Albert Einstein Healthcare Network

Reports on Federal, State and City Programs
in Accordance with OMB Uniform Guidance,
Commonwealth of Pennsylvania, Department
of Human Services Single Audit Supplement and
City of Philadelphia Subrecipient Audit Guide
June 30, 2019
Federal Entity Identification
Numbers 23-2290323, 23-1396794, 20-4193243

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Report of Independent Auditors

To the Board of Trustees
Albert Einstein Healthcare Network
Philadelphia, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Albert Einstein Healthcare Network and its subsidiaries, ("the Network"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consolidated financial position of the Network as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal, state, and city awards for the year ended June 30, 2019 are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement and the City of Philadelphia Subrecipient Audit Guide and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal, state and city awards are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying *AIDS Activities Coordinating Office (AACO) Ambulatory/ Outpatient Medical Care Services, City of Philadelphia Contract #R7925 Einstein Medical Center Philadelphia Schedules of Contractual Performance, Office of Behavioral Health and Intellectual disAbility Services Schedule of Program Activity Invoice Summary by Contract Number, Office of Behavioral Health and Intellectual Disability Services Schedule of Adjustments on Summary of Program Activities by Program Activity Code, and Office of Behavioral Health and Intellectual Disability Services Schedule of Program Activity Invoice Summary by Program Activity Code* (Supplemental Schedules) for the year ended June 30, 2019 are presented for purposes of additional analysis as required by the *City of Philadelphia Subrecipient Guide*, which incorporates guidance from Uniform Guidance, and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019 on our consideration of the Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2019. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Network's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Philadelphia, PA
September 23, 2019

Albert Einstein Healthcare Network
Consolidated Balance Sheets
June 30, 2019 and 2018

(in thousands of dollars)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 84,657	$ 99,777
Investments	62,808	68,007
Accounts receivable for patient services	159,421	156,633
Other accounts receivable	5,336	5,493
Inventories	20,727	18,894
Other current assets	13,243	12,656
Assets whose use is limited	37,691	10,456
Total current assets	383,883	371,916
Investments	170,013	175,557
Assets whose use is limited	181,529	178,560
Land, buildings and equipment, net	590,066	616,980
Beneficial interest in perpetual trusts	47,212	47,351
Insurance recoverable	63,199	64,038
Other non-current assets	92,475	85,958
Total assets	1,528,377	1,540,360
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term obligations	11,994	13,111
Accounts payable and accrued expenses	131,370	126,492
Accrued vacation and other benefits	13,090	15,803
Current portion of accrued professional liability claims	35,221	32,709
Other liabilities	10,272	10,441
Total current liabilities	201,947	198,556
Long-term obligations	443,842	454,959
Accrued pension liability	271,649	225,380
Accrued professional liability claims	185,948	206,522
Other liabilities	43,721	40,230
Total liabilities	1,147,107	1,125,647
Net assets:		
Without donor restrictions	239,819	279,347
With donor restrictions	141,451	135,366
Total net assets	381,270	414,713
Total liabilities and net assets	$ 1,528,377	$ 1,540,360

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

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets
June 30, 2019 and 2018

(in thousands of dollars)

	2019	2018
Net Assets Without Donor Restrictions		
Operating revenues, gains and other support		
Net patient service revenue	$ 1,224,164	$ 1,203,754
Other revenue	57,379	51,915
Net assets released from restrictions	7,316	6,309
Total operating revenues, gains and other support	1,288,859	1,261,978
Operating expenses		
Salaries and employee benefits	756,239	744,007
Supplies	174,673	176,014
External physician, clinical and professional service fees	133,368	121,294
Depreciation and amortization	72,514	72,036
Interest expense	21,040	21,279
Insurance	37,433	49,496
Other	97,929	97,431
Total operating expenses	1,293,196	1,281,557
Operating loss	(4,337)	(19,579)
Non-operating revenues, net & (charges)		
Investment income and realized gains and losses	18,509	11,790
Other than temporary impairments on investments	(499)	(2,181)
Other pension costs	(8,680)	(7,743)
Other	1,288	8,155
Execess (deficiency) of revenues over expenses	6,281	(9,558)

