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

Consolidated Financial Statements and Supplemental Information
June 30, 2019 and 2018

St. Luke's Health Network, Inc. and Controlled Entities
Index
June 30, 2019 and 2018

Page(s)

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of St. Luke's Health Network, Inc. and its controlled entities (collectively, the "Network"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Health Network, Inc. and its controlled entities as of June 30, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 3 to the consolidated financial statements, Network changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity and the manner in which it accounts for revenue from contracts with customers in 2019. Our opinion is not modified with respect to this matter.

Other Matters

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

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 28, 2019

St. Luke's Health Network, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current		
Cash and cash equivalents	$ 100,693,579	$ 106,312,025
Patient accounts receivable, net	207,714,461	184,045,195
Other accounts receivable	16,959,148	14,093,565
Investments	197,921,758	117,384,555
Inventories	28,357,607	25,905,805
Prepaid expenses	30,638,215	23,829,529
Total current assets	582,284,768	471,570,674
Noncurrent		
Investments	480,932,484	557,862,747
Property and equipment, net	1,097,984,981	989,175,225
Goodwill	80,195,038	72,779,506
Investments in joint ventures	39,214,583	17,407,927
Deferred compensation plan assets	38,145,857	31,739,621
Other assets	55,107,779	50,259,603
Total assets	$ 2,373,865,490	$ 2,190,795,303
Liabilities and Net Assets		
Current		
Accounts payable	$ 139,878,071	$ 116,183,846
Accrued salaries, wages and taxes	82,556,484	70,406,605
Accrued vacation and bonus	69,190,395	65,391,023
Current portion of self insurance reserves	28,439,156	27,117,648
Current portion of long-term debt	26,167,269	22,155,510
Current portion of accrued compensation payable	3,210,921	2,546,486
Accrued interest on long-term debt	11,577,899	9,247,227
Estimated third-party payor settlements	13,440,439	9,364,541
Other current liabilities	25,519,381	26,401,493
Total current liabilities	399,980,015	348,814,379
Noncurrent		
Long-term debt, net of current portion	847,962,378	815,835,981
Accrued compensation payable	77,062,112	61,115,655
Self insurance reserves	57,740,105	55,057,043
Swap contracts	67,175,340	48,489,638
Asset retirement obligation	3,562,721	3,562,721
Other noncurrent liabilities	27,354,915	24,768,798
Total liabilities	1,480,837,586	1,357,644,215
Net assets		
Net assets without donor restrictions	791,152,854	739,515,171
Net assets with donor restrictions	101,875,050	93,635,917
Total net assets	893,027,904	833,151,088
Total liabilities and net assets	$ 2,373,865,490	$ 2,190,795,303

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

St. Luke's Health Network, Inc. and Controlled Entities
Consolidated Statement of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues and gains and other sources		
Net patient service revenue	$ 2,077,733,621	$ 1,809,698,455
Other operating revenue and gains	36,749,198	32,533,987
Net assets released from restrictions used for operations	2,104,997	2,513,181
Total revenue and gains	2,116,587,816	1,844,745,623
Operating expenses		
Salaries and employee benefits	1,177,912,655	1,000,046,735
Supplies and other	732,092,689	629,434,841
Depreciation and amortization	103,193,653	93,070,448
Interest	32,222,420	29,667,507
Total expenses	2,045,421,417	1,752,219,531
Income from operations	71,166,399	92,526,092
Nonoperating gains (losses)		
Unrestricted investment income	15,200,149	16,030,113
Realized gains on investments	33,341,436	7,717,104
Income from equity method investments	1,046,764	1,228,073
(Loss) on disposal of property and equipment	(2,290,317)	(1,158,338)
Donations and grants to other organizations	(15,983,892)	(10,974,339)
Change in fair market value of total return interest rate swaps	-	12,664,871
Goodwill impairment	-	(1,790,512)
Gain (loss) on retirement/purchase of bonds	-	690,782
Pension annuity settlement cost	(10,820,186)	-
Other nonoperating	(4,747,940)	(4,322,707)
Nonoperating gains/(losses)	15,746,014	20,085,047
Excess of revenue and gains over expenses	$ 86,912,413	$ 112,611,139

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

St. Luke's Health Network, Inc. and Controlled Entities
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Net assets without donor restrictions		
Excess of revenue and gains over expenses	$ 86,912,413	$ 112,611,139
Net assets contributed and released from restrictions used for purchase of property and equipment	1,044,269	705,329
Pension adjustment	(7,274,836)	12,333,051
Change in unrealized gains on investments	(11,058,744)	5,280,147
Change in fair market value of derivatives	(18,685,702)	16,744,498
Other changes in net assets without donor restrictions	700,283	320,000
Increase in net assets without donor restrictions	51,637,683	147,994,164
Net assets with donor restrictions		
Contributions received	10,326,827	7,714,929
Beginning net assets with donor restrictions from acquisitions	-	3,798,798
Net realized/unrealized gains on investments	5,316,103	3,870,372
Net assets released from restrictions	(7,403,797)	(4,347,995)
Increase in net assets with donor restrictions	8,239,133	11,036,104
Increase in net assets	59,876,816	159,030,268
Net assets		
Beginning of year	833,151,088	674,120,820
End of year	$ 893,027,904	$ 833,151,088

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

St. Luke's Health Network, Inc. and Controlled Entities
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows provided by operating activities		
Change in net assets	$ 59,876,816	$ 159,030,268
Adjustments to reconcile change in net assets to net cash from operating activities		
Loss on disposal of equipment	2,290,317	1,158,338
Depreciation and amortization	103,193,653	93,070,448
Equity gains from joint ventures and partnerships	(1,046,764)	(1,228,073)
Change in unrealized loss (gain) on unrestricted investments	11,058,744	(5,280,147)
Net realized gain on restricted investments	(5,824,337)	(1,325,965)
Net unrealized loss (gain) on restricted investments	508,234	(2,517,638)
Net realized gain on unrestricted investments	(33,297,751)	(7,354,371)
Goodwill impairment	-	1,790,512
Pension adjustments	7,274,836	(12,333,051)
Swap contracts	18,685,702	(29,409,369)
Restricted contributions received	(10,326,827)	(7,714,929)
Net assets with donor restrictions from acquisition	-	(3,798,798)
Change in cash due to changes in operating assets and liabilities		
Patient accounts receivable	(23,669,266)	(25,814,711)
Other receivables	(2,865,583)	8,947,307
Inventories	(2,451,802)	(2,191,545)
Prepaid expenses	(6,808,686)	12,714,675
Deferred compensation plan assets	(6,406,236)	(5,952,824)
Other assets	(4,870,845)	(2,093,940)
Accounts payable and accrued liabilities	47,539,533	(38,297,801)
Net estimated third-party payor settlements	4,075,898	2,929,510
Net cash provided by operating activities	156,935,637	134,327,896
Cash flows used by investing activities		
Purchases of property, plant and equipment	(205,822,427)	(176,754,643)
Proceeds from sale of equipment	376,800	487,916
Cash paid in acquisition, net of cash acquired	(7,415,532)	5,002,240
Investments in joint ventures and partnerships	(20,759,892)	(3,371,174)
Purchases of investments	(466,021,625)	(402,259,457)
Proceeds from sales of investments	489,969,795	339,075,856
Net cash used in investing activities	(209,672,881)	(237,819,262)
Cash flows provided by financing activities		
Proceeds from issuance of long-term debt	123,795,000	357,551,703
Proceeds from sale leaseback transaction	-	19,629,167
Repayments of long-term debt	(87,003,028)	(133,360,088)
Repurchase of St. Luke's bonds	-	(116,019,999)
Proceeds from restricted contributions	10,326,827	7,714,929
Net cash provided by financing activities	47,118,799	135,515,712
Increase in cash and cash equivalents	(5,618,446)	32,024,346
Cash and cash equivalents		
Beginning of year	106,312,025	74,287,679
End of year	$ 100,693,579	$ 106,312,025
Construction in progress included in accounts payable	$ 9,479,246	$ 15,520,107
Cash paid for interest	$ 37,364,433	$ 33,543,090

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

1. Organization, Mission and Basis of Presentation

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

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

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

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

2. Summary of Significant Accounting Policies

Adoption of Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities". The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. The Network adopted this new accounting standard in fiscal year 2019. The primary changes affecting the Network include: presentation of two classes of net assets versus the previously required three; enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, and liquidity and availability; and disclosure of expenses by both their natural and functional classification in a matrix format.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for SLHN's fiscal year beginning after December 15, 2017. The Network has adopted ASC 606.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU no. 2017-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. The Network has adopted ASU 2018-08.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for SLHN's fiscal years beginning after December 15, 2018. SLHN early adopted the ASU provision permitting the omission of fair value disclosures for financial instruments at amortized cost in fiscal year 2016, which resulted in disclosure changes only. Early adoption of the remaining updates is permitted. The Network is evaluating the impact this will have on the fiscal year 2020 consolidated financial statements.

