. Such risks include the possibility that there will be no liquid market for these arrangements, the counterparty to these arrangements may default on its obligations to perform, and there may be unfavorable changes in interest rates. The System does not hold derivative instruments for the purpose of managing credit risk and enters into derivative transactions with high quality counterparties.

The interest rate swap agreements entered into by the System are adjusted to market value based upon quotations from the counterparties and a credit valuation adjustment is applied to the valuations of the swaps which takes into consideration counterparty risk of default. The change in market value is recorded in the consolidated statements of operations within the performance indicator.

(r) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the System have been limited by donors to a specific time period or purpose and net assets that have been restricted by donors to be maintained by the System in perpetuity.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in net assets with donor restrictions as of year-end. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. No material deficiencies existed at June 30, 2020 and 2019.

(s) Other Revenue

Significant components of other revenue include rental income on leased properties, residential revenue, tuition revenue for The Reading Hospital School of Health Sciences, contributions, and cafeteria revenues. Included in other revenue for the year ended June 30, 2020 is $97,673 of Coronavirus Aid, Relief, and Economic Security (CARES) Act receipts recognized under various programs.

Additionally, pharmacy sales and other contracts related to health care services are included in other revenue and consist of contracts which vary in duration and in performance. Revenue is recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

(t) Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated statements of operations.

(Continued)

(u) Income Taxes

The System is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such a basis, the exempt entities do not incur liability for federal income taxes, except in the case of unrelated business income.

The System evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the consolidated financial statements were required as a result of this evaluation.

(v) Uncompensated Care and Community Service

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, family size, and ability to pay. Individuals who qualify for charity care do not have insurance or other coverage.

The System 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 supplies furnished under its charity care and community service policies, and the estimated cost of those services.

Charges foregone for uncompensated care as determined in accordance with the System's policies were approximately $12,783 and $23,187 in the years ended June 30, 2020 and 2019, respectively. Direct and indirect costs to provide these services were approximately $2,046 and $6,912 for the years ended June 30, 2020 and 2019, respectively. The estimated costs were based on a calculation, which multiplied the cost to charge ratio by the gross charges associated with providing uncompensated care to patients. The cost to charge ratio was obtained from the System's most recently filed Medicare cost report.

Additionally, the System sponsors certain other service programs and charity services, which provide substantial benefit to the broader community. Such programs include services to needy populations requiring special services and support, community service programs and charity services, as well as health promotion and education.

The System's community service includes the Medical Assistance program, which makes payment for services provided to families with dependent children, the aged, the blind, and the permanently and totally disabled, whose income and resources are insufficient to meet the costs of necessary medical services. Payments from the Medical Assistance program are generally less than the System's cost of providing the service.

In addition, community service represents the cost to deliver services to the community, net of any payment received for those services. Included in these services are the System's subsidies of outpatient clinics, education of medical professionals who work with various health care providers in the

(Continued)

community upon graduation and community mental health programs. The System also sponsors health fairs and other wellness programs throughout the community.

(w) Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01*)*, which changes the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The adoption of ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2017. The System adopted the standard on July 1, 2019 and it did not have a material impact on the System's consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which requires lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and requires changes in processes and internal controls. The adoption of ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and requires application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The System adopted the standard on July 1, 2019 using the modified retrospective approach as of the period of adoption, and as a result, the System's financial statements for periods prior to July 1, 2019 were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASU 2016-02 and previous GAAP is the recognition of lease assets and lease liabilities on the statements of financial position by lessees for those leases previously classified as operating leases. Upon adoption of ASU 2016-02, the System recorded, net of intercompany eliminations, $154,713 of right-of-use assets, associated with operating leases in the consolidated balance sheets, $22,313 current liabilities associated with operating leases in the consolidated balance sheets, and $132,400 of long-term liabilities associated with operating leases included in operating lease liabilities in the consolidated balance sheets. The adoption did not have a material impact on the System's results of operations.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (ASC Topic 350): Simplifying the Test for Goodwill Impairment*, which will eliminate the requirement to calculate the implied fair value of goodwill, commonly referred to as "Step 2" in the current goodwill impairment test. An entity will still have the option to perform the qualitative assessment to determine if the quantitative impairment test is necessary. The System early adopted this standard on July 1, 2019.

Effective July 1, 2019, Tower Health adopted, using the retrospective approach, FASB ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* which together, provide guidance on the classification of certain cash receipts and payments and inclusion of restricted cash in the statement of cash flows. Adoption did not result in changes to the consolidated statements cash flows. Disclosures have been updated to reflect the adoption.

(Dollars in thousands)

(3) Acquisitions

(a) STC Healthcare LLC

The System and Drexel University formed STC Opco LLC (STC Opco), a joint venture company to acquire the assets of St. Christopher's Hospital for Children (St. Christopher's). The sale of St. Christopher's to STC Opco was approved by the U.S. Bankruptcy Court for the District of Delaware as part of the process to resolve the Chapter 11 bankruptcy filed by Philadelphia Academic Health System, LLC, the parent company of Center City Healthcare, LLC (Center City Healthcare). Center City Healthcare is the former owner and operator of St. Christopher's. The acquisition was completed on December 15, 2019.

The total consideration paid was $58,236, with $29,118 paid by Drexel University. The total consideration paid was allocated to net tangible assets acquired and liabilities assumed based upon the estimated fair values. The excess of the consideration paid over the estimated fair value of the net tangible assets acquired and liabilities assumed was recorded as goodwill. The allocation of the consideration paid to property, plant and equipment was based upon valuation data and estimates. Goodwill recognized from the acquisition is the result of anticipated long-term improvements in core businesses of St. Christopher's and related physician clinics and practices.

Inventories	$	6,019
Prepaid expenses and other current assets		263
Property, plant and equipment		11,824
Right of use assets		19,546
Goodwill		51,449
Operating lease liabilities – current		(1,161)
Accrued vacation		(499)
Other current liabilities		(10,820)
Operating lease liabilities, net of current portion		(18,385)
Net assets acquired	$	58,236

Certain estimated fair values of the net assets of STC above are subject to changes resulting from such items as working capital adjustments post-acquisition. As a result, the acquisition accounting for STC could change in subsequent periods resulting in adjustments to goodwill once finalized.

(b) Tower Health Urgent Care

On December 1, 2018, the System acquired Tower Health Urgent Care, LLC from Premier. Total cash consideration paid was $24,345. The total consideration paid was allocated to net tangible assets acquired and liabilities assumed based upon the estimated fair values. The excess of the consideration paid over the estimated fair value of the net tangible assets acquired and liabilities assumed was recorded as goodwill. Goodwill recognized from the acquisition is the result of the expected savings to be realized from achieving certain efficiencies and economies of scale with increased quality and access at a lower cost of care.

(Continued)

(Dollars in thousands)

The consideration price and related fair value allocation of the assets acquired, and liabilities assumed in the acquisition, which resulted in goodwill totaling $27,064, are summarized as follows:

Property, plant and equipment	$	2,346
Goodwill		27,064
Accrued expenses		(2,719)
Accrued vacation		(416)
Other current liabilities		(1,863)
Capital lease obligations		(67)
Net assets acquired	$	24,345

(c) Tower Health at Home

The System acquired Tower Health at Home on January 1, 2019. No cash consideration was paid as a result of the acquisition. The Parent treated the business combination as a nonreciprocal transfer of assets, resulting in the contribution of the fair value of the acquiree's net assets to the acquirer. The excess of the fair value of net assets acquired over the consideration transferred was recorded as a contribution related to the acquisition totaling $7,194. The related fair value allocation of the assets acquired and liabilities assumed in the acquisition is summarized as follows:

Cash and cash equivalents	$	835
Accounts receivable		948
Prepaid expenses and other current assets		109
Property, plant and equipment		2,078
Investments		4,389
Other assets		46
Accounts payable		(570)
Accrued expenses		(589)
Capital lease obligations		(52)
Net assets acquired	$	7,194

(4) Pending Transactions

On November 12, 2018, the System announced an agreement to sell an undeveloped 80 acre parcel of land in Spring Township, Pennsylvania. The System's overall ownership of the parcel is approximately 103 acres and it will retain approximately 23 acres following the transaction. The land was classified as assets held for sale on the accompanying 2019 consolidated balance sheet. At June 30, 2020, the land was reclassified to property, plant, and equipment on the accompanying 2020 consolidated balance sheet as the sale was not consummated.

(5) Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

(a) Medicare and Medicare Advantage

Inpatient acute care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed by Medicare under the Ambulatory Payment Classification System. The System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to medical necessity reviews by independent organizations under contract with the Center for Medicare and Medicaid Services (CMS). In August 2020, the System had received settlements on Medicare cost reports through June 30, 2017.