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

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets, continued
June 30, 2019 and 2018

(in thousands of dollars)

	2019	2018
Net Assets Without Donor Restrictions (continued)		
Excess (deficiency) of revenues over expenses	6,281	(9,558)
Change in net unrealized gains/(losses) on investments	(813)	(1,370)
(Increase) decrease in pension liability	(44,996)	22,339
(Decrease) increase in net assets without donor restrictions	(39,528)	11,411
Net Assets With Donor Restrictions		
Contributions	8,990	5,037
Investment income and realized gains	1,734	4,195
Other than temporary impairments on investments	(38)	(573)
Change in beneficial interest in perpetual trusts	596	2,600
Change in net unrealized gains on investments	2,119	740
Net assets released from restrictions	(7,316)	(6,309)
Increase in restricted net assets with donor restrictions	6,085	5,690
(Decrease) Increase in net assets	(33,443)	17,101
Net assets, beginning of year	414,713	397,612
Net assets, end of year	$ 381,270	$ 414,713

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

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows
June 30, 2019 and 2018

(in thousands of dollars)

	2019	2018
Cash flows from operating activities		
(Decrease) Increase in net assets	$ (33,443)	$ 17,101
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized losses on investments	(13,303)	(7,194)
Depreciation and amortization	70,378	69,340
Increase (decrease) in pension liability	44,996	(22,339)
Gain on sale of assets	-	(9,889)
Change in beneficial interest in perpetual trusts	(596)	(2,602)
Contributions and investment income restricted for long-term purposes	(9,294)	(6,067)
Equity in income of joint venture	(16,430)	(17,572)
Changes in assets and liabilities		
Accounts receivable	(2,631)	(22,244)
Inventories	(1,833)	2,587
Insurance recoverable	839	(6,938)
Other assets	(587)	(4,508)
Accounts payable and accrued expenses	1,601	6,199
Accrued pension liability, net of funding	1,273	5,970
Accrued vacation and other benefits	(2,713)	(1,313)
Accrued professional liability, net of funding	(18,062)	20,819
Other liabilities	3,322	3,750
Net cash provided by operating activities	23,517	25,100
Cash flows from investing activities		
Purchase of land, buildings and equipment [1]	(41,713)	(47,156)
Purchase of investments and assets whose use is limited	(191,094)	(115,667)
Proceeds from sale of investments and assets whose use is limited	185,671	103,628
Proceeds from sale of assets	-	11,619
Investment in joint ventures	-	(7,403)
Distribution from joint ventures	9,544	19,006
Other	369	(378)
Net cash used in by investing activities	(37,223)	(36,351)

[1] Non-cash investing activities
Capital lease obligations of $371 were incurred in 2019 when the Network entered into leases for new equipment. These amounts are not included the purchase of land, buildings and equipment.

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

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows - Continued
June 30, 2019 and 2018

(in thousands of dollars)

	2019	2018
Cash flows from financing activities		
Net (repayments) proceeds from revolving line of credit	(1,040)	768
Repayment of long-term borrowings	(7,912)	(7,758)
Principal payments under capital lease obligations	(1,756)	(1,796)
Contributions and investment income restricted for long-term purposes	9,294	6,067
Net cash used in financing activities	(1,414)	(2,719)
Net decrease in cash and cash equivalents	(15,120)	(13,970)
Cash and cash equivalents, beginning of year	99,777	113,747
Cash and cash equivalents, end of year	$ 84,657	$ 99,777

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

1. Organization and Nature of Operations

Albert Einstein Healthcare Network ("AEHN") is a not-for-profit corporation that controls related organizations in a health care delivery system serving the greater Delaware Valley through sole membership in those related organizations. AEHN, together with its related member organizations, comprise Albert Einstein Healthcare Network ("Network").

The Network engages in health education, health promotion and fundraising activities, conducts system-wide planning, establishes overall financial goals and oversees funds management.