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

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

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

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

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

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

Basis of Accounting

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

Basis of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments and Investment Income

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

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

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

- Interest and dividend income are included within unrestricted investment income from assets limited as to use, other operating revenue and gains and unrestricted net income from restricted net assets.

- Realized gain on sale of investments is included within realized gains on unrestricted investments, income from equity method investments, investments temporarily restricted to use and investments permanently restricted to use.

- Net unrealized (losses) gains on investments are included within the changes net assets without donor restrictions.

	2019	2018
Interest and dividend income	$ 15,200,149	$ 16,030,113
Realized gains on investments	33,341,436	7,717,104
Net unrealized gains (losses) on investments	(11,058,744)	5,280,147

Assets Limited as to Use

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

Inventories

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

Property and Equipment

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

Long Lived Assets

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

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

Goodwill

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

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

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

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

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

Deferred Financing Costs

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

Self-Insurance Reserves

Accrued insurance costs consist of discounted reserves for reported and incurred-but-not-reported (IBNR) claims related to medical malpractice incidents and the Network's self-insured retention for workers' compensation and employee health insurance incidents. For the years ended June 30, malpractice reserves and workers compensation reserves are discounted using a discount rate of 4.35% and 4.35%, respectively, in 2019 and 4.35% and 4.35%, respectively, in 2018. Effective 12/1/2016, St. Luke's Health Network Insurance Company non-renewed the buffer layer coverage. The Network assumed responsibility for buffer layer coverage. Buffer layer reserves are discounted using a discount rate of 4.35%.

Gift Annuities

The Hospital receives assets from donors in exchange for the promise to make fixed payments, over a specified period of time, to a recipient as designated by the donor. The Hospital discounts (this past year the discount rate averaged 3.3%) the liability for annuity contracts based on the annuitant's estimated life expectancy. These amounts are included in other noncurrent liabilities on the balance sheets. Any restricted assets remaining at the end of the annuity contract are placed into an endowment fund and the earnings on those funds are available for the general operations of the Network. Any unrestricted assets remaining at the end of the annuity contract are available for the general operations of the Network. The Network revalues the liability for annuity contracts quarterly and the related change is included as a change in net assets.

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

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

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

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

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

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

St. Luke's Warren Physician Group, P.C., PA Alliance, Hillcrest Emergency Services, P.C. and Two Rivers are for profit entities providing outpatient health care services in Pennsylvania and New Jersey. Prior to January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. elected, under the applicable provisions of the Internal Revenue Code and applicable state codes, to have the physician owner recognize their respective share of net income or loss on their individual tax returns. Accordingly, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. did not record a liability for federal and state income taxes. Effective January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. commenced operating as a for profit "C" corporation. The deferred tax assets arising from net operating losses and other temporary items generated by for profit entities, approximately $3.87 million at June 30, 2019, are subject to a full valuation allowance as the realization of such deferred tax assets cannot be considered more likely than not at June 30, 2019.

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

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

Swap Contracts

The Network follows accounting guidance on derivative financial instruments based on whether the derivative instrument meets the criteria for designation as a cash flow or fair value hedge. The criteria for designating a derivative as a hedge includes the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. At June 30. 2019 and 2018, both of the Network's derivative financial instruments are interest rate swap agreements with the hedge accounting designation. These swap agreements are recorded at fair value and are included in interest rate swap agreements on the Consolidated Statement of Changes in Net Assets.

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

3. Revenue Recognition and Accounts Receivable

Beginning in May 2014, the FASB issued several Accounting Standards Updates which established Topic 606, *Revenue from Contracts with Customers*. The standard supersedes existing revenue recognition requirements and seeks to eliminate most industry-specific guidance under current GAAP. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

On July 1, 2018, the Network adopted the new accounting standard using the full retrospective transition method. Adoption of the standard impacted the Network's reported results as follows:

	Year Ended June 30, 2018			
	As Reported	Reclassifications	As Adjusted	Adoption Impact
Consolidated Statements of Operations and Changes in Net Assets				
Net patient service revenue	$ 1,876,702,627	$ (67,004,172)	$ 1,809,698,455	$ (67,004,172)
Provision for bad debts	(67,004,172)	67,004,172	-	67,004,172
Other revenue	32,533,987	-	32,533,987	-
Net assets realeased from restrictions used for operations	2,513,181	-	2,513,181	-
Total operating revenues	$ 1,844,745,623	$ -	$ 1,844,745,623	$ -
Consolidated Statements of Cash Flows				
Provision for bad debts	67,004,172	(67,004,172)	-	(67,004,172)
Change in patient accounts receivable	(92,818,883)	67,004,172	(25,814,711)	67,004,172

Adoption of the standard had no impact on the Network's 2018 opening net assets. The new standard requires new disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The applicable disclosures are included in this footnote.

Net Patient Service Revenue

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

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

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

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. No significant amounts of revenues were recognized in the current year due to changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's or third party payor's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the consolidated statements of operations and changes in net assets and was not significant for the years ended June 30, 2019 and 2018.

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the

Network historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

During the year ended June 30, 2019, St Luke's received final audits for Medicare cost report years 2015 and 2016. As of June 30, 2019, the Network has Medicare cost report years 2010, 2011, 2013, 2014, 2017, and 2018 open.

The Network provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Therefore, the Network has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Network expects to collect based on its collection history with those patients. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Network does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $42,302,000 and $32,777,000 for the years ended June 30, 2019 and 2018, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Network total expenses divided by gross patient service revenue.

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

	2019		2018	
Financial Statements				
Medicare/Medicare MCO	$ 812,217,142	39.09%	$ 703,250,103	38.86%
Blue Cross	565,021,721	27.19%	511,020,933	28.24%
Commercial / HMO	503,399,106	24.23%	434,805,414	24.03%
Medicaid / Medicaid MCO	165,949,311	7.99%	135,179,570	7.47%
Other	24,810,392	1.19%	18,312,091	1.01%
Self Pay	6,335,949	0.30%	7,130,344	0.39%
	$ 2,077,733,621		$ 1,809,698,455	

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

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

Other Revenue

Other revenues consist principally of grants and contribution revenue, program income, cafeteria income, nursing school and medical school tuition, and rental income. For the majority of its grants, the Network has determined that there is not exchange back to the granting authority. Therefore, the Network accounts for these grants under the contribution model, which is outside the scope of ASC 606 and revenue is recognized as expenses for these grants are incurred. Revenue for the services listed below is recorded in the period in which these services are performed.