(b) Medicaid and Managed Medicaid

On December 29, 2010, the Pennsylvania Department of Human Services (DHS) received approval from the Centers for Medicare & Medicaid Services for the state plan amendments pursuant to Act 49 of 2010, passed by the Pennsylvania General Assembly on July 3, 2010, which established a new inpatient hospital fee for service payment system, new supplemental payments and the waiver to establish the statewide Quality Care Assessment. DHS also received approval on final language for the DHS contracts with managed care organizations. The estimated net impact on the System for the years ended June 30, 2020 and 2019, was $49,071 and $20,864, respectively, (based on total payment increases of $89,475 and $50,723, offset by assessments of $40,404 and $29,944, respectively).

(c) Nongovernmental Payors

Inpatient services rendered by nongovernmental payors are reimbursed at negotiated rates. The System continues to be reimbursed for outpatient services at a negotiated percentage of covered charges.

(d) Workers' Compensation

The payment method by which all employers and/or insurers of workers' compensation policies will pay for the services provided by health care providers to employees covered by workers' compensation is a percentage of the Medicare payment for these services.

(e) Other Contractual Arrangements

The System has various payment agreements with preferred provider organizations and health maintenance organizations. The basis for payment under these agreements includes discounts from established charges.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review

(Continued)

(Dollars in thousands)

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.

(6) Assets Whose Use is Limited and Investments

Assets whose use is limited and that are required for obligations classified as current liabilities are reported as current assets. The composition of assets whose use is limited at June 30, is set forth in the following tables.

		2020	2019
Self-insurance funding arrangements:			
Cash and cash equivalents	$	—	2,169
Certificates of deposit		15,148	7,723
U.S. government securities		8,905	11,693
Corporate and foreign bonds		9,067	5,230
Equity mutual funds		612	570
Total assets whose use is limited under self-insurance funding arrangements	$	33,732	27,385

		2020	2019
By board for capital improvements and under regulatory requirements:			
Cash and cash equivalents	$	76,210	6,613
Common, foreign, and preferred stock		42,420	13,041
Equity mutual funds		149,078	196,963
Fixed income mutual funds		138,103	268,611
Hedge, private equity, common collective trust funds		136,653	215,210
Total assets whose use is limited by the board for capital improvements and under regulatory requirements	$	542,464	700,438
Investments with donor restrictions:			
Cash and cash equivalents	$	2,519	6,661
Equity mutual funds		12,733	12,423
Fixed income mutual funds		4,533	3,885
Beneficial interest in trusts		17,915	18,029
Total investments with donor restrictions	$	37,700	40,998

(Dollars in thousands)

The System's investments include 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 general economic conditions.

The following table presents cost and fair value of assets whose use is limited and investments as of June 30, 2020:

		Fair value	Cost
Cash and cash equivalents	$	78,729	78,729
Certificates of deposit		15,148	15,148
Corporate and foreign bonds		9,067	8,847
Common, foreign, and preferred stock		42,420	53,806
U.S. government securities		8,905	8,601
Equity mutual funds		162,423	148,985
Fixed income mutual funds		142,636	126,121
Hedge funds and private equity		136,653	126,076
Beneficial interest in trusts		17,915	15,367
Total	$	613,896	581,680

The following table presents cost and fair value of assets whose use is limited and investments as of June 30, 2019:

		Fair value	Cost
Cash and cash equivalents	$	15,446	15,446
Certificates of deposit		7,723	7,723
Corporate and foreign bonds		5,230	5,193
Common, foreign, and preferred stock		13,041	13,236
U.S. government securities		11,691	11,562
Equity mutual funds		209,955	206,421
Fixed income mutual funds		272,496	259,796
Hedge funds and private equity		215,210	191,935
Beneficial interest in trusts		18,029	15,301
Total	$	768,821	726,613

(Continued)

(Dollars in thousands)

The following table represents the fair value measurement levels for all assets and liabilities, which the System has recorded at fair value on a recurring basis:

		2020		
	Fair value June 30, 2020	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 78,729	78,729	—	—
Certificates of deposit	15,148	15,148	—	—
Corporate and foreign bonds	9,067	—	9,067	—
Common, foreign and preferred stock	42,420	42,420	—	—
U.S. government securities	8,905	—	8,905	—
Equity mutual funds	162,423	162,423	—	—
Fixed income funds	142,636	142,636	—	—
Hedge funds and private equity (1)	136,653	—	—	—
Beneficial interest in trusts	17,915	—	—	17,915
Total investments	$ 613,896	441,356	17,972	17,915

		2019		
	Fair value June 30, 2019	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 15,446	15,446	—	—
Certificates of deposit	7,723	7,723	—	—
Corporate and foreign bonds	5,230	—	5,230	—
Common, foreign and preferred stock	13,041	13,041	—	—
U.S. government securities	11,691	—	11,691	—
Equity mutual funds	209,955	209,955	—	—
Fixed income funds	272,496	272,496	—	—
Hedge funds and private equity (1)	215,210	—	—	—
Beneficial interest in trusts	18,029	—	—	18,029
Total investments	$ 768,821	518,661	16,921	18,029
Liabilities:				
Swap contracts	$ 31,387	—	31,387	—

(Dollars in thousands)

(1) Certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient to fair value have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Following is the summary of the inputs and valuation techniques as of and for the years ended June 30, 2020 and 2019 for valuing Level 2 financial instruments:

Financial instrument	Input	Valuation technique
Corporate and foreign bonds	Broker/dealer	Market
U.S. government securities	Broker/dealer	Market
Swap contracts	Broker/dealer	Market

The following table represents the change in fair value for which fair value was measured under Level 3:

		Beneficial interests in trust
Fair value at June 30, 2018	$	16,987
Net unrealized gains and additions		1,042
Fair value at June 30, 2019		18,029
Net unrealized losses and additions		(114)
Fair value at June 30, 2020	$	17,915

Transfers between levels occur when there is a change in the observability of significant inputs. A transfer between Level 1 and Level 2 generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. Transfers between levels are recognized on the date they occur. For the years ended June 30, 2020 and 2019, no transfers were made between any Levels.

The System holds instruments recorded at net asset value per share (or its equivalent) as a practical expedient to fair value and that do not have a readily determinable fair value as follows as of June 30:

2020	Fair value	Unfunded commitments	Redemption frequency (if eligible)	Redemption notice period
	(In millions)			
a – Multi-strategy hedge funds	$ 31.4	—	Quarterly, annually	60 days
b – Real assets	3.5	0.7	Annually, up to 3 years	90 days
c – Real estate funds	63.5	6.0	N/A	N/A
d – Private equity funds	38.3	17.9	N/A	N/A
Total	$ 136.7	24.6		

2019	Fair value	Unfunded commitments	Redemption frequency (if eligible)	Redemption notice period
	(In millions)			
a – Multi-strategy hedge funds	$ 62.9	—	Quarterly, annually	60 days
b – Real assets	8.5	0.7	Annually, up to 3 years	90 days
c – Real estate funds	99.1	7.6	N/A	N/A
d – Private equity funds	44.7	24.8	N/A	N/A
Total	$ 215.2	33.1		

a. Multi-Strategy Hedge Funds: This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient. The remaining restriction period for these investments ranges from quarterly to annually.

b. Real Assets: This class includes funds with direct investments in global and energy infrastructure as well as in base and precious metals and investment securities of miners and associated mining equipment. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.

c. Real Estate Funds: This class includes real estate funds that invest in U.S. and non-U.S. residential and commercial properties as well as distressed real estate. The fair values of the investments in this class have been estimated using the net asset value of the System’s ownership interest in partners’ capital as a practical expedient. It is estimated that the underlying assets of these funds will be liquidated over the next 7 to 10 years, although these funds may liquidate early in the event of purchase by a third party or initial public offering. The fair values of the investments in this class have been estimated using the net asset value of the System’s ownership interest in partners’ capital as a practical expedient.

(Dollars in thousands)

d. Private Equity Funds: This class includes private equity funds. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. These funds are managed by one of the System's advisors with particular private equity experience in secondary market dealing. These funds could be subject to redemption to a third-party buyer, but at June 30, 2020 and 2019, no funds were currently being evaluated this way. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient.

(7) Liquidity and Availability of Resources

Financial assets available within one year of the balance sheet date for general expenditures such as operating expenses and construction costs not financed with debt at June 30 are as follows:

		2020	2019
Cash and cash equivalents	$	356,892	3,818
Patient accounts receivable		260,970	314,630
Other receivables		37,992	10,757
Estimated third-party payor receivables		25,623	21,461
	$	681,477	350,666

Current financial assets not available for general use because of contractual or donor-imposed restrictions was $7,533 and $7,483 for June 30, 2020 and 2019, respectively. Amounts not available for general use include amounts set aside for self-insurance funds and perpetual, time and purpose restricted assets.

(8) Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation at June 30 consists of the following:

		2020	2019
Land and land improvements	$	122,185	101,947
Buildings and improvements		925,928	913,694
Fixed equipment		424,508	415,413
Movable equipment (includes software and hardware)		782,501	640,439
Construction in progress		123,113	174,069
Property, plant and equipment before depreciation		2,378,235	2,245,562
Less accumulated depreciation		(1,214,756)	(1,114,098)
Property, plant and equipment, net	$	1,163,479	1,131,464

(Dollars in thousands)

As of June 30, 2020 and 2019, assets under capital leases consist of medical buildings with an acquired fair value of $20,399 and $20,261 and accumulated amortization of $1,331 and $1,493, respectively. Assets under capital leases are included in property, plant and equipment on the accompanying consolidated balance sheets.