AEHN appoints the governing boards of subsidiaries and member organizations. The related organizations and their primary operations included in the consolidated financial statements are as follows:

Albert Einstein Medical Center ("AEMC") is a controlled organization through sole AEHN membership. AEMC is licensed to operate 551 acute care beds, 187rehabilitation beds, 44 skilled nursing beds and an outpatient surgical center across three campuses.

On its main campus, in North Philadelphia, AEMC provides tertiary care in a 485 acute care bed hospital setting. AEMC provides rehabilitation services in a 21-bed setting on its main campus and 36-bed setting at three other hospitals that are part of its Moss Rehab division. AEMC provides nursing care in a 44-bed setting that is a skilled nursing facility. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites. AEMC also provides services through a crisis response center.

On its Elkins Park campus, AEMC provides tertiary care in a 66-bed acute care hospital setting. AEMC provides rehabilitation services in a 130-bed rehabilitation setting that is also part of its Moss Rehab division. In addition, services are provided through an emergency department and various outpatient and ancillary departments.

On its Germantown campus, AEMC provides services through various outpatient and ancillary departments. Psychiatric services are provided in a long-term structured residential setting.

Einstein Practice Plan, Inc. ("EPPI") is a controlled organization through sole AEHN membership. EPPI employs physicians who are members of the medical staff of AEMC and provide clinical care, teaching and research services to the Network's affiliated entities.

Einstein Community Health Associates ("ECHA") is a controlled organization through sole AEHN membership. ECHA employs physicians who provide primary care services in the community.

Einstein Medical Center Montgomery ("EMCM) is a controlled organization through AEHN. EMCM provides tertiary care to residents in and around central Montgomery County in a 171 acute care bed hospital setting. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites.

Montgomery Hospital Medical Center (“MHMC”) is a controlled organization through sole AEHN membership. MHMC consists of three constituent companies, Montgomery Hospital Medical Center (“MHMC”), Montgomery Health Foundation ("MHF"), and CMMC, Inc. (“CMMC”)

MHMC was licensed to operate as a general acute care hospital providing services in a 177-bed hospital setting in Norristown, Pennsylvania. On September 29, 2012, MHMC discontinued its healthcare delivery services.

MHF engages in fund raising activities primarily for the benefit of MHMC and the community.

CMMC leases space in its medical office building and provides other services ancillary to MHMC.

Fornance Physician Services (“FPS”) is a controlled organization through sole AEHN membership. FPS is a physician practice organization providing services in various medical specialties at locations throughout Montgomery County.

BCCT Over Corp (“Belmont”) is a controlled organization through sole AEHN membership. On July 1, 2015, Network sold the assets of Belmont and ceased operations.

Einstein/USP Surgery Centers, L.L.C., a Pennsylvania L.L.C., is a controlled organization through which AEHN (Parent) controls 80% of the ownership. Its partner, United Surgical Partners, Inc., (USP) holds 20% of the ownership. During June of 2016 via an asset purchase agreement, the EMCM purchased the assets & assumed certain obligations related to those assets. As a result, the ambulatory surgical center on the campus of Einstein Medical Center Montgomery ceased operations.

Einstein Healthcare Systems, Inc. (“EHS”) is a wholly owned for-profit business corporation and subsidiary of AEHN.

Einstein Care Partners, LLC (ECP), is controlled organization through sole AEHN membership. ECP operates an accountable care organization (ACO) comprised of clinically integrated network of Member-owned and independent healthcare providers. ECP also contracts with government payers, private health benefit plans, employers and other parties for certain populations under value-based and/or risk-bearing payment arrangements.

Broadline Risk Retention Group, Inc., (“BRRG”), a Vermont not for profit sponsored risk retention group, organized on July 2010, is a controlled organization through membership of AEHN (Parent) and its subsidiaries who participate in its risk retention program. BRRG is organized and operated exclusively to support the Network and the charitable healthcare activities of the member organizations of the Network and provides professional liability, general liability and excess liability insurance to the Network and its members.