	2019		2018	
Grants and Contribution revenue	$ 4,892,692	13.3%	$ 4,392,442	13.5%
Program income	6,500,530	17.6%	5,219,840	16.0%
Nutrition services - Cafeteria income	5,608,027	15.3%	7,091,075	21.9%
Nursing School & Medical School Tuition	4,839,670	13.2%	5,051,252	15.5%
Rental income	4,170,792	11.3%	3,776,940	11.6%
Clinicial Trials	3,328,444	9.1%	3,737,457	11.5%
Quality Based initiatives	3,095,065	8.4%	-	0.0%
Other	2,015,539	5.5%	1,540,274	4.7%
Gain on insurance captive	1,464,814	4.0%	1,272,947	3.9%
Interest income	833,625	2.3%	451,760	1.4%
Other revenue	$ 36,749,198	100.0%	$ 32,533,987	100.0%

4. Contributions Received

Recently adopted accounting pronouncement. In June 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are conditional or unconditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. Once a contribution is determined to be unconditional, the determination of whether there is a donor-imposed restriction can be made. This ASU modifies the simultaneous release option currently in GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns. There was no significant impact on the Consolidated Financial Statements.

The Network receives contributions in the form of conditional government grants and other conditional donor contributions in the form of estates and trusts. The grants are carried out for research activities that benefit the general public, and not for the government's own use. The grants are considered conditional due to the requirement of spending the awarded funds on qualifying expenses and a right of return exists for unexpended funds. The grants are reimbursed after the expenses have been incurred. As of June 30, 2019, the Network had no conditional contributions for which the condition had not been met. As of June 30, 2019 and 2018, there were no unconditional contributions receivable.

5. Risks and Uncertainties

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

6. Concentrations of Credit Risk

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

The Network maintains cash, investments and assets limited as to use in banks, which include cash equivalents consisting of overnight repurchase agreements. Amounts are invested in a variety of financial instruments. The related values, as presented in the consolidated financial statements, are subject to various market fluctuations which include changes in the equity markets, interest rate environment and the general economic conditions. The FDIC insures funds up to $500,000 per depositor.

The Network's patient accounts receivable consist of unsecured amounts due for patient services billed to patients and other third-party payors such as Medicare, Medical Assistance, Blue Cross and various commercial insurance companies and managed care companies. The primary service area of the Network is located in Lehigh, Northampton, Carbon, Schuylkill, Monroe and Bucks Counties, Pennsylvania and Warren County, New Jersey. The ability of these patients to pay is subject to changes in general economic conditions of the Network's service area.

The mix of receivables from patients and third-party payors at June 30, 2019 and 2018 was as follows:

	2019	2018
Medicare	20.2 %	22.8 %
Medical Assistance	7.5 %	12.8 %
Commercial	59.6 %	55.3 %
Self pay (includes balances of patients filing for Medicaid eligibility, but not yet approved)	12.7 %	9.1 %
	100.0 %	100.0 %

7. Charity Care and Community Service

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

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

The Network provides care to all patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charges for services to patients who meet the Network's guidelines for charity care are not reflected in the accompanying consolidated financial statements. The charges associated with these services for charity care provided by the Network approximate $83,694,270 and $64,508,825 in 2019 and 2018, respectively. The costs incurred to provide such care is determined using a cost to charge ratio and were approximately $10,000,000 and $8,000,000 for 2019 and 2018, respectively.

8. Third-Party Agreements

For the years ended June 30, 2019 and 2018, payment arrangements with the Network and third-party payors were as follows:

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

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

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

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

services (other than those that are paid under a Medicaid managed care plan) are paid based on an interim ratio of cost to charges and reconciled to actual cost less 5.8% operating costs and 10% capital costs via a cost report.

In July 2010 the Pennsylvania General Assembly passed the Public Welfare Code amendment (Act 49) which was signed into law by the Governor, establishing a new program referred to as Medicaid Modernization. The program was subsequently approved by the federal Centers for Medicare and Medicaid Services. The program is designed to provide additional funding to Pennsylvania hospitals for the purpose of enhancing access to quality healthcare for qualifying Medicaid beneficiaries, helping to partially mitigate the losses incurred by hospitals resulting from low reimbursement rates. To accomplish this objective, for fiscal years 2011 through 2019, the program provides participating hospitals with improved inpatient fee-for-service hospital payments, establishes enhanced hospital payments through Medicaid managed care organizations (MCOs), and secures additional federal matching Medicaid funds through a Quality Care Assessment, under which hospitals pay the state a percentage of their net patient revenue for fiscal year 2011. The cost of the assessment due to the state was $26,733,725 and $16,652,581 in 2019 and 2018, respectively. The Network recognized additional net patient service revenue of $16,552,720 and $11,500,187 for the years ended June 30, 2019 and 2018, respectively, from the Pennsylvania Medicaid Modernization program.

Other

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

Included in net patient service revenue are changes in liability adjustments from third party payors with an overall net favorable adjustment of $7,673,992 for 2019 as compared to a favorable adjustment of $7,682,909 for 2018.

9. Fair Value Measurements

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

The accounting guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial instruments measured at fair value are based on valuation techniques noted below consistent with fair value guidance. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Network for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

The Network investment portfolio on the balance sheet includes:

	2019	2018
Current investments	$ 197,921,758	$ 117,384,555
Funds held by trustee	579,860	78,363,885
Funds held under bond indenture	6,604,547	7,309,991
Board designated funds	384,966,321	390,742,793
Investments temporarily restricted as to use	40,008,229	37,262,271
Investments permanently restricted as to use	48,773,527	44,183,807
Total short and long-term investments	$ 678,854,242	$ 675,247,302
Premier investment (included in other assets)	$ 19,401,564	$ 14,912,722

Financial instruments carried at fair value as of June 30, 2019 and 2018 are as follows:

	June 30, 2019			
	Quoted Prices in Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Investments				
Cash, cash equivalents & money market funds	$ 8,598,828	$ -	$ -	$ 8,598,828
Government securities	45,779,131	-	-	45,779,131
Corporate bonds	107,292,237	-	-	107,292,237
Common & preferred stock	14,974,664	-	-	14,974,664
Mutual funds	502,209,382	-	-	502,209,382
Total investments	$ 678,854,242	$ -	$ -	$ 678,854,242
Deferred compensation plan assets				
Mutual funds	$ 38,145,857	$ -	$ -	$ 38,145,857
Premier Class B Common Units				
Domestic Stock Equivalent	$ -	$ 19,401,564	$ -	$ 19,401,564
Derivative financial instruments				
Interest rate swaps-liability	$ -	$ 67,175,340	$ -	$ 67,175,340

	June 30, 2018			
	Quoted Prices in Active (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments				
Cash, cash equivalents & money market funds	$ 57,388,226	$ -	$ -	$ 57,388,226
Government securities	53,798,244	-	-	53,798,244
Corporate bonds	105,849,770	-	-	105,849,770
Common & preferred stock	19,660,882	-	-	19,660,882
Mutual funds	438,550,180	-	-	438,550,180
Total investments	$675,247,302	$ -	$ -	$675,247,302
Deferred compensation plan assets				
Mutual funds	$ 31,739,621	$ -	$ -	$ 31,739,621
Premier Class B Common Units				
Domestic Stock Equivalent	$ -	$14,912,722	$ -	$ 14,912,722
Derivative financial instruments				
Interest rate swaps-liability	$ -	$48,489,638	$ -	$ 48,489,638

10. Investments in Joint Ventures and Partnerships

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

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

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

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

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

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

St. Luke’s Health Network holds a 50% equity interest in GSL Hospital. St. Luke’s Health Network and Geisinger Health announced a partnership to construct a new acute care hospital in Schuylkill County. Under terms of our agreement, St. Luke’s will take the lead in designing and constructing the facility.

This new 80-bed GSL hospital will be situated on a 34-acre site directly along Route 61 in West Brunswick Township near Orwigsburg, PA. It will offer a wide range of emergency, specialty and outpatient services. The hospital is expected to open in November 2019.