Depreciation expense relating to property, plant and equipment was $100,658 and $94,419 for the years ended June 30, 2020 and 2019, respectively.

At June 30, 2020, the remaining commitments on construction in progress contracts are approximately $60,000.

(9) Long-Term Debt

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

		2020	2019
Berks County Industrial Development Authority Hospital Revenue			
Series of 2020, net of unamortized discount and premium	$	510,055	—
Berks County Municipal Authority Hospital Revenue Bond:			
Series of 2017, net of unamortized discount and premium		640,607	692,773
Berks County Municipal Authority Hospital Revenue Bond:			
Series of 2012, net of unamortized discount and premium		165,249	265,197
Berks County Municipal Authority Hospital Revenue Bond:			
Series of 2009, net of unamortized discount		—	49,011
Term loans		—	125,165
Total long-term debt		1,315,911	1,132,146
Less amounts due within one year		(3,750)	(6,312)
Less deferred financing costs, net		(9,761)	(8,178)
Long-term debt, net of current portion	$	1,302,400	1,117,656

(Dollars in thousands)

Scheduled principal repayments on long-term debt are as follows for the years ending June 30:

2021	$	3,750
2022		5,765
2023		9,810
2024		8,680
2025		9,355
Thereafter		1,168,520
Total long-term debt – Par		1,205,880
Plus unamortized net premium/discounts		110,031
Less deferred financing costs, net		(9,761)
Long term-debt, net of unamortized premiums/discount and deferred financing costs	$	1,306,150

The Parent, the Hospital, and the Chester/Montgomery/Philadelphia Hospitals (collectively, the Obligated Group) have borrowed funds through revenue bonds issued by the Berks County Municipal Authority and the Berks County Industrial Development Authority (Authority). The proceeds originally were used in part to finance certain facilities of the Obligated Group. The revenue bonds are secured by a pledge of revenue of the Obligated Group. For accounting purposes, the revenue bonds are treated as though they are the debt of the entity which received the proceeds.

(a) Berks County Municipal Authority Hospital Revenue Bond Series of 2020

On February 11, 2020 the Authority issued $264,595 of Revenue Bonds (2020) and $190,720 Taxable Term Bonds for a total of $455,315. Proceeds were used in the refunding the 2009 A-3 bonds, Series 2012 B and C, Series 2016 A, C and D, Series 2017 A, funding the Interest Rate Swaps termination with the swap counterparty (see note 10), the cost of issuance, and $150,000 for general corporate purposes. The original issuance premium associated with the issuance was $56,596.

The Series 2020 bonds are comprised of $44,660 serial bonds, $219,935 of put bonds and $190,720 of taxable term bonds. The serial and put bonds are due in annual installments beginning February 1, 2021 through February 1, 2040 with payments ranging from $1,330 to $20,910. The 2020 B-1 Series, which comprise $64,565 of the put bonds, may be prepaid at any time after August 1, 2024 for a premium to par and may be tendered at par value beginning on February 1, 2025. The taxable term bonds are due on February 1, 2054 with a one-time payment of $190,720.

The effective interest rate at issuance ranges from 3.95% to 4.31% on the serial bonds and 4.45% on the term bonds.

All Series 2020 series are paid at a fixed coupon rate between 4.45% and 5.00%. After the issuance of the Series 2020 bonds and refunding of the series mentioned, the System's long-term debt portfolio is comprised of 100% fixed rate debt.

(b) Berks County Industrial Development Authority Hospital Revenue Bond Series of 2017

On October 31, 2017, the Authority issued $590,500 of Revenue Bonds (2017) for the purpose of repaying a bridge loan and refunding the 2009 A-3 bonds. The net original issuance premium associated with the issuance was $56,151.

The Series 2017 bonds are comprised of $161,400 of serial bonds and $429,100 of term bonds. The serial bonds are due in annual installments payable on November 1, 2021 through November 1, 2039 with payments ranging from $1,770 to $13,715. The term bonds are due on November 1, 2042, 2047 and 2050 with total payments of $43,185, $196,320, and $189,595, respectively. The effective interest rate ranges from 4% to 5% on the serial bonds and 3.75% to 5% on the term bonds.

On December 27, 2017, Berks County Municipal Authority issued $50,000 of Variable Rate Serial Revenue bonds (2017 A) for the purpose of refunding the Authority Series 2016B. Mandatory annual principal redemptions by the System for the Series 2017 A bonds due November 1, 2022 through November 1, 2035, range from $2,475 to $5,025 with final maturity on November 1, 2035. Interest on these bonds is calculated on a SIFMA Municipal Index rate plus a fixed spread of 0.75%. The SIFMA Municipal Index Rate at June 30, 2019 was 1.90%. Series 2017 A was refunded in connection with Series 2020.

(c) Berks County Municipal Authority Hospital Revenue Bond Series of 2012

On June 28, 2012, the Authority issued $473,275 of Revenue Bonds in four series, 2012 A, B, C, and D. At the end of June 30, 2020, only the 2012 A remains outstanding.

The Authority issued $160,065 of Fixed Rate Serial Revenue Bonds (2012 A) for the purpose of refunding the then-existing Dauphin County General Authority Hospital Revenue Bond Series 1994A, and Berks County Bond Series 1998 and 2008. Mandatory annual principal redemptions by the System for the 2012 A bonds due November 1, 2039 through November 1, 2044, range from $7,590 to $33,555 with final maturity on November 1, 2044. Effective interest rate of the bonds range from 4.23% to 4.50%.

The Authority issued $91,775 of Variable Rate Serial Revenue bonds (2012 B) for the purpose of refunding the Series 2009 A-5 bonds. Mandatory annual principal redemptions by the System for the 2012 B bonds due November 1, 2035 through November 1, 2039, range from $3,225 to $24,955 with final maturity on November 1, 2039. Interest on these bonds is calculated on a SIFMA Municipal Index rate plus a fixed spread of 1.50%. The SIFMA Municipal Index rate at June 30, 2019, was 1.90%. Series 2012 B was refunded in connection with Series 2020.

The Authority issued a $47,235 Floating Rate Bond (2012 C) used to refund the then-existing Series 2009 A-4 bonds and a $174,000 Floating Rate Bond (2012 D) used to refund the then-existing Series 2009 A-1 and A-2 bonds. Both Series 2012 C and 2012 D bonds were privately placed with commercial banks. Mandatory monthly principal redemptions by the System for the Series 2012 C bonds commenced on August 1, 2012 through July 1, 2022, and range from $39 to $129 with final maturity date on July 1, 2022. Interest on these bonds is calculated using a one-month London Interbank Offered Rate Index rate (LIBOR) plus a fixed spread of 1.20% with the sum multiplied by a factor of 70.0%. The one-month LIBOR rate at June 30, 2019, was 2.40%. Series 2012 B was refunded in connection with Series 2020.

(d) Berks County Municipal Authority Hospital Revenue Bond Series of 2009

The Series 2009 A-3 bonds were issued on July 15, 2009. The Authority issued $133,665 of Fixed Rate Revenue Bonds, Series 2009 A-3 for the primary purpose of redeeming $115,520 of the then-existing Series 2001 bonds and $14,965 for major renovation projects.

The Series 2009 A-3 bonds are comprised of $44,285 of serial bonds and $89,380 of term bonds. The serial bonds are due in installments payable November 1, 2009, through 2019, with payments ranging from $120 to $4,895. The term bonds are due on November 1 of 2024, 2031, and 2039, with payments ranging from $820 to $9,380. The effective interest rate ranges from 3% to 5% on the serial bonds and 5.25% to 5.75% on the term bonds.

During the fiscal year ended June 30, 2018, in connection with the issuance of the Series 2017 bonds, the System advance refunded a portion of the Series 2009 A-3 bonds by in-substance defeasance. The System funded an escrow account of $48,561. As of June 30, 2020 and 2019, $44,675 of the original debt remained outstanding, but was considered to be extinguished by the System. Such debt will be paid to bondholders from escrow accounts funded at the transaction date.

(e) Term Loans

Effective May 16, 2016, the System refinanced the Series 2012 D bonds by the securing term bank loans in four series, 2016 A, B, C, and D with a notional amount of $175,165. All 2016 series nonsyndicate bank loans are direct bank loans with a maturity of seven years.

Series 2016A with a notional amount of $50,165 has an interest rate calculated at 67% of 1-month LIBOR plus a fixed spread of 0.58%. Principal installments of $2,485 begin in November 1, 2022 followed by a full redemption of the balances in May 2023. Series 2016A was refunded in connection with Series 2020.

Series 2016B with a notional amount of $50,000 were refunded in December 2017 by the issuance of the Series 2017A Variable Rate Serial Revenue Bonds.