Definitive Agreement with Thomas Jefferson University

On September 14, 2018, AEHN signed a definitive agreement whereby AEHN will become part of Thomas Jefferson University (“TJU”). TJU will become the sole corporate member of AEHN to further expand and enhance AEHN’s mission of improving the quality of life for all by fostering healing, easing suffering, and promoting wellness in a culture of safety, learning and respect. TJU is an independent, non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and recognized as a tax-exempt organization pursuant to Section 501(c) (3) of the Internal Revenue Code. It conducts research and offers undergraduate and graduate instruction through the Sidney Kimmel Medical College, the Jefferson Colleges of Nursing, Pharmacy, Health

Professions, Population Health, and Biomedical Sciences. TJU has approximately 3,200 students and is located in Philadelphia**.** Both AEHN and TJU are seeking all necessary state and federal regulatory clearances.

2. Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America ("GAAP"). These consolidated financial statements include the accounts of the Network and its controlled affiliates. Investments in which the Network does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. All significant inter-company accounts and transactions have been eliminated.

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

Financial Statement Presentation

Net assets without donor restrictions are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Net assets with donor restrictions include gifts for which donor-imposed restrictions such as specific time period or purpose have not been met and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. It also includes gifts, trusts and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Performance Indicator

In the consolidated statements of operations and changes in net assets, the primary indicator of the Network's results is "Excess/(deficiency) of revenues over expenses." As such, it includes all revenues, operating expenses, non-operating revenues, investment income and non-operating expenses without donor restrictions. Transactions such as restricted contributions and contributions of long-lived assets (e.g., capital equipment), certain investment income and realized gains and losses related to these transactions are not included in Excess/(deficiency) of revenues over expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with an original maturity of three months or less. At June 30, 2019 and 2018, AEHN had cash balances in financial institutions which exceeded the Federal Depository Insurance limits. Management believes that the risk related to these deposits is minimal.

Fair Value Measurement

The Network adopted FASB guidance on fair value measurements for investments effective July 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Under the standard, fair value is defined as

an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement to be determined based on the assumptions that market participants would use in pricing an asset or liability in a hypothetical transaction at the measurement date.

The Network measures its available-for-sale restricted and unrestricted marketable securities at fair value on a recurring basis. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below:

Level 1 **–** Where applicable, the Network uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology typically applies to domestic equities, international equities and mutual funds which redeem at net asset value (NAV).

Level 2 **–** If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value. These inputs may include recent bid prices, interest rates, yield curves, credit risk and default rates or inputs derived principally from market data and corroborated by market data. Securities typically priced using Level 2 inputs include government bonds (including U.S. Treasuries and Agencies), corporate bonds, asset-backed securities and mortgage-backed securities, commercial paper, guaranteed investment contracts, currency options and commingled funds where NAV is corroborated with observable market data.

Level 3 **–** These inputs would be the Network's own assumptions about the assumptions market participants would use in pricing an asset.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

Fair value measurements – for investments in certain entities that calculate net asset value per share (or its equivalent)

In May 2015, the FASB issued ASU 2015-07, which eliminates the requirement to categorize investments valued using the net asset value (NAV) of the investment as a practical expedient within the fair value hierarchy.

Investments valued using the practical expedient were previously categorized within the fair value hierarchy on the basis of whether the investment was redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date.

Unrealized Gains and Losses
Unrealized gains and losses on all investments are shown below the Excess/(deficiency) of revenues over expenses.

Investments with unrealized depreciation are reviewed at each year-end to determine whether these investments are other-than-temporarily impaired. Externally managed marketable investments with fair value below cost at year-end are considered to be other-than-temporarily impaired and, accordingly, the unrealized depreciation is recognized as an impairment loss through a write-down in the cost basis of such investments to year-end fair values. This loss is reflected in the Excess/(deficiency) of revenues over expenses.

Investment income on investments of donor-restricted funds, including unrealized gains and losses, is added to or deducted from the appropriate net asset category based on the donor's restrictions.

Inventories
Inventories are stated at the lower of cost or market with cost determined using the first-in-first-out method.

Assets Whose Use Is Limited
Assets whose use is limited are recorded at fair value and principally include amounts restricted by donors, amounts set aside by the Board of Trustees for future capital improvements and amounts held by outside trustees under bond indenture agreements and self-insurance trust arrangements. Amounts required to meet current liabilities have been classified as current assets in the accompanying consolidated balance sheets.