GSL Hospital is equally owned and governed by St. Luke’s Health Network and Geisinger Health. While St. Luke’s has agreed to build and manage the hospital, Geisinger, which is headquartered in Danville, Pa., will contribute physicians and other specialty support staff and expertise. The hospital will combine the strengths of St. Luke’s and Geisinger by extending the highest quality and lowest cost health care to residents of Schuylkill and Berks counties.

The investment has been accounted for under the equity method of accounting. As of June 30, 2019, St. Luke’s Health Network reported a capital contribution to GSL Hospital of $19,116,152 and our proportionate share of the loss in the amount of $536,940 within the statement of operations at June 30, 2019.

The Network also maintains other investments in partnerships that provide various clinical and nonclinical services. The Network’s investments in the partnerships are accounted for under the equity method. The total investments in joint ventures and partnerships of approximately $39,214,583 and $17,407,927 for the years ended June 30, 2019 and 2018, respectively, are included in Investments in joint ventures on the consolidated balance sheets.

11. Property and Equipment

Property and equipment and related accumulated depreciation at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Land	$ 116,102,186	$ 114,060,417
Buildings and improvements	992,089,054	891,300,360
Equipment	1,113,432,815	1,081,870,952
Parking garage	26,812,227	26,812,227
Total property, plant, & equipment, gross	2,248,436,282	2,114,043,956
Less: Accumulated depreciation	1,311,714,428	1,214,681,127
Total property, plant & equipment, net	936,721,854	899,362,829
Construction-in-progress (CIP)	161,263,127	89,812,396
Total property, plant & equipment, net and CIP	$ 1,097,984,981	$ 989,175,225

Depreciation expense was approximately $100,605,800 and $91,077,069 for the years ended June 30, 2019 and 2018, respectively. Interest that was capitalized was approximately $5,040,753 and $191,250 for the years ended June 30, 2019 and 2018, respectively.

Capital Leases

Included in fixed and movable equipment as of June 30, 2019 is approximately $12,293,191 of assets purchased under capital lease agreements. Accumulated amortization of such assets approximates $11,658,384 as of June 30, 2019.

12. Long-Term Debt

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Hospital Revenue Bonds, Series 2010A, 2010B, 2010C, issued by Northampton County General Purpose Authority, net of unamortized premium	$ 17,394,903	$ 18,944,273
Hospital Revenue Bonds, Series 2013A & 2013B, issued by Northampton County General Purpose Authority, net of unamortized premium	64,290,225	65,051,241
Hospital Refunding Bonds, Series 2013, issued by New Jersey Health Care Facilities Financing Authority, net of unamortized premium	38,949,628	39,011,383
Hospital Revenue Bonds - Series 2015A, issued by Pocono Mountains Industrial Park Authority, net of unamortized premium	84,268,419	84,426,509
Hospital Revenue Bonds, Series 2016A, issued by Northampton County General Purpose Authority, net of unamortized premium	245,615,186	246,568,108
Hospital Revenue Bonds, Series 2018A & 2018B, issued by Northampton County General Purpose Authority, net of unamortized premium	151,430,062	151,477,731
Hospital Revenue Bonds, Series 2018C, issued by Northampton County General Purpose Authority, net of unamortized premium	60,880,000	-
Hospital Revenue Bonds, Series 2012, issued by Carbon County General Purpose Authority, net of unamortized premium	1,190,000	2,425,000
Hospital Revenue Bonds, Series 2015, issued by Carbon County General Purpose Authority, net of unamortized premium	19,571,392	19,742,758
Hospital Revenue Bonds, Series 2017B, issued by Lehigh County General Purpose Authority, net of unamortized premium	62,915,000	-
TD Bank, N.A. and BB&T Notes Payable	39,315,000	106,070,000
TD Bank, N.A. Notes Payable	47,441,494	49,531,366
Wells Fargo Equipment Finance, Inc.	1,406,937	3,359,016
Bank of America Loans	25,041,833	33,632,822
77 South Commerce	19,327,284	19,629,167
Capital Leases	3,551,760	5,907,340
Various notes and mortgage notes payable at various interest rates	423,460	591,277
Deferred Financing Costs	(8,882,936)	(8,376,500)
	874,129,647	837,991,491
Less: Current portion	26,167,269	22,155,510
	$ 847,962,378	$ 815,835,981

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

Scheduled maturities, assuming no amounts are tendered that cannot be remarketed, for the years ending June 30 are as follows:

Fiscal Year	Long-Term Debt
2020	26,167,269
2021	24,972,539
2022	22,069,137
2023	18,152,817
2024	17,170,789
2025	17,858,862
Thereafter	721,849,995
	848,241,408
Less: Amount of unamortized bond discount/premium/imputed interest	(25,888,239)
	$ 874,129,647

The Network reported long-term debt of $847,962,378 and $815,835,981for years ended June 30, 2019 and 2018, respectively.

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

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

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

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

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

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

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

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

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

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

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

Blue Mountain Hospital Bonds, Series 2012 and 2015
In February 2012, the Hospital entered into a Loan and Security Agreement (the "2012 Agreement (Gnaden)") with the Carbon County Hospital Authority (the "Authority") whereby the Authority issued, on behalf of the Hospital, $6,000,000 of tax-exempt Hospital Revenue Bonds, Series of 2012 (the "2012 Gnaden Bonds"). The proceeds of the 2012 Gnaden Bonds were used to refund the 1999 Bonds, establish a debt service reserve fund, and to pay the costs of issuance of the 2012 Gnaden Bonds.

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

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

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

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

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

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

13. Derivative Financial Instruments

At June 30, 2019 and 2018, the Network had entered into two interest rate swaps to manage its interest rate risk. The swap agreements pay interest at fixed rates and receive interest at variable rates. The notional amount of swap agreements was $249 million as of June 30, 2019 and $253 million as of June 30, 2018, respectively. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative agreements, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Network also incorporates credit valuation adjustments to appropriately reflect its own credit (risk of loss due to nonpayment) and nonperformance risk (the risk the obligation will not be fulfilled), as well as the credit and nonperformance risk of the counterparty. In adjusting the fair value of the derivative contracts for the effect of nonperformance risk, the Network has considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

The following table outlines the terms and fair values of the interest rate swap agreements that are included in the Consolidated Balance Sheets as of June 30, 2019 and 2018:

	Swap 1	**Swap 2**
Notional amount at June 30, 2019	$149,625,000	$ 99,435,000
Effective date	2/21/2007	2/21/2007
Termination date	8/15/2042	8/15/2033
Fixed rate	4.65%	4.56%
Fair value at June 30, 2018	$ 34,959,741	$ 13,529,897
Unrealized losses	14,107,567	4,578,135
Fair value at June 30, 2019	$ 49,067,308	$ 18,108,032

The Network pays fixed rates ranging from 4.56% to 4.65% and receives cash flows based upon percentages of LIBOR, ranging from 2.47% to 2.82%.

The following tables outline the location and effect of the Network's derivative instruments in the accompanying Consolidated Balance Sheets and Statements of Operations and Changes in Net Assets for the years ended June 30, (in thousands):

	Derivatives reported as liabilities			
	2019		**2018**	
	Balance Sheet Caption	**Fair Value**	**Balance Sheet Caption**	**Fair Value**
Interest rate swaps designated as hedging instruments	Swap contracts	$67,175,340	Swap contracts	$48,489,638

Classification of derivative (loss) gain in Statement of Operations and Changes in Net Assets	Amount of (loss) gain recognized in change in net assets	
	2019	**2018**
Non operating gains (losses)	$ -	$12,664,871
Net assets without donor restrictions (decrease) increase	$ (18,685,702)	$ 16,744,498

During Fiscal 2018, the Network terminated 2 interest rate swap agreements which had not qualified for hedge accounting and as such changes in fair value were included in the Consolidated Statement of Operations.