Series 2016C with a notional amount of $25,000 has an interest rate calculated at 70% of 1-month LIBOR plus a fixed spread of 0.84%. Principal installments of $1,240 begin November 1, 2022 followed by a full redemption of the balance in May 2023. Series 2016C was refunded in connection with Series 2020.

Series 2016D with a notional amount of $50,000 has an interest rate calculated at 67% of 1-month LIBOR plus a fixed spread of 0.675%. Principal installments of $2,475 begin in November 1, 2022 followed by a full redemption of the balance in May 2023. Series 2016D was refunded in connection with Series 2020.

(f) Lines of Credit

At June 30, 2020 and 2019, the System had $150,000 and $25,000 total available lines of credit. During the year ended June 30, 2020, the System opened or modified exiting uncommitted lines of credit with several banks. The aggregate additional capacity opened during the year ended June 30, 2020 was $125,000 including the line devoted to letters of credit.

Included in the additional capacity opened during 2020 was $40,000 of a short term 1-year committed bank line of credit facility to be used for St. Christopher’s funding requirements. Borrowings from this facility are charged an interest rate of 1-month LIBOR plus 0.45%. 1-Month LIBOR was 0.18% at June 30, 2020. The commitment fee for this facility is charged at 0.1% of undrawn amount. Drawn amounts on the bank line of credit at June 30, 2020 were $10,000.

Of the total lines available, $40,000 was committed and $110,000 was uncommitted. The open balance of these facilities at June 30, 2020 and 2019 are $55,000 and $17,802 respectively. Average interest rate on the drawn lines is 1.54%. Total combined open and undrawn letters of credit at June 30, 2020 and 2019 amounted to $2,445 and $2,269 respectively.

(g) Covenants

The various agreements place limits on the incurrence of additional borrowings and require that the System satisfy certain measures of financial performance as long as the debt is outstanding. These covenants apply to the Obligated Group and include, but are not limited to: a long-term debt service coverage ratio of 1.10x, measured annually in June of each year. The System was not in compliance with the long-term debt service coverage ratio as of June 30, 2020. To satisfy requirements of the System’s Master Trust Indenture (MTI), the System has engaged an independent consultant to advise the System on possible steps to enhance future operating results to achieve the required long-term debt service coverage ratio in the future. The System has commenced corrective action as required under its MTI with the engagement of the independent consultant; therefore, no default or event of default exists under the terms of the MTI.

(10) Interest Rate Swaps

The System utilizes derivative instruments, such as interest rate swaps, to manage certain interest rate exposures. Derivative instruments are viewed as risk management tools by the System and are not used for trading and speculative purposes.

When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each leg of the derivative. This analysis reflects the contractual terms of the derivatives, including interest rate curves and implied volatilities. The estimates of fair value valuation are made by swap counterparties using a standardized methodology based on observable market inputs. As part of the System’s overall valuation process, management evaluates this counterparty valuation methodology to ensure that it is representative of exit prices in the principal markets. These future net cash flows, however, are susceptible to change primarily due to fluctuations in interest rates. As a result, the estimated values of these derivatives will change over time as cash is received and paid and as interest rates change. As these changes occur, they may have a positive or negative impact on estimated valuations.

(Dollars in thousands)

The System has classified its interest rate swaps in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data. For over-the-counter derivatives that trade in liquid markets such as interest rate swaps, model inputs (i.e., contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

In connection with the Series 2020 issuance, the System paid $36,765 to terminate its interest rate swap portfolio. The fair value of the swap contracts was as follows as of June 30, 2019:

Classification of derivatives included in liabilities in the consolidated balance sheets		2019
Derivatives not designated as hedging instruments:		
2008 bond issuance	$	(3,344)
2005 bond issuance		1,724
2002 bond issuance		15,311
2001 bond issuance		17,076
1992 bond issuance		620
Total swap contracts	$	31,387

Changes in fair value of swap contracts in the consolidated balance sheets totaled losses of $3,339 and $4,611 for the years ended June 30, 2020 and 2019, respectively. The net amount paid or received under the swap contracts is recorded in the consolidated statements of operations as net cash settlement payments. Net payments totaled $2,128 and $4,461 for the years ended June 30, 2020 and 2019, respectively.

No new swaps were initiated in the fiscal years ending June 30, 2020 and 2019.

In connection with the 2008 bond issuance, the System entered into two interest rate basis swap agreements with a third party by which the System pays SIFMA and receives an average of 0.85% of three-month LIBOR with a third party. Notional amounts of these basis swaps are $146,835, and the three-month LIBOR rate at June 30, 2019, was 2.32%. The SIFMA Municipal Index Rate at June 30, 2019 was 1.90%.

In connection with the 2005 bond issuance, the System entered into an interest rate swap agreement with a third party. The swap economically converts the variable rate obligation of the 2005 bonds to a fixed rate of 3.584%. Notional amount of the swap is $21,000.

In connection with the 2001 and 2002 bonds issuances, the System entered into two interest rate swap agreements with a third party. The swaps economically convert the variable rate obligations of the 2001 and 2002 bonds to a fixed rate of 4.30% and 4.69%, respectively. Notional amounts of the 2001 and 2002 bond issuance swaps are $100,015 and $59,530, respectively.

(Dollars in thousands)

In connection with the 2002 bond issuance, the System entered into two interest rate swap agreements with a third party. One of these swaps expired in FY2018. The remaining swap effectively converts the variable rate obligation of the Series A bonds to a fixed rate of 4.69%. Notional amounts of the swap is $3,635.

In connection with the 1992 bond issuance, the System entered into an interest rate swap agreement with a third party, which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the bonds to a fixed rate of 3.607%. Notional amount of the swap is $5,500.

The change in the fair value of the interest rate swap agreements and the net settlement payments associated with these swaps are recorded in nonoperating gains (losses) on the consolidated statements of operations.

(11) Retirement Plans

Prior to June 30, 2016, substantially all employees of the System were covered under a qualified noncontributory defined benefit pension plan (the Plan). Pension costs are funded as accrued except when not permitted by regulations, such as full funding limitations. Unfunded prior service costs are amortized over an initial term of thirty years.

The System has effectively transitioned the Plan into a defined contribution plan as of June 30, 2016. Employees hired on or after July 1, 2013 have been enrolled in the defined contribution plan. Previous defined benefit participants hired on or before June 30, 2013, continued to accrue benefits in the existing defined benefit plan until June 30, 2016. As of July 1, 2016, all vested participant defined benefits remain accrued, but all current employees have now converted to and began to accumulate funds under the defined contribution plan. This action has effectively frozen the defined benefit plan as of June 30, 2016.

In the year ended June 30, 2019, the System completed a small balance pension plan annuitization initiative with a national insurance company in which a number of retirees who were previously paid monthly benefits by the pension plan, with an accrued pension liability of $24,100, were transferred out of the plan for a one-time payment from plan assets of $23,957. Impact to the plan funding status was negligible. The initiative had the effect of transferring administrative costs and future monthly pension payments of 44% of existing plan retirees to the insurance company. Further savings were also realized by reducing System future payments to the PBGC – Pension Benefit Guaranty Corporation.

Obligations and funded status at June 30 for the Plan:

		2020	2019
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	649,214	626,203
Interest cost		24,289	26,214
Actuarial gain		57,537	42,822
Benefits paid		(22,421)	(46,025)
Benefit obligation at end of year	$	708,619	649,214

(Dollars in thousands)

		2020	2019
Change in plan assets:			
Fair value of plan assets at beginning of year	$	423,183	424,228
Actual return on assets		5,327	31,660
Employer contributions		12,755	13,320
Benefits paid		(22,421)	(46,025)
Fair value of plan assets at end of year	$	418,844	423,183

Amounts recognized in the consolidated balance sheets at June 30 consist of:

		2020	2019
Accrued pension	$	289,775	226,031
Total accrued liability	$	289,775	226,031
Amounts recognized in net assets consist of:			
Net actuarial loss	$	344,570	269,294
Pension cost charged to net assets	$	344,570	269,294

Net periodic pension cost (benefit) components at June 30 include the following:

		2020	2019
Interest cost on projected benefit obligation	$	24,289	26,214
Expected return on plan assets		(29,397)	(33,900)
Amortization of net loss		6,331	5,222
Net periodic pension cost (benefit)	$	1,223	(2,464)

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions as of June 30:

		2020	2019
Net gain	$	81,607	45,063
Amortization of net loss		(6,331)	(5,222)
Total recognized in net assets without donor restrictions	$	75,276	39,841

(Continued)

(Dollars in thousands)

The amount expected to be amortized from net assets without donor restrictions to net periodic pension cost in nonoperating gains (losses) during fiscal year 2021 is $8,822.