Equity in Joint Ventures
The Network is one of four owners of Health Partners of Philadelphia, Inc. ("Health Partners") a not-for-profit Health Maintenance Organization joint venture providing access to health care services on a prepaid basis. Health Partners is licensed to operate in Philadelphia and the surrounding counties, for the Commonwealth of Pennsylvania Medicaid Health Choices program. The Network accounts for its joint venture interest on the equity method whereby it records its share of (losses)/earnings and net assets. Its share of Health Partners earnings was $16.4 million and $17.0 million in 2019 and 2018, respectively, and is included in other operating revenues. Its share of Health Partners net assets was $45.0 million and $37.9 million in 2019 and 2018 respectively and is included in other non-current assets.

In April of 2018 the Network entered into a joint venture ("Einstein-Solis Joint Venture") between the Network and Solis-NFP JV Holding, LLC, a Delaware limited liability company. The purpose of the joint venture is to provide management and administrative services to the network-wide direct patient care mammography service line. The Network accounts for its joint venture interest on the equity method whereby it records its share of (losses)/earnings and net assets. Its share of the Einstein-Solis Joint Venture earnings was $281,000 for the year ended June 30, 2018 and is included in other operating revenues. Its share of Einstein-Solis Joint Venture net assets was $7.7 million and is included in other non-current assets for the years ended June 30, 2019 and 2018.

Land, Buildings and Equipment
Land, buildings and equipment are stated at cost less accumulated depreciation. Interest and associated borrowing costs for financed projects such as major facility construction are capitalized during the time to complete and prepare the asset for its intended use. Donated equipment is recorded at fair market value at the date of receipt, which is then treated as cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statements of operations as non-operating gains or losses.

Beneficial Interest in Perpetual Trusts
The Network is the beneficiary of various irrevocable charitable and split-interest trusts which are administered by trustees. The Network's proportionate interest in the investments of these trusts is recorded at fair value. The Network's proportionate interest is reported within net assets as an asset with donor restrictions in the consolidated balance sheets. Distributions of trust income are included in other non-operating revenues. For fair value measurement purposes, the Network values these investments as Level 3, since the Network does not have control of these trust assets.

Self-Insurance Plans
Professional liability claims are insured under a combination of a risk retention group, self-insurance and excess commercial reinsurance programs. All of the Network's hospital operating entities also participate in the Medical Care Availability and Reduction of Error ("MCARE") Fund. Management accrues its best estimate of known and unknown medical malpractice and workers' compensation losses utilizing historical and actuarial data on a discounted basis. Professional liability claims are recorded on a discounted basis using a rate of 3%.

Workers' compensation liabilities are insured through a large deductible commercial insurance policy. Workers' compensation liabilities are recorded on a discounted basis using a rate of 3%.

Self-insurance plans, claims and related insurance recoveries, are not netted against a related claim liability. The Network has recorded $63.1 million and $64.0 million for 2019 and 2018, respectively, of insurance liabilities that are recoverable from insurance carriers.

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

Performance obligations are determined based on the nature of the services provided by the 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 reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to both inpatient and outpatient services because the patient simultaneously received and consumed the benefits provided by the Network as the Network performed the services. The Network measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is

no longer required to provide services to that 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 recognized when goods or services are provided, and the Network does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Network has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a 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 previously 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 has elected to use a portfolio approach, as described in FASB ASC 606-10-10-4, for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contact basis. Based on the historical collection trends and other analysis, the Network believes that the revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Network determines the transaction price based on standard charges for goods and 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. The Network determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Most of the Network's services are rendered to patients with third party coverage. Reimbursement under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents and the contracts the Network has with commercial payers also provide for retroactive audit and review of claims. Agreements with third-party payers typically provide for payments at amounts less than established charges.

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, like AEHN, have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Network's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Network. In addition, the contracts the Network has 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's 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. Adjustments arising from a change in the transaction price were not significant in the twelve months ended June 30, 2019 or 2018.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Network also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Network estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant in the twelve months ended June 30, 2019 or 2018.