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

For the years ended June 30, 2019 and 2018, the Hospital incurred and paid interest costs of approximately $4.8 million and $6.8 million, respectively.

14. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Purchase of property and equipment	$ 7,351,091	$ 4,651,340
Health education	21,128,628	21,025,112
Research and development	455,141	317,256
Unrealized gains on restricted net assets for health care services	24,166,663	23,458,402
	$ 53,101,523	$ 49,452,110
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as other operating and nonoperating income)	$ 48,773,527	$ 44,183,807

Endowments

The Network's endowment consists of approximately $51,067,902 individual donor restricted endowment funds and $105,709,387 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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

(1) The duration and preservation of the fund

(2) The purposes of the Network and the donor restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Network

(7) The investment policies of the Network.

The Network had the following endowment activities during the year ended June 30, 2019 delineated by net asset class and donor-restricted versus Board-designated funds:

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

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

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

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 46,600,085	$ 46,600,085
Board-designated endowment funds	97,925,511	-	97,925,511
	$ 97,925,511	$ 46,600,085	$144,525,596

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

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

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 90,579,031	$39,496,816	$130,075,847
Acquisitions	-	3,394,034	3,394,034
Investment return			
Investment income	2,633,809	2,822,641	5,456,450
Net depreciation (realized and unrealized)	4,626,256	2,958,117	7,584,373
Total Investment return	7,260,065	5,780,758	13,040,823
Gifts	86,415	1,870,816	1,957,231
Income released to general fund for operations	-	(984,221)	(984,221)
Transfer balance of net depreciation	-	(2,958,118)	(2,958,118)
Endowment net assets, end of year	$ 97,925,511	$46,600,085	$144,525,596

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

Permanent Endowment	$ 48,551,756
Mortgage Endowment	221,771
Total endowment assets classified as Net assets with donor restrictions	$ 48,773,527

Endowment Funds with Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as part of net assets with donor restrictions. Deficits of this nature reported in net assets with donor restrictions were $0 as of June 30, 2019 and 2018.

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

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

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

15. Contingencies

Operating Leases

The Network leases certain medical, office and information technology equipment used in its operations. Total rental expense for all operating leases for the years ended June 30, 2019 and 2018 was approximately $31,819,489 and $24,825,441, respectively.

At June 30, 2019, the annual and total future minimum lease payments under noncancelable operating leases were as follows:

	Operating
2020	$ 33,764,336
2021	29,732,355
2022	24,682,574
2023	20,086,914
2024	18,967,286
Later years	92,986,767
Total minimum payments	$ 220,220,232

Litigation

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

16. Functional Expenses

The Network provides general health care services to residents within its geographic location. Health care services include functional services such as critical care, trauma and emergency medicine, surgery, cancer and blood disorders, allergy and immunology, autism, cardiology, pain management, nutrition, radiology, pulmonology, rheumatology, and psychiatry. The Network reports certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated based on the natural account and the rate from the cost report. Expenses related to providing these services for the year ended June 30, 2019 is as follows:

	Healthcare Services	General and Administrative Services	Total
Operating expenses			
Salaries and employee benefits	$ 1,060,773,277	$ 117,139,378	$ 1,177,912,655
Purchased Services	134,405,214	14,842,138	149,247,352
Supplies and other	524,883,365	57,961,972	582,845,337
Depreciation and amortization	92,931,398	10,262,255	103,193,653
Interest	29,018,011	3,204,409	32,222,420
Total Operating expenses	$ 1,842,011,265	$ 203,410,152	$ 2,045,421,417

Expenses by functional classification for the year ended June 30, 2018 consisted of the following (in thousands):

Healthcare services	$ 1,578,348,906
General and administrative	173,870,625
	$ 1,752,219,531

17. Liquidity and Availability

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

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

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

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

As of June 30, 2019, the Network was in compliance with financial covenants.

18. Pension Plan

Defined Benefit Plan

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

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

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

Savings Plan

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

401(a) Plan

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

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

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

The Network has recorded a reserve of $21,395,982 for the year ended June 30, 2019. This liability is included in accrued compensation payable on the 2019 consolidated balance sheet.

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

Pension Plan Financial Components
The net pension cost for all Plans and Plan participants during the years ended June 30, 2019 and 2018, includes the following components:

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 648,659,590	$614,439,698
Blue Mountain Obligation at beginning of year	-	52,725,644
Interest cost	27,706,367	25,899,478
Plan settlements	(49,343,764)	-
Benefits paid	(24,760,507)	(19,513,773)
Actuarial loss (gain)	65,697,364	(24,891,457)
Benefit obligation at end of year	$ 667,959,050	$648,659,590

	2019	2018
Change in plan assets		
Fair value of plan assets at beginning of year	$ 634,089,014	$568,122,902
Blue Mountain fair value of plan assets at beginning of year	-	49,608,214
Actual return on plan assets	76,474,182	15,871,671
Employer contributions	11,114,764	20,000,000
Plan settlements	(49,343,764)	-
Benefits paid	(24,760,507)	(19,513,773)
Fair value of plan assets at end of year	$ 647,573,689	$634,089,014
Unfunded status at end of year	$ (20,385,361)	$ (14,570,576)

Amounts recognized in the Consolidated Balance Sheets consist of:

	2019	2018
Current liabilities	$ (97,242)	$ -
Noncurrent liabilities	(20,288,119)	(14,570,576)
Net amount recognized in statement of financial position	$ (20,385,361)	$ (14,570,576)

Amounts recognized in unrestricted net assets consist of:

	2019	2018
Unrecognized net loss (gain)	$ 149,802,131	$142,527,295
Accumulated other comprehensive income	$ 149,802,131	$142,527,295

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

	2019	2018
Projected benefit obligation	$ 667,959,050	$648,659,590
Accumulated benefit obligation	667,959,050	648,659,590
Fair value of plan assets	647,573,689	634,089,014

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

	2019	2018
Total pension benefit cost		
Interest cost	$ 26,783,998	$ 25,899,478
Expected return on plan assets	(30,878,471)	(33,605,369)
Amortization of net (gain) loss	3,021,352	2,965,019
Settlement loss recognized	11,001,231	-
Net periodic benefit cost	$ 9,928,110	$ (4,740,872)

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

	2019	2018
Net (gain) loss	$ 21,421,714	$ (7,157,759)
Amortization of loss (gain)	(14,022,583)	(2,965,019)
Total recognized in unrestricted net assets	7,399,131	(10,122,778)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 17,327,241	$ (14,863,650)

The estimated net loss, transition obligation and prior service cost for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $2,745,001, $0 and $0, respectively.

Weighted-average assumptions used to determine benefit obligations:

	2019	2018
Discount rate	3.74 %	4.03 %
Rate of compensation increase	N/A	N/A

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

	2019	2018
Expected long-term return on plan assets	5.25 %	5.75 %
Discount rate	4.35 %	4.13 %
Discount rate - Blue Mountain	4.03 %	3.46 %

Plan Assets

The St. Luke's Pension Plans weighted-average asset allocations at June 30, 2019 and 2018, by asset category, are as follows:

	Plan Assets at June 30	
Asset Category	**2019**	**2018**
Equity securities	14 %	27 %
Debt securities	86	73
	100 %	100 %

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

Cash Flows

Contributions

The network expects to contribute $97,242 to its pension plans in the 2020 fiscal year.