Weighted average assumptions used to determine benefit obligations at June 30:

	2020	2019
Discount rate	3.13 %	3.78 %
Rate of compensation increase	N/A	N/A
Measurement date	6/30/2020	6/30/2019

Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:

	2020	2019
Discount rate	3.78 %	4.29 %
Expected long-term return on plan assets	7.00	8.00
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

(a) Plan Assets

The System approved a revision of the Plan's investments asset allocations targets during the year ended June 30, 2020. The System is in the process of redeploying assets to align with the new targets.

The Plan's weighted average actual asset allocations and target allocations as of June 30 by asset category are as follows:

	2020	
	Target	Actual
Asset category:		
Cash and cash equivalents	— %	3.0 %
Equities, including mutual funds	56.0	42.0
Fixed income, including mutual funds, state, municipal government, and auction rate securities	30.0	25.0
Alternative investments (1)	14.0	30.0
	100.0 %	100.0 %

(Dollars in thousands)

	2019	
	Target	**Actual**
Asset category:		
Cash and cash equivalents	— %	1.2 %
Equities, including mutual funds	45.0	39.5
Fixed income, including mutual funds, state, municipal government, and auction rate securities	20.0	23.6
Alternative investments (1)	35.0	35.7
	100.0 %	100.0 %

(1) Note: Long/Short Equity and Private Equity are classified as Alternative Investments.

The overall investment objective of the Plan is to provide a return on investment consistent with the Plan's spending needs and to prevent erosion of purchasing power by inflation. Achievement of the return will be sought from an investment strategy that provides an opportunity for superior returns within acceptable levels of risk and volatility of returns. The following tables represent the fair value measurement levels for the Plan's investments:

	2020			
	Fair value June 30, 2020	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Cash and cash equivalents	$ 12,717	12,717	—	—
Equity mutual funds	166,713	166,713	—	—
Equities	9,099	9,099	—	—
U.S. government securities	54,406	—	54,406	—
Corporate and foreign bonds	50,148	—	50,148	—
Hedge funds and private equity (1)	125,762	—	—	—
Total investments	$ 418,845	188,529	104,554	—

			2019		
		Fair value June 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Cash and cash equivalents	$	5,088	5,088	—	—
Equity mutual funds		158,125	158,125	—	—
Equities		8,935	8,935	—	—
Fixed income mutual funds		99,779	99,779	—	—
Hedge funds and private equity (1)		151,256	—	—	—
Total investments	$	423,183	271,927	—	—

(1) Certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient to fair value have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Transfers between levels occur when there is a change in the observability of significant inputs. A transfer between Level 1 and Level 2 generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. Transfers between levels are recognized on the date they occur. For the years ended June 30, 2020 and 2019, no transfers were made between Levels.

The Plan holds investments that calculate net asset value per share (or its equivalent) and do not have a readily determinable value are as follows as of June 30:

2020		Fair value	Unfunded commitments	Redemption frequency (if eligible)	Redemption notice period
		(In millions)			
a – Multi-strategy hedge funds	$	87.0	4.7	Monthly, quarterly, annually, biannually, biennially	30–90 days
b – Real assets		5.8	3.5	Weekly, monthly	5–30 days
c – Real estate funds		6.9	4.4	N/A	N/A
d – Private equity funds		26.0	10.2	N/A	N/A
Total	$	125.7	22.8		

2019		Fair value	Unfunded commitments	Redemption frequency (if eligible)	Redemption notice period
		(In millions)			
a – Multi-strategy hedge funds	$	108.3	3.3	Monthly, quarterly, annually, biannually, biennially	30–90 days
b – Real assets		11.0	4.5	Weekly, monthly	5–30 days
c – Real estate funds		6.9	1.9	N/A	N/A
d – Private equity funds		25.1	13.7	N/A	N/A
Total	$	151.3	23.4		

a. Multi-Strategy: This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient. The remaining restriction period for these investments ranges from monthly to biennially.

b. Real Assets: This class includes funds with direct investments in commodities and energy master limited partnerships. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.

c. Real Estate Funds: This class includes real estate funds that invest in U.S. and non-U.S. residential and commercial properties as well as distressed real estate. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient. It is estimated that the underlying assets of these funds will be liquidated over the next 7 to 10 years, although these funds may liquidate early in the event of purchase by a third party or initial public offering.

d. Private Equity Funds: This class includes private equity funds. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. These funds could be subject to redemption to a third-party buyer, but at June 30, 2020 and 2019, no funds were currently being evaluated this way. The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient.

(b) Contributions

The System expects to contribute the minimum required contribution during the fiscal year 2021 to the Plan, which is estimated to be approximately $27,000. For the years ended June 30, 2020 and 2019, the System contributed $12,755 and $13,320, respectively to the Plan. For the years ended June 30, 2020 and 2019, the System contributed $45,962 and $41,229, respectively to the defined contribution plan and $1,295 and $2,390, respectively to the nonqualified deferred compensation plan.

(Dollars in thousands)

(c) Estimated Future Benefit Payments

The following Plan benefit payments are expected to be paid for the fiscal years ending June 30:

2021	$	24,000
2022		26,300
2023		27,900
2024		29,400
2025		30,800
2026 through 2030		169,000

(12) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

		2020	2019
Various health care services	$	18,263	21,721
Permanent endowment funds, the interest and dividend income from which is expendable to support health care services		17,915	18,029
Total donor restricted net assets	$	36,178	39,750

(13) Insurance Arrangements

The System participates in the Pennsylvania Medical Care Availability and Reduction of Error Fund or Mcare Fund established under the Commonwealth of Pennsylvania. The Mcare Fund presently provides coverage excess of up to $500 to the System's primary per occurrence retention (which is currently $500) with annual aggregate coverage of $1,500.

The System established a self-insurance trust fund to provide protection against professional liability claims. The trust is actuarially funded on an annual basis to provide single limit professional liability coverage of $500 per occurrence and $4,500 in the annual aggregate for the Hospital and certain employees. For incidents occurring since April 30, 2009, the System purchased commercial insurance to provide coverage on a claims-made basis in an amount up to $25,000 in excess of a total retention of $3,000, $500 primary; $500 Mcare excess and a $2,000 self-insured buffer. Claim liabilities are presented gross of any insurance recoveries. Certain claim liabilities are discounted at an interest rate of 3% for years ended June 30, 2020 and 2019, and decreased the undiscounted liability as of June 30, 2020 and 2019 by $1,709 and $1,193, respectively. For the years ended June 30, 2020 and 2019, the insurance recoverable amount was $3.500 and $3,500, respectively, which is included in other receivables and other assets on the consolidated balance sheets. Funding requirements of the plan are subject to increase depending on the plan's claim experience. Premium payments for the Mcare Fund are based upon each individually licensed healthcare provider's rating with the Joint Underwriters Association and the amount of the surcharge to be assessed is determined by the Mcare Fund on an annual basis. The System's annual surcharge premium for participation in the Mcare Fund was $6,079 and $3,573 for the years ended June 30, 2020 and 2019, respectively.

(Dollars in thousands)

During the year ended June 30, 2018, in conjunction with the acquisition of CMP, Tower Health formed a captive Reciprocal Risk Retention Group (RRG) subsidiary for the purpose of self-insuring malpractice at CMP. During the year ended June 30, 2019, a decision was made to extend the RRG coverage not only to the CMP professional liabilities, but to cover Reading hospital and all affiliates as well. All reserves and liabilities accrued to Reading Hospital will be borne by the existing self-insurance coverages and, beginning in the second quarter of fiscal 2019, all new reserves incurred and liabilities will accrue to the RRG. Statutory funding of $2,000 and second year's premiums in the amount of $7,932 were paid during the 2020 fiscal year. Statutory funding is included in assets under regulatory requirements on the consolidated balance sheets.

Additionally, the System self-insures its workers' compensation and minor general liability risks. The System's self-insurance plan has been reviewed and approved by the Commissioner of Insurance of Pennsylvania. The System purchases excess workers' compensation insurance for all controlled entities of the hospital with statutory limits over a self-retention of $1,000 per occurrence subject to a policy maximum of $1,000 for the policy period. Workers' compensation liabilities are discounted at an interest rate of 3% for the years ended June 30, 2020 and 2019, and decreased the undiscounted liability as of June 30, 2020 and 2019 by $2,168 and $1,832, respectively.

Reserves for self-insurance claims at June 30 are summarized as follows:

		2020	2019
Professional liability claims payable	$	30,886	25,411
Workers' compensation		10,493	9,118
Total self-insurance claims reserve		41,379	34,529
Less current portion		(9,916)	(9,430)
Self-insurance claims reserve, net of current portion	$	31,463	25,099

(14) Commitments and Contingencies

(a) Leases

On July 1, 2019, the System adopted ASU No. 2016-02, *Leases (Topic 842)*, which requires operating leases with durations greater than 12 months to be recognized on the balance sheet through recognition of a liability for the discounted present value of future lease payments and a corresponding right-of-use (ROU) asset. The System leases property and equipment under finance and operating leases. Leases are classified as either operating or finance with classification affecting the pattern and classification of expense recognition in the consolidated statements of operations. The System's accounting for finance leases remain substantially unchanged from its prior accounting for capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payment.