Consistent with the Network's mission, care is provided to patients regardless of their ability to pay. 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.

Patients who meet the Network's criteria for charity care are provided care without charge or at amounts less than established rates and the Network has determined it has provided an implicit price concession. Price concessions, including charity care, are not reported as net patient service revenue.

The composition of net patient service revenue for the twelve months ended June 30, 2019 and 2018, primarily resulting from patients in the southeastern Pennsylvania region, are as follows:

	2019	2018
Medicare	37%	38%
Medicaid	33%	32%
Commercial	28%	27%
Self Pay/Other	2%	3%
	100%	100%

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

Net patient service revenue disaggregated by lines of service for the years ended June 30, 2019 and 2018 are as follows in thousands of dollars:

	2019	2018
Inpatient services	$ 692,866	$ 673,057
Outpatient services	531,298	530,697
	$ 1,224,164	$ 1,203,754

At June 30, 2019 and 2018, patient accounts receivable, net were comprised of the following components in thousands of dollars:

	2019	2018
Patient receivables	$ 154,551	$ 152,066
Contract assets	4,870	4,567
	$ 159,421	$ 156,633

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting period date for which the Network does not have the right to bill.

The Network has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Network otherwise would have recognized is one year or less in duration.

The Network has elected the practical expedient allowed under FASB 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's 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.

Donor-Restricted Gifts
Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as assets with donor restrictions 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 of the restriction is accomplished, net assets with donor restrictions are reclassified as assets without donor restrictions and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions.

Uncompensated Medical Care Provided
The Network provides services to all patients regardless of ability to pay. Although patients are ultimately responsible for hospital services rendered that are not covered by insurance, some uninsured patients qualify for financial assistance under established guidelines and are therefore not responsible for payment of such services. These guidelines require medical indigence status based on federal poverty guidelines. Charges for services rendered to patients who qualify for financial assistance are not reflected in the accompanying consolidated financial statements. Uninsured patients who do not qualify for financial assistance are provided care at reduced rates.

The Network maintains records to identify and monitor the level of uncompensated care provided. These records include the amount of charges forgone for services and supplies furnished. Management estimates that the cost of uncompensated care (which includes patients who qualify for financial assistance and costs provided to patients where the net patient revenue was not collected) provided by the Network approximated $39.6 million in 2019 and $43.3 million in 2018. The cost of uncompensated care is computed by taking the ratio of each operating division's cost to charges and multiplying it by the charges forgone for each patient where medical care was provided but went uncompensated.

Charity care amounts do not include implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to adoption of ASU 2014-09, amounting to $34.7 million and $40.2 million for amounts due from patients at the Network's uninsured discounted fee scale amounts but not collected for the years ended June 30, 2019 and 2018, respectively.

Other Uncompensated Community Services
Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below the Network's cost of providing such services. The costs of providing services to eligible welfare recipients who participate in the Pennsylvania Medical Assistance and local Health Choices programs exceeded reimbursement by $66.9 million in 2019 and $75.1 million in 2018.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, the Network provides various community services such as education,

screenings and support groups for cancer patients and their families, health and wellness festivals, continuum of independent living and senior health programs, heart disease screenings, maternity care and childbirth programs, behavioral health crisis response and other related community health programs. The Network is also involved with school partnerships and helps organize educational programs for childhood and adolescent health issues, including underage drinking and smoking. Associated amounts expended for the above services approximated $5.3 million in 2019 and $3.7 million in 2018.

Meaningful Use – IAS 20 Grant Model
The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Network recognizes its EHR incentive payments using a government grant recognition model. The Network determined the EHR incentive payments are similar to grants that are related to income and recognizes the incentive payments ratably over each meaningful use period. The Network recognizes the incentive payments when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. The recognition of income related to the EHR incentive payments is based on management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur.

Income Taxes
AEHN and its controlled affiliates are tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Network also owns or controls for-profit subsidiaries that are taxable corporations. The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the IRS in 2019. As a result of evaluating the provisions that impact its organizations, AEHN has concluded that this law will not have a material impact on its financial statements.

Reclassifications
Certain amounts in the prior year have been reclassified to conform to the current year presentation.