Estimated Future Benefit Payments

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

2020	$ 22,554,453
2021	24,506,262
2022	26,400,566
2023	28,135,796
2024	30,993,390
2025-2029	169,029,792
	$ 301,620,259

The following table presents the Plan's financial instruments as of June 30, 2019, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 9:

	Quoted Prices in Active Markets (Level 1)	Total Fair Value
June 30, 2019		
Investments		
Money market funds	$ 4,033,298	$ 4,033,298
Government securities	550,918,701	550,918,701
Common & preferred stock	92,621,690	92,621,690
Total investments	$ 647,573,689	$ 647,573,689

19. Insurance Coverage

Effective December 13, 2001, the Parent, established St. Luke's Health Network Insurance Company; a wholly-owned captive insurance company licensed by the State of Vermont providing claims-made coverage for professional and general liability coverages for the Network. St. Luke's converted its fronted captive to a risk retention group ("RRG") effective July 1, 2003. On January 1, 2005, the RRG was converted from a nonprofit risk retention group to a reciprocal risk retention group. As a reciprocal risk retention group, the St. Luke's Health Network Insurance Company is also permitted to provide primary medical professional liability coverage on an occurrence basis to independent physicians and physician's practices. Under this structure, each insured is a subscriber of the St. Luke's Health Network Insurance Company, a Reciprocal Risk Retention Group ("SLHNIC"). Only subscribers of the St. Luke's Health Network will be issued Class A subscriber units. Class A Subscribers of SLHNIC maintain control over SLHNIC. At June 30, 2019 and June 30, 2018, the Network was covered through the SLHNIC by a Hospital Professional Liability policy, with primary limits of $500,000 for each medical incident and $2,500,000 in the aggregate for Pennsylvania Mcare Fund eligible institutions and with Physicians Professional Liability coverage with primary limits of $500,000 for each medical incident, and $1,500,000 in the aggregate for Pennsylvania Mcare Fund eligible practitioners. The subscriber A program is claims-made coverage. The Subscriber B program is occurrence-based coverage. SLHNIC provides Non-Mcare Fund eligible Subscriber A insureds with primary coverage of $1 million for each medical incident and $3 million in the aggregate. The reserve for malpractice claims maintained at June 30, 2019 and 2018 was approximately $45,077,580 and $41,485,212, and was estimated using a discount rate of 4.25% and 4.25%, respectively. The discount for Class A and Class B subscribers was $6,936,753 and $6,761,815 for June 30, 2019 and 2018, respectively.

St. Luke's Health Network has recorded a receivable as of June 30, 2019 of $22,002,427 for expected insurance indemnifications and a related liability for the accrued claims in the individual financial statements of the hospitals. St. Luke's Health Network has recorded a receivable as of June 30, 2018 of $21,366,787 for expected insurance indemnifications and a related liability for the accrued claims in the individual financial statements of the hospitals. The insurance receivable amounts are included in other assets in the respective balance sheets.

The Network participates in the Medical Care Availability and Reduction of Error ("Mcare") Fund, which is a Pennsylvania governmentally authorized entity that for fiscal year 2019 covers claims above $500,000 per medical incident up to $2,500,000 aggregate per hospital/insured physician subject to Mcare Fund coverage, as applicable. The assessment for the Mcare Fund payable by the Network is based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association ("JUA") multiplied by the annual assessment percentage. The Network recognizes its assessment as expense in the period incurred.

The Network maintains accrued insurance reserves for its self-insured portion of expected workers' compensation claims of approximately $8,990,915 and $8,678,026 for the years ended June 30, 2019 and 2018, respectively. The impact of the discount was $2,198,539 and $1,884,697 for the years ended June 30, 2019 and 2018, respectively.

20. Deferred Compensation

The Network maintains a 457 Deferred Compensation Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. The Network has fully funded the obligation under the plan. The Network has recorded an asset and a corresponding liability of $38,145,857 and $31,739,621 for the years ended June 30, 2019 and 2018 respectively. The assets and corresponding liabilities are included within Accrued Compensation Payable.

21. Goodwill

Goodwill recorded on the consolidated statements of financial position at June 30, 2019 and 2018 totaled $80,195,038 and $72,779,506, respectively. The Network's goodwill consists of the excess of purchase price over the fair value of identified net assets of businesses acquired. The Network performs its annual test on April 30th of each year. For the April 30, 2019 annual test, the Network engaged a professional services firm to prepare the assessment. The results of the assessment concluded that no impairment was necessary.

The changes in the carrying amount of goodwill for the Network for the years ended June 30, 2019 and 2018 are as follows:

Balance as of June 30, 2017	$ 29,188,333
Goodwill additions during the year	45,381,685
Goodwill impairment during the year	(1,790,512)
Balance as of June 30, 2018	72,779,506
Goodwill additions during the year	7,415,532
Goodwill impairment during the year	-
Balance as of June 30, 2019	$ 80,195,038

22. Subsequent Events

The Network has performed an evaluation of subsequent events through October 28, 2019, which is the date the financial statements were issued.

On September 5, 2019 the Network issued the Bucks County Industrial Development Authority St. Luke's University Health Network Project Hospital Revenue Bonds, Series 2019, maturing in August 2050 in the amount of $103,855,000. The Bonds for the purposes of: (i) the reimbursement and financing of the construction, acquisition, renovation and installation of capital improvements or the acquisition and installation of equipment in facilities for one or more of the Borrowers and (ii) the payment of costs of issuance of the Series 2019 Bonds.

Consolidating Supplemental Information

St. Luke's Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2019

Schedule I

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
Assets											
Current											
Cash and cash equivalents	$ -	$ 90,179,458	$ 18,546	$ 300	$ -	$ 6,960	$ -	$ 259,277	$ 300	$ 737,346	$ 3,575,444
Investment in controlled entities	893,027,904	-	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net	-	101,271,348	26,150,957	9,660,517	809,308	7,443,466	23,651,908	10,402,389	11,156,956	5,720,304	8,684,550
Other accounts receivable	-	12,966,390	4,862,686	60,384	-	50,133	1,084,634	443,211	386,518	463,839	2,692,241
Investments	-	197,921,758	-	-	-	-	-	-	-	-	-
Inventories	-	16,593,023	-	1,031,665	-	870,980	3,202,083	1,974,958	1,996,338	950,763	1,408,905
Prepaid expenses	-	23,532,592	2,082,225	303,452	78,024	290,382	946,385	833,896	776,877	859,305	831,508
Estimated third-party payor settlements	-	-	-	332,932	-	-	-	-	-	-	-
Total current assets	893,027,904	442,464,569	33,114,414	11,389,250	887,332	8,661,921	28,885,010	13,913,731	14,316,989	8,731,557	17,192,648
Noncurrent											
Investments	-	460,932,269	-	8,486,768	15,548	743,428	1,134,446	2,087,709	67,718	5,172,968	2,291,630
Property and equipment, net	-	506,127,474	19,768,533	59,719,016	2,398,310	30,737,361	196,869,974	80,174,359	105,085,978	34,436,939	56,091,367
Goodwill	-	7,643,044	1,542,520	-	-	824,000	6,946,821	13,156,777	48,000	35,897,067	7,507,730
Due from affiliates	-	477,933,113	-	-	-	-	-	-	-	-	-
Investments in joint ventures	-	35,504,436	-	-	-	-	-	-	-	868,220	2,851,927
Deferred compensation plan assets	-	38,145,857	-	-	-	-	-	-	-	-	-
Other assets	-	47,449,797	-	3,415,914	-	1,925,716	312,947	1,013,882	414,000	101,633	473,890
Total assets	$ 893,027,904	$ 2,016,200,559	$ 54,425,467	$ 83,010,948	$ 3,301,190	$ 42,892,426	$ 234,149,198	$ 110,346,458	$ 119,932,685	$ 85,208,384	$ 86,409,192