The System adopted this standard using the modified retrospective approach, which provides entities relief by allowing them not to restate prior comparative periods from the adoption of ASC 842. As a result, the System's financial statements for periods prior to July 1, 2019 were not modified for the application of the new lease accounting standard.

Leases with an initial term of 12 months or less that do not have an option to purchase the underlying asset are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the term of the lease. For leases with terms greater than 12 months, the System records the related assets and obligations at the present value of lease payments over the term. Many of the System's leases include rental escalation clauses and renewal options that are factored into our determination of lease payments, when appropriate.

In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which provides additional transition guidance. The System adopted the provisions of this ASU on July 1, 2019. In adopting and applying this ASU, the System elected to adopt several practical expedients, including carry forward our historical assessments of whether contracts are or contain leases, the lease classification and the treatment of initial direct cost. The System has elected not to allocate contract consideration between the lease and non-lease components.

In general, the lease term is clearly stated in the lease agreement, but when the agreement includes renewal options, management judgmentally determines the term of the lease. Since most of the System's leases do not provide a rate of return, the System uses its incremental borrowing rate (IBR) based on information available at the commencement date in determining the present value of lease payments. The System estimates its IBR as the rate of interest the System would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term similar to the lease.

Total operating lease cost was $45,225 and rental expense under all operating leases was $34,112 for the years ended June 30, 2020 and 2019, respectively.

(Continued)

(Dollars in thousands)

Commitments relating to noncancellable operating and finance leases obligations for each of the next five years and thereafter are as follows:

		Finance leases	Operating leases
2021	$	2,241	22,781
2022		2,285	18,655
2023		2,309	18,171
2024		2,341	16,626
2025		2,388	12,692
Thereafter		13,509	111,421
Total future minimum lease payments		25,073	200,346
Less amount representing interest		(5,692)	(48,597)
Total finance and operating leases		19,381	151,749
Less current portion		(2,241)	(21,864)
Total finance and operating leases, net of current	$	17,140	129,885

The finance leases represent the present value of future minimum lease payments, bear imputed interest at 4.33%, and mature at dates ranging from 2028 to 2031.

Supplemental cash flow and other information related to operating leases as of and for the year ended June 30, 2020 are as follows:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	30,096
Right-of-use assets obtained in exchange for new operating lease liabilities		7,081
Weighted average remaining lease term:		
Operating leases		12.6 years
Weighted average, discount rate:		
Operating leases		4.2 %

(b) *Financing Obligations*

In June 2020, the System entered into sale-leaseback transactions with a third party which did not qualify as a sale. As a result of the transactions, (1) the assets and accumulated depreciation remain on the consolidated balance sheet and continue to be depreciated over the remaining useful lives;

(Dollars in thousands)

(2) no gain is recognized; and (3) proceeds received from these transactions are recorded as financing obligations.

Financing obligations represent the present value of minimum lease payments under such lease arrangements and bear interest of approximately 4% at June 30, 2020, and the initial term maturity dates range from 2035 to 2040.

The following table summarizes the future minimum payments for the next five years and thereafter under leases classified as financing obligations for the fiscal years ending June 30:

2021	$	13,147
2022		13,410
2023		13,678
2024		13,952
2025		14,231
Thereafter		229,042
Total future minimum lease payments		297,460
Less amount representing interest		(93,756)
Total financing obligations		203,704
Less current portion		(13,147)
Less deferred financing costs		(6,744)
Total financing obligations, net of current	$	183,813

(c) Drexel University

In February 2019, the System and Drexel University signed a 20 year academic agreement. In connection with this affiliation, a new four year regional campus of Drexel University College of Medicine will be constructed in West Reading. The campus is expected to be operational for the 2021 2022 academic year. In August 2019, the System entered into a joint venture arrangement and the construction of the campus will be funded by capital commitments from the joint venture partners and lender financing. The System contributed $8,645 to the joint venture during the year ended June 30, 2020.

In connection with the acquisition of STC, Drexel University provided a $30,000 line of credit, which accrues interest at a 1 month LIBOR rate plus 2.5%, for working capital and capital expenditures. As of June 30, 2020, all $30,000 was drawn and is currently due on March 31, 2021.

(d) Litigation

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

(e) Regulatory Compliance

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(15) Concentrations

(a) Concentrations of Credit Risk

Financial instruments, which potentially subject the System to concentrations of credit risk, consist primarily of cash, cash equivalents, investments, and accounts receivable.

Management periodically evaluates the credit standing of the financial institutions with which the System maintains its cash, cash equivalents, and investments. Amounts held in its accounts often exceed the federally insured levels.

The fair value of the System's investments is subject to various market fluctuations, which include changes in the interest rate environment and general economic conditions.

(b) Unions and Collective Bargaining

As of June 30, 2020 and 2019, approximately 10% and 6% of the System's employees are subject to collective bargaining agreements with various unions, respectively. The bargaining agreements have various expiration dates, with the next expiration in 2021.

(16) Functional Expenses

Expenses attributed to each program or supporting function of Tower Health are reported in the following tables. Expenses attributable to more than one program require allocation, which is consistently applied and based upon reasonable statistics such as revenue, expenses or full-time equivalents. The System considers health program services and general/administrative to be its primary functional categories for purposes of expense classification. General/administrative includes information systems, general corporate management, advertising and marketing. Functional categories of expenses, excluding impairment, for the years ended June 30 are as follows:

(Dollars in thousands)

		2020		
		Healthcare services	General and administrative	Total
Salaries and benefits	$	1,197,602	116,587	1,314,189
Supplies		313,868	1,645	315,513
Interest		49,076	—	49,076
Depreciation		100,658	—	100,658
Purchased services		230,170	53,684	283,854
Repairs and maintenance		80,029	791	80,820
Other		105,005	54,038	159,043
Transaction related expenses		—	30,426	30,426
Total	$	2,076,408	257,171	2,333,579

		2019		
		Healthcare services	General and administrative	Total
Salaries and benefits	$	944,915	93,371	1,038,286
Supplies		289,765	1,519	291,284
Interest		42,010	—	42,010
Depreciation		94,412	—	94,412
Purchased services		212,231	45,958	258,189
Repairs and maintenance		64,043	633	64,676
Other		80,558	41,457	122,015
Transaction related expenses		—	21,637	21,637
Total	$	1,727,934	204,575	1,932,509

(17) Certain Significant Risks and Uncertainties

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, Health Care Reform), enacted in March 2010, have changed and will continue to make broad-based changes to the U.S. health care system which could significantly affect the U.S. economy and which the System expects will continue to impact the System’s business operations and financial results. Since its enactment in 2010, key components of Health Care Reform have been phased in, including health insurance exchanges (Public Exchanges), new Medicare products, and the individual coverage mandate. Although Health Care Reform was phased in through 2018, many significant changes occurred in 2014. The System is dedicating material resources to monitor the potential impacts of Health Care Reform as well as state level health care reform. While the federal government has issued a number of regulations implementing Health Care Reform, certain significant parts of Health Care Reform, including aspects of Public Exchanges, Medicaid expansion, enforcement related reporting for the individual and employer mandates, and the implementation of Medicare Advantage, require further guidance and clarification at the federal level and/or in the form of regulations and actions by state legislatures to implement the law. The federal government also has announced significant changes to and/or delays in effective dates of various aspects of Health Care Reform, and it is likely that further changes will be made at the federal and/or state level based on implementation experience. As a result, key aspects and impacts of Health Care Reform will not be known for several years, and given the inherent difficulty of foreseeing how individuals and businesses will respond to the choices afforded them by Health Care Reform, the System cannot predict the full effect Health Care Reform will have on the System. It is reasonably possible that Health Care Reform, in the aggregate, could have an adverse effect on the System's business operations and financial results.

Federal budget negotiations, ongoing regulatory changes to Health Care Reform, pending efforts in the U.S. Congress to amend or restrict funding for various aspects of Health Care Reform and litigation challenging aspects of the law continue to create uncertainty about the ultimate impact of Health Care Reform.

In addition, the federal and state governments continue to enact or seriously consider many other broad-based legislative and regulatory proposals that have impacted or could materially impact various aspects of the health care system. The System cannot predict whether pending or future federal or state legislation, will change various aspects of the health care system or Health Care Reform or the impact those changes will have on the System's business operations or financials results, but the effects could be adverse.

(18) COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues for most of the System's services were significantly impacted in the last two weeks of March 2020, as well as, significant impact through the fourth quarter of fiscal year 2020 as various policies were implemented by federal, state and local governments in response to the pandemic. Those policies forced the closure of, or limitation on certain businesses, as well as, suspending elective surgical procedures by healthcare facilities and forced many people to stay at home. While some of the restrictions have been eased across the U.S. and most states have lifted moratoriums on non-emergent procedures, some restrictions remain in place with some state and local governments re-imposing certain restrictions on businesses and travel due to increased rates of new cases. While consolidated patient volumes and revenues experienced gradual improvement beginning the early part of May 2020 and continuing through the remainder of the fiscal year, predicting the future impact of the pandemic on the System's operations is difficult.