Subsequent Events
The Network has performed an evaluation of subsequent events through Septembe 23, 2019, which is the date the financial statements were issued.

New Accounting Pronouncements
Effective July 1, 2018, the Network adopted FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method of transition. This ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not result in changes to previously reported revenues, other than presentation.

Effective June 30, 2019, the Network adopted FASB ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). This ASU changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduced reporting complexity. The Network has adopted the ASU and has adjusted the presentation in these consolidated financial statements accordingly (see Notes 11, 12 and 13). The ASU has been applied retrospectively to all periods presented. The adoption of this ASU did not result in changes to previously reported net assets, other than presentation.

Effective July 1, 2018, the Network adopted FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides assistance to entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. The adoption of this ASU did not result in changes to previously reported revenues.

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 the fiscal years beginning after December 15, 2018. Early application to financial statements that have not yet been made available for issuance is permitted for the amendments (1) requiring an entity that has elected to measure a liability at fair value to present separately as a change in net assets the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk; and (2) exempting an entity from the requirement to disclose fair value information about financial instruments not measured at fair value. The Network elected to apply these amendments during fiscal year 2016. The application of this guidance resulted in disclosure changes only. Early adoption of the remaining updates is not 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 lease guidance. The standard is effective for fiscal years 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 currently in the process of evaluating its lease contracts as well as certain service contracts that

may include embedded leases. Additionally, the Network is finalizing its key assumptions that will be utilized at the transition date. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated balance sheets and significant incremental disclosures in the financial statement footnotes. The transition adjustment is not expected to have a material impact on net assets or the performance indicator on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2018. and will result only in presentation changes within the 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 the Network'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 2020 consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). This ASU improves the effectiveness of the notes to financial statements through changes in the disclosure requirements for fair value measurement. The ASU is effective for the Network's fiscal year beginning after December 15, 2019 and will be applied using a retrospective approach. The Network is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits – Defined Benefit Plans (Topic 715). This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is for the Network's fiscal year beginning after December 15, 2020 and will be applied using a retrospective approach. The Network is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other, Internal-Use software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the Network's fiscal year beginning after December 15, 2020 and will be applied using a prospective approach. The Network is currently assessing the impact of this ASU on its consolidated financial statements.

3. Fair Value of Investments

As of June 30, 2019, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 8,252	$ 27,157	$ -	$ 35,409
U.S. treasury obligations	-	7,250	-	7,250
U.S. agency obligations	-	50	-	50
Bond mutual funds	143,093	4	-	143,097
Equity mutual funds	45,595	-	-	45,595
Marketable equity securities	2,923	-	-	2,923
Corporate bonds	-	17,838	-	17,838
Alternative investments	25,475	-	-	25,475
Beneficial interest in perpetual trusts	-	-	47,212	47,212
	$ 225,338	$ 52,299	$ 47,212	324,849
Investments at NAV				174,402
				$ 499,251

The unfunded commitments, redemption frequency and redemption notice periods for the investments that utilize Net Asset Value (NAV) for practical expedient purposes by strategy are as follows in thousands of dollars:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity (a)	$ 7,674	-	Daily/Annually	0-75 Days
Long Equity (b)	$ 29,829	-	Daily	
Multi-Strategy (c)	$ 7,639	-	Annually	90 Days
Real Assets (d)	$ 17,864	-	Daily	
Short Term Bond Fund (e)	$ 62,639	-	Daily	
Core Plus Bond Fund (f)	$ 20,461	-	Daily	
High Yield Bond Fund (g)	$ 5,353	-	Monthly	
Equity Index Funds (h)	$ 22,943	-	Daily	

(a) This category includes investments in hedge funds that invest in both long and short positions. The focus is on value, emphasizing low price-to-earnings ratios as well as discounts to private market value. Short equity investments are limited to 10% of assets.
(b) This category includes funds that invest principally in equity securities of small and large capitalization U.S. companies and other developed market countries.
(c) This category invests in hedge funds of funds that pursue multiple strategies to diversify risks and reduce downside exposure. The portfolio seeks a mixture of managers by style, size, geography and