St. Luke's Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2019

Schedule I

	St. Luke's Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	St. Luke's Ambulatory Services	Eliminations	Consolidated Totals
Assets												
Current												
Cash and cash equivalents	$ 743,390	$ 2,087,058	$ -	$ 505,463	$ -	$ 1,526,948	$ 256,565	$ -	$ 796,524	$ -	$ -	$ 100,693,579
Investment in controlled entities	-	-	-	-	-	-	-	-	-	-	(893,027,904)	-
Patient accounts receivable, net	1,225,241	551,333	-	-	-	771,602	-	-	-	214,582	-	207,714,461
Other accounts receivable	15,300	-	-	-	-	127,299	2,750	-	2,600,887	88,483	(8,885,607)	16,959,148
Investments	-	-	-	-	-	-	-	-	-	-	-	197,921,758
Inventories	-	-	-	-	-	328,892	-	-	-	-	-	28,357,607
Prepaid expenses	99,562	-	1,757	-	-	2,250	-	-	-	-	-	30,638,215
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	-	-	(332,932)	-
Total current assets	2,083,493	2,638,391	1,757	505,463	-	2,756,991	259,315	-	3,397,411	303,065	(902,246,443)	582,284,768
Noncurrent												
Investments	-	-	-	-	-	-	-	-	-	-	-	480,932,484
Property and equipment, net	5,019,529	-	1,337,208	-	-	19,433	-	-	-	199,500	-	1,097,984,981
Goodwill	669,079	-	-	-	-	-	-	-	-	5,960,000	-	80,195,038
Due from affiliates	-	-	-	-	-	-	-	-	-	-	(477,933,113)	-
Investments in joint ventures	-	-	-	-	-	-	-	-	-	-	(10,000)	39,214,583
Deferred compensation plan assets	-	-	-	-	-	-	-	-	-	-	-	38,145,857
Other assets	-	-	-	-	-	-	-	-	-	-	-	55,107,779
Total assets	$ 7,772,101	$ 2,638,391	$ 1,338,965	$ 505,463	$ -	$ 2,776,424	$ 259,315	$ -	$ 3,397,411	$ 6,462,565	$ (1,380,189,556)	$ 2,373,865,490

St. Luke's Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2019
Schedule I

	St. Luke's University Health Network, Inc.	Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
Liabilities and Net Assets											
Current											
Accounts payable	$ -	$ 129,029,220	$ 1,540,928	$ 443,546	$ 56,329	$ 760,821	$ 1,996,568	$ 1,042,268	$ 2,124,054	$ 1,182,871	$ 1,103,680
Accrued salaries, wages and taxes	-	42,136,758	36,769,934	79,361	1,492	108,746	37,437	146,539	30,382	598,341	10,062
Accrued vacation and bonus	-	33,273,868	21,188,597	1,472,274	295,079	1,779,267	2,338,050	2,910,783	1,740,048	1,741,900	1,752,467
Current portion of self insurance reserves	-	27,771,269	-	-	-	-	-	412,500	-	65,636	189,750
Current portion of long-term debt	-	22,650,179	-	-	20,586	-	-	-	-	1,878,083	1,618,421
Current portion of accrued compensation payable	-	3,198,921	-	-	-	-	-	-	-	12,000	-
Accrued interest on long-term debt	-	10,838,416	-	-	841	-	-	644,680	-	93,962	-
Estimated third-party payor settlements	-	83,474	-	-	-	83,948	78,085	681,576	4,798,125	6,218,053	1,830,110
Other current liabilities	-	16,338,248	10,054	207,200	2,801	266,358	741,913	1,180,145	256,558	613,272	5,807,792
Total current liabilities	-	285,320,353	59,509,513	2,202,381	377,128	2,999,140	5,192,053	7,018,491	8,949,167	12,404,118	12,312,282
Due to affiliates	-	-	131,458,960	45,248,271	20,429,368	371,239	108,021,383	3,610,184	32,113,152	61,369,799	87,273,219
Long-term debt, net of current portion	-	705,421,413	-	-	63,540	-	-	38,464,541	83,135,956	19,418,523	1,458,405
Accrued compensation payable	-	76,774,112	-	-	-	-	-	-	-	288,000	-
Self insurance reserves	-	56,384,094	-	-	-	-	-	837,500	-	133,262	385,250
Swap contracts	-	67,175,340	-	-	-	-	-	-	-	-	-
Asset retirement obligation	-	3,247,932	-	65,030	-	249,759	-	-	-	-	-
Other noncurrent liabilities	-	25,227,980	-	24,092	-	1,636,192	-	466,651	-	-	-
Total liabilities	-	1,219,551,224	190,968,473	47,539,774	20,870,036	5,256,330	113,213,436	50,397,367	124,198,275	93,613,702	101,429,156
Net assets											
Net assets (liabilities) without donor restrictions	791,152,854	748,385,526	(136,543,006)	26,086,276	(17,584,394)	34,985,694	119,585,588	57,885,909	(4,327,966)	(10,042,086)	(17,785,484)
Less: Amounts due from affiliates	-	(33,682,373)	-	-	-	-	-	-	-	-	-
Net assets (liabilities) without donor restrictions	791,152,854	714,703,153	(136,543,006)	26,086,276	(17,584,394)	34,985,694	119,585,588	57,885,909	(4,327,966)	(10,042,086)	(17,785,484)
Net assets with donor restrictions	101,875,050	81,946,182	-	9,384,898	15,548	2,650,402	1,350,174	2,063,182	62,376	1,636,768	2,765,520
Total net assets (liabilities)	893,027,904	796,649,335	(136,543,006)	35,471,174	(17,568,846)	37,636,096	120,935,762	59,949,091	(4,265,590)	(8,405,318)	(15,019,964)
Total liabilities and net assets	$ 893,027,904	$ 2,016,200,559	$ 54,425,467	$ 83,010,948	$ 3,301,190	$ 42,892,426	$ 234,149,198	$ 110,346,458	$ 119,932,685	$ 85,208,384	$ 86,409,192

St. Luke’s Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2019

Schedule I

	St. Luke’s Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	St. Luke's Ambulatory Services	Eliminations	Consolidated Totals
Liabilities and Net Assets												
Current												
Accounts payable	$ 257,337	$ 91,448	$ 12,028	$ -	$ -	$ 229,350	$ 7,622	$ -	$ 1	$ -	$ -	$ 139,878,071
Accrued salaries, wages and taxes	2,005,648	631,230	-	-	-	-	554	-	-	-	-	82,556,484
Accrued vacation and bonus	625,887	23,402	-	-	-	44,653	159	-	-	3,961	-	69,190,395
Current portion of self insurance reserves	-	-	-	-	-	-	-	-	-	-	1	28,439,156
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	-	26,167,269
Current portion of accrued compensation payable	-	-	-	-	-	-	-	-	-	-	-	3,210,921
Accrued interest on long-term debt	-	-	-	-	-	-	-	-	-	-	-	11,577,899
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	-	-	(332,932)	13,440,439
Other current liabilities	-	-	4,658,023	-	-	196,988	4,125,494	-	142	-	(8,885,607)	25,519,381
Total current liabilities	2,888,872	746,080	4,670,051	-	-	470,991	4,133,829	-	143	3,961	(9,218,538)	399,980,015
Due to affiliates	6,861,229	1,892,311	455,809	996,898	-	1,057,564	1,064,567	-	3,448,134	5,943,399	(511,615,486)	-
Long-term debt, net of current portion	-	-	-	-	-	-	-	-	-	-	-	847,962,378
Accrued compensation payable	-	-	-	-	-	-	-	-	-	-	-	77,062,112
Self insurance reserves	-	-	-	-	-	-	-	-	-	-	(1)	57,740,105
Swap contracts	-	-	-	-	-	-	-	-	-	-	-	67,175,340
Asset retirement obligation	-	-	-	-	-	-	-	-	-	-	-	3,562,721
Other noncurrent liabilities	-	-	-	-	-	-	-	-	-	-	-	27,354,915
Total liabilities	9,750,101	2,638,391	5,125,860	996,898	-	1,528,555	5,198,396	-	3,448,277	5,947,360	(520,834,025)	1,480,837,586
Net assets												
Net assets (liabilities) without donor restrictions	(1,978,000)	-	(3,786,895)	(491,435)	-	1,247,869	(4,939,081)	-	(50,866)	515,205	(791,162,854)	791,152,854
Less: Amounts due from affiliates	-	-	-	-	-	-	-	-	-	-	33,682,373	-
Net assets (liabilities) without donor restrictions	(1,978,000)	-	(3,786,895)	(491,435)	-	1,247,869	(4,939,081)	-	(50,866)	515,205	(757,480,481)	791,152,854
Net assets with donor restrictions	-	-	-	-	-	-	-	-	-	-	(101,875,050)	101,875,050
Total net assets (liabilities)	(1,978,000)	-	(3,786,895)	(491,435)	-	1,247,869	(4,939,081)	-	(50,866)	515,205	(859,355,531)	893,027,904
Total liabilities and net assets	$ 7,772,101	$ 2,638,391	$ 1,338,965	$ 505,463	$ -	$ 2,776,424	$ 259,315	$ -	$ 3,397,411	$ 6,462,565	$ (1,380,189,556)	$ 2,373,865,490