The System's response plan to the pandemic is multifaceted and evolves as the pandemic unfolds. Proactive and precautionary measures have been taken to enhance the System's operational and financial flexibility, and react to the risks the COVID-19 pandemic present to our business. Such measures include evolution of the System's digital health network to continue to provide healthcare to patients seeking care in a safe and effective remote setting, a COVID-19 chat tool so patients can check their symptoms, offering the regions only COVID-free hospitals for patients and elective surgeries once restrictions on elective procedures were lifted, establishment of COVID-19 only testing facilities and implementation of cost reduction measures.

The System believes the extent of the pandemic's adverse impact on the operating results and financial condition has been and will continue to be driven by many factors beyond our control and ability to forecast with any certainty. Those factors include but are not limited to ongoing business closures and restrictions, future possibility of government mandated restrictions on elective procedures and care, rising unemployment rates and resulting dilution of payer mix, patient reluctance to seek care under stay at home measures and incremental costs required for supplies. Because of these and other uncertainties, we cannot estimate the length or severity of the impact on our business. Any on-going or future adverse impact of the pandemic on patient volumes may impact the System's financial performance and cash flows from operations, which in turn may impact accounting estimates and reserves.

During the fourth quarter of fiscal year 2020, the System received $172,689 of accelerated Medicare payment and $97,673 in general and targeted Provider Relief Fund distributions, both as provided for under the Coronavirus Aid, Relief and Economic Security (CARES) Act. Of the $97,673, $40,415 was from general distributions and $57,258 in targeted funds. Distributions from the Provider Relief Fund are not subject to repayment provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that distributions received have been used for healthcare-related expenses and lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized in other supporting revenue once the applicable terms and conditions required to retain the funds are met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the System's results through the end of the fourth quarter of 2020, the System recognized all of the general and targeted funds collectively and these payments are included in other revenue in the 2020 consolidated statements of operations. Subsequent to June 30, 2020, the System received an additional $45,532 of provider relief funds which are subject to repayment if conditions are not met. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on our revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions the ability to retain some or all of the distributions received may be impacted.

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half due December 2022. At June 30, 2020, the System had deferred $13,660 of payroll taxes included in other long term liabilities on the 2020 consolidated balance sheet. Additionally, the CARES Act created a payroll tax credit designed to encourage companies to retain employees during the pandemic. The System continues to evaluate its eligibility for this credit and therefore has not recognized any amounts related to this payroll tax credit in fiscal year 2020.

(Continued)

(19) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through November 6, 2020, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

Schedule I

TOWER HEALTH AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2020

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	STC	Consolidating and eliminating entries	Tower Health consolidated
Current assets:										
Cash and cash equivalents	$ 305,387	(11,925)	(4,093)	—	1,348	—	5,154	61,021	—	356,892
Patient accounts receivable	—	131,909	65,674	—	21,142	—	5,563	36,682	—	260,970
Other receivables	3,182	19,796	2,868	331	4,250	316	1,711	5,538	—	37,992
Receivable (payable) from (to) affiliates	84,211	58,536	(117,017)	(950)	—	(1,111)	(18,099)	(1,820)	(3,750)	—
Inventories	—	38,801	20,619	—	—	—	16	6,636	—	66,072
Estimated third-party payor receivables	—	11,838	7,767	—	—	—	—	6,018	—	25,623
Prepaid expenses and other current assets	4,291	24,722	9,747	20	1,441	35	631	5,744	—	46,631
Assets whose use is limited – required for current liabilities:										
Self-insurance funding arrangements	51	7,482	—	—	—	—	—	—	—	7,533
Total current assets	397,122	281,159	(14,435)	(599)	28,181	(760)	(5,024)	119,819	(3,750)	801,713
Assets whose use is limited:										
Self-insurance funding arrangements	13,882	12,317	—	—	—	—	—	—	—	26,199
Under regulatory requirements	2,000	—	—	—	—	—	—	2,000	—	4,000
By board for capital improvements	538,119	—	—	—	—	—	345	—	—	538,464
Investments with donor restrictions	—	288	—	—	—	34,840	2,572	—	—	37,700
Total assets whose use is limited, net of current portion	554,001	12,605	—	—	—	34,840	2,917	2,000	—	606,363
Long-term receivables from affiliates	401,778	—	—	—	—	—	—	—	(401,778)	—
Property, plant and equipment, net	35,996	810,642	287,768	—	15,167	—	5,536	8,370	—	1,163,479
Right of use assets	—	63,571	36,165	—	33,109	—	10,529	19,203	(10,828)	151,749
Goodwill	—	—	128,127	—	—	—	27,064	51,449	—	206,640
Investments in joint ventures	15,304	58	—	—	—	—	4,162	—	—	19,524
Other assets	3,287	2,997	—	—	219	679	277	(539)	—	6,920
Total assets	$ 1,407,488	1,171,032	437,625	(599)	76,676	34,759	45,461	200,302	(416,356)	2,956,388

(Continued)

Schedule I

TOWER HEALTH AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2020

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	STC	Consolidating and eliminating entries	Tower Health consolidated
Current liabilities:										
Current installments of long-term debt	$ 3,750	—	—	—	—	—	—	—	—	3,750
Line of credit	55,000	—	—	—	—	—	—	—	—	55,000
Operating lease liabilities – current	—	6,443	6,765	—	8,186	—	2,472	1,487	(3,489)	21,864
Finance leases	—	—	2,237	—	—	—	4	—	—	2,241
Financing obligations – current	13,147	—	—	—	—	—	—	—	—	13,147
Accounts payable	—	82,004	24,263	11	11,496	—	961	20,820	—	139,555
Estimated third-party settlements	—	4,212	2,267	—	—	—	—	—	—	6,479
Current portion of estimated self-insurance costs	—	9,916	—	—	—	—	—	—	—	9,916
Accrued expenses	14,883	31,721	14,111	34	31,728	—	1,266	9,674	—	103,417
Accrued vacation	—	26,734	12,744	63	21,513	—	1,084	4,647	—	66,785
Current installments of long-term affiliated payables	—	3,750	—	—	—	—	—	60,000	(33,750)	30,000
CMS advances	—	10,380	8,199	—	430	—	115	—	—	19,124
Other current liabilities	—	22,312	4,512	79	1,744	(22)	—	17,054	—	45,679
Total current liabilities	86,780	197,472	75,098	187	75,097	(22)	5,902	113,682	(37,239)	516,957
Long-term debt, net of current portion and unamortized discount/premium	1,302,400	—	—	—	—	—	—	—	—	1,302,400
Operating lease – right of use-net of current portion	—	57,128	29,400	—	24,923	—	8,057	17,716	(7,339)	129,885
Capital leases	—	—	17,113	—	—	—	27	—	—	17,140
Accrued pension liabilities	—	289,775	—	—	—	—	—	—	—	289,775
CMS advances	—	79,491	62,786	—	10,411	—	877	—	—	153,565
Other liabilities	—	18,662	440	28	85	12	1,634	1,737	—	22,598
Financing obligations, net of current portion and deferred financing costs	183,813	—	—	—	—	—	—	—	—	183,813
Estimated self-insurance costs, net of current portion	11,583	17,367	—	—	—	—	—	2,513	—	31,463
Long-term affiliates payables, net of current portion	—	371,778	—	—	—	—	—	—	(371,778)	—
Total liabilities	1,584,576	1,031,673	184,837	215	110,516	(10)	16,497	135,648	(416,356)	2,647,596
Net assets (deficit):										
Without donor restrictions:										
Tower Health and Subsidiaries	(177,088)	139,071	252,753	(814)	(33,840)	(842)	28,720	32,327	—	240,287
Noncontrolling interest	—	—	—	—	—	—	—	32,327	—	32,327
With donor restrictions	—	288	35	—	—	35,611	244	—	—	36,178
Total net assets (deficit)	(177,088)	139,359	252,788	(814)	(33,840)	34,769	28,964	64,654	—	308,792
Total liabilities and net assets (deficit)	$ 1,407,488	1,171,032	437,625	(599)	76,676	34,759	45,461	200,302	(416,356)	2,956,388

See accompanying independent auditors' report.

Schedule II

TOWER HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2020

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	STC	Consolidating and eliminating entries	Tower Health consolidated
Revenues and other support:										
Net patient service revenue	$ —	929,654	436,716	—	196,471	—	35,445	155,248	(39,771)	1,713,763
Other revenue	6,703	102,636	36,764	4,071	9,733	663	467	50,697	(7,194)	204,540
Total revenues and other support	6,703	1,032,290	473,480	4,071	206,204	663	35,912	205,945	(46,965)	1,918,303
Expenses:										
Salaries and benefits	—	577,018	294,189	2,879	348,815	683	30,789	100,384	(40,568)	1,314,189
Supplies	—	162,403	120,777	12	12,019	6	1,563	18,733	—	315,513
Interest	—	20,126	27,982	—	—	—	2	966	—	49,076
Depreciation	—	66,372	26,343	—	1,918	—	858	5,167	—	100,658
Purchased services	213	87,720	90,366	732	51,841	40	2,101	50,906	(65)	283,854
Repairs and maintenance	—	54,713	19,787	788	775	35	629	4,093	—	80,820
Other	9	84,227	20,741	171	35,117	731	6,239	14,931	(3,123)	159,043
Expense allocations	—	(106,567)	106,567	—	—	—	—	—	—	—
Transaction related expenses	—	19,629	1,598	—	4,414	—	438	4,347	—	30,426
Total expenses	222	965,641	708,350	4,582	454,899	1,495	42,619	199,527	(43,756)	2,333,579
Income (loss) from operations before impairment	6,481	66,649	(234,870)	(511)	(248,695)	(832)	(6,707)	6,418	(3,209)	(415,276)
Impairment	—	—	23,578	—	—	—	—	—	—	23,578
Income (loss) from operations after impairment	6,481	66,649	(258,448)	(511)	(248,695)	(832)	(6,707)	6,418	(3,209)	(438,854)
Nonoperating (losses) gains:										
Investment income	17,800	65	—	—	—	—	(30)	—	—	17,835
Change in fair value of swap contracts net of		—	—	—	—	—	—	—	—	
settlement payments	(5,467)	—	—	—	—	—	—	—	—	(5,467)
Loss on early extinguishment of debt	(4,124)	—	—	—	—	—	—	—	—	(4,124)
Other (losses) gains	205	(3,788)	(3)	—	—	—	410	—	—	(3,176)
Nonoperating (losses) gains, net	8,414	(3,723)	(3)	—	—	—	380	—	—	5,068
(Deficiency) excess of revenues, gains and other support over expenses	14,895	62,926	(258,451)	(511)	(248,695)	(832)	(6,327)	6,418	(3,209)	(433,786)
Income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	3,209	3,209
(Deficiency) excess of revenues, gains and other support over expenses Attributable to Tower Health and Subsidiaries	$ 14,895	62,926	(258,451)	(511)	(248,695)	(832)	(6,327)	6,418	(6,418)	(436,995)

See accompanying independent auditors' report.

Schedule III

TOWER HEALTH AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2019

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	Consolidating and eliminating entries	Tower Health consolidated
Current assets:									
Cash and cash equivalents	$ 3,275	697	87	—	91	—	(332)	—	3,818
Patient accounts receivable	—	148,521	131,994	—	29,074	—	5,041	—	314,630
Other receivables	926	1,918	2,214	103	3,462	423	1,711	—	10,757
Receivable from affiliates	8,632	4,481	906	—	—	—	(7,395)	(6,312)	312
Inventories	—	26,948	20,926	—	511	—	7	—	48,392
Estimated third-party payor receivables	—	18,376	3,085	—	—	—	—	—	21,461
Prepaid expenses and other current assets	5,555	18,487	6,746	7	1,419	—	301	—	32,515
Assets held for sale	19,875	—	—	—	—	—	—	—	19,875
Assets whose use is limited – required for current liabilities:									
Self-insurance funding arrangements	1	7,482	—	—	—	—	—	—	7,483
Total current assets	38,264	226,910	165,958	110	34,557	423	(667)	(6,312)	459,243
Assets whose use is limited:									
Self-insurance funding arrangements	7,723	12,179	—	—	—	—	—	—	19,902
Under regulatory requirements	2,000	—	—	—	—	—	—	—	2,000
By board for capital improvements	697,780	42	—	—	—	—	616	—	698,438
Investments with donor restrictions	—	3,869	—	—	—	33,669	3,460	—	40,998
Total assets whose use is limited, net of current portion	707,503	16,090	—	—	—	33,669	4,076	—	761,338
Long-term receivables from affiliates	378,108	—	—	—	—	—	—	(378,108)	—
Property, plant and equipment, net	16,121	791,507	305,735	—	13,449	—	4,652	—	1,131,464
Goodwill	—	—	128,127	—	—	—	27,064	—	155,191
Investments in joint ventures	13,053	199	—	—	—	—	4,098	—	17,350
Other assets	—	(456)	—	—	225	1,536	275	—	1,580
Total assets	$ 1,153,049	1,034,250	599,820	110	48,231	35,628	39,498	(384,420)	2,526,166

(Continued)

Schedule III

TOWER HEALTH AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2019

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	Consolidating and eliminating entries	Tower Health consolidated
Current liabilities:									
Current installments of long-term debt	$ 6,312	—	—	—	—	—	—	—	6,312
Line of credit	17,802	—	—	—	—	—	—	—	17,802
Capital leases	—	—	2,201	—	—	—	14	—	2,215
Accounts payable	(2)	91,743	42,057	47	2,363	—	414	—	136,622
Estimated third-party settlements	—	3,680	597	—	—	—	—	—	4,277
Current portion of estimated self-insurance costs	—	9,430	—	—	—	—	—	—	9,430
Accrued expenses	7,026	11,884	5,823	162	26,362	—	485	—	51,742
Accrued vacation	—	22,359	11,182	88	15,683	—	1,203	—	50,515
Current installments of long-term affiliated payables	—	6,312	—	—	—	—	—	(6,312)	—
Other current liabilities	—	15,915	7,673	89	695	—	—	—	24,372
Total current liabilities	31,138	161,323	69,533	386	45,103	—	2,116	(6,312)	303,287
Long-term debt, net of current portion and unamortized discount/premium	1,117,656	—	—	—	—	—	—	—	1,117,656
Capital leases	—	—	18,831	—	—	—	56	—	18,887
Accrued pension liabilities	—	226,031	—	—	—	—	—	—	226,031
Other liabilities	—	6,735	229	27	80	10	2,033	—	9,114
Estimated self-insurance costs, net of current portion	7,445	17,654	—	—	—	—	—	—	25,099
Swap contracts	31,387	—	—	—	—	—	—	—	31,387
Long-term affiliates payables, net of current portion	—	378,108	—	—	—	—	—	(378,108)	—
Total liabilities	1,187,626	789,851	88,593	413	45,183	10	4,205	(384,420)	1,731,461
Net assets (deficit):									
Without donor restrictions:									
Tower Health and Subsidiaries	(34,577)	240,530	511,220	(303)	3,048	(10)	35,047	—	754,955
Non-Ccontrolling Interest	—	—	—	—	—	—	—	—	—
With donor restrictions	—	3,869	7	—	—	35,628	246	—	39,750
Total net assets (deficit)	(34,577)	244,399	511,227	(303)	3,048	35,618	35,293	—	794,705
Total liabilities and net assets (deficit)	$ 1,153,049	1,034,250	599,820	110	48,231	35,628	39,498	(384,420)	2,526,166

See accompanying independent auditors' report.

Schedule IV

TOWER HEALTH AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2019

(Dollars in thousands)

	Parent	Hospital	CMP	THP	THMG	RHF	THE	Consolidating and eliminating entries	Tower Health consolidated
Revenues and other support:									
Net patient service revenue	$ —	976,053	525,498	—	205,001	—	20,186	(38,474)	1,688,264
Other revenue	6,998	41,404	8,171	1,836	5,126	2,320	3,897	(4,288)	65,464
Total revenues and other support	6,998	1,017,457	533,669	1,836	210,127	2,320	24,083	(42,762)	1,753,728
Expenses:									
Salaries and benefits	—	475,010	287,533	2,525	296,149	491	16,332	(39,754)	1,038,286
Supplies	—	154,724	125,197	11	10,597	3	752	—	291,284
Interest	—	13,156	28,830	—	—	—	24	—	42,010
Depreciation	—	66,012	25,469	830	1,660	—	441	—	94,412
Purchased services	263	112,724	99,356	91	44,397	59	1,363	(64)	258,189
Repairs and maintenance	36	42,023	20,580	793	857	35	352	—	64,676
Other	45	61,719	34,976	208	22,291	2,386	3,334	(2,944)	122,015
Expense allocations	—	(52,004)	52,004	—	—	—	—	—	—
Transaction related expenses	—	19,424	—	—	2,213	—	—	—	21,637
Total expenses	344	892,788	673,945	4,458	378,164	2,974	22,598	(42,762)	1,932,509
Income (loss) from operations	6,654	124,669	(140,276)	(2,622)	(168,037)	(654)	1,485	—	(178,781)
Nonoperating (losses) gains:									
Investment income	49,623	(141)	—	—	—	—	110	—	49,592
Change in fair value of swap contracts net of settlement payments	(9,072)	—	—	—	—	—	—	—	(9,072)
Other (losses) gains	(521)	(3,323)	70	—	(25)	—	194	—	(3,605)
Nonoperating (losses) gains, net	40,030	(3,464)	70	—	(25)	—	304	—	36,915
(Deficiency) of revenues, (losses) gains, and other support over expenses	$ 46,684	121,205	(140,206)	(2,622)	(168,062)	(654)	1,789	—	(141,866)

See accompanying independent auditors' report.