St. Luke's Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2019

Schedule II

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	St. Luke's Hospital Monroe Campus	Blue Mountain Hospital	Sacred Heart Hospital of Allentown
Net patient service revenue	$ -	$ 929,319,508	$ 281,476,645	$ 85,344,981	$ 5,863,673	$ 88,040,701	$ 240,218,213	$ 122,446,516	$ 153,457,958	$ 67,545,293	$ 72,509,352
Other operating revenue and gains	-	25,566,381	1,538,710	716,902	89,247	996,992	2,400,095	1,037,303	1,440,229	1,036,265	1,738,946
Net assets released from restrictions used for operations	-	1,462,239	26,640	70,820	(429)	44,528	140,552	103,086	53,787	17,752	186,022
Equity in net income from controlled entities	51,637,683	-	-	-	-	-	-	-	-	-	-
Total revenue	51,637,683	956,348,128	283,041,995	86,132,703	5,952,491	89,082,221	242,758,860	123,586,905	154,951,974	68,599,310	74,434,320
Operating expenses											
Salaries and employee benefits	-	395,070,419	405,096,993	36,245,298	8,169,793	38,085,155	71,601,017	54,764,459	54,286,527	41,499,995	42,958,152
Supplies and other	-	334,119,996	89,644,996	32,187,820	1,749,337	25,758,185	86,046,705	41,200,152	52,463,106	24,185,178	26,738,323
Depreciation and amortization	-	37,026,718	10,547,569	3,556,385	690,858	4,344,276	13,847,102	10,112,106	14,938,147	4,031,739	3,514,557
Interest	-	12,177,689	-	-	1,280	-	7,433,671	3,252,153	6,701,030	1,719,065	937,532
Total expenses	-	778,394,822	505,289,558	71,989,503	10,611,268	68,187,616	178,928,495	109,328,870	128,388,810	71,435,977	74,148,564
Income (loss) from operations	51,637,683	177,953,306	(222,247,563)	14,143,200	(4,658,777)	20,894,605	63,830,365	14,258,035	26,563,164	(2,836,667)	285,756
Nonoperating gains (losses)											
Unrestricted investment income	-	17,559,144	32,180	102,960	-	15,438	54,007	182,171	37,118	(2,852,885)	70,016
Realized gains on investments	-	33,040,009	-	56,019	-	-	-	-	-	-	(57,949)
Income from equity method investments	-	1,046,764	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of property and equipment	-	(16,922)	(703,236)	-	-	(323,249)	-	5,659	-	(946,890)	(305,679)
Donations and grants to other organizations	-	(12,917,867)	-	(1,343,219)	-	(38,995)	(429,192)	-	(1,225,584)	-	(29,035)
Change in fair market value of total return interest rate swaps	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on retirement/purchase of bonds	-	-	-	-	-	-	-	-	-	-	-
Pension annuity settlement cost	-	(10,820,186)	-	-	-	-	-	-	-	-	-
Other nonoperating	-	(815,872)	(310,277)	(66,643)	1,420	(71,070)	(401,902)	269,770	(53,511)	(1,721,903)	(1,401,823)
Nonoperating gains/(losses)	-	27,075,070	(981,333)	(1,250,883)	1,420	(417,876)	(777,087)	457,600	(1,241,977)	(5,521,678)	(1,724,470)
Excess (deficiency) of revenue and gains in excess of expenses	51,637,683	205,028,376	(223,228,896)	12,892,317	(4,657,357)	20,476,729	63,053,278	14,715,635	25,321,187	(8,358,345)	(1,438,714)

St. Luke's Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2019

Schedule II

	St. Luke's Physician Group NJ	Hillcrest Emergency Services PC	Two Rivers Enterprises Inc	CMS Medical Care Corporation	Sacred Heart Foundation	Sacred Heart Ancillary Services	Quality Patient Care	SH Realty Corporation	Sacred Heart Healthcare System	St. Luke's Ambulatory Services	Eliminations	Consolidated Totals
Net patient service revenue	$ 19,754,586	$ 4,745,568	$ -	$ 212,303	$ -	$ 6,721,923	$ 198,126	$ -	$ 175,263	$ 1,199,767	$ (1,496,755)	$ 2,077,733,621
Other operating revenue and gains	56,439	-	(317,496)	2,301	-	-	6,298	1,424	96,968	-	342,194	36,749,198
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	-	-	-	2,104,997
Equity in net income from controlled entities	-	-	-	-	-	-	-	-	-	-	(51,637,683)	-
Total revenue	19,811,025	4,745,568	(317,496)	214,604	-	6,721,923	204,424	1,424	272,231	1,199,767	(52,792,244)	2,116,587,816
Operating expenses												
Salaries and employee benefits	23,831,562	4,438,380	-	16,832	-	834,868	663,558	-	(1,486)	351,133	-	1,177,912,655
Supplies and other	12,372,000	307,188	151,653	(40,067)	-	5,785,490	243,013	-	7,746	326,429	(1,154,561)	732,092,689
Depreciation and amortization	515,811	-	53,341	(1)	-	8,045	-	-	-	7,000	-	103,193,653
Interest	-	-	-	-	-	-	-	-	-	-	-	32,222,420
Total expenses	36,719,373	4,745,568	204,994	(23,236)	-	6,628,403	906,571	-	6,260	684,562	(1,154,561)	2,045,421,417
Income (loss) from operations	(16,908,348)	-	(522,490)	237,840	-	93,520	(702,147)	1,424	265,971	515,205	(51,637,683)	71,166,399
Nonoperating gains (losses)												
Unrestricted investment income	-	-	-	-	-	-	-	-	-	-	-	15,200,149
Realized gains on investments	-	-	-	-	-	-	-	-	303,357	-	-	33,341,436
Income from equity method investments	-	-	-	-	-	-	-	-	-	-	-	1,046,764
Gain (loss) on disposal of property and equipment	-	-	-	-	-	-	-	-	-	-	-	(2,290,317)
Donations to other organizations	-	-	-	-	-	-	-	-	-	-	-	(15,983,892)
Change in fair market value of total return interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on retirement/purchase of bonds	-	-	-	-	-	-	-	-	-	-	-	-
Pension annuity settlement cost	-	-	-	-	-	-	-	-	-	-	-	(10,820,186)
Other nonoperating	-	-	-	-	-	-	(64,692)	-	(111,437)	-	-	(4,747,940)
Nonoperating gains/(losses)	-	-	-	-	-	-	(64,692)	-	191,920	-	-	15,746,014
Excess (deficiency) of revenue and gains in excess of expenses	(16,908,348)	-	(522,490)	237,840	-	93,520	(766,839)	1,424	457,891	515,205	(51,637,683)	86,912,413

1. Basis of Presentation

The accompanying supplemental information includes the Consolidating Balance Sheets and Consolidating Statement of Operations of the Network at June 30, 20197. The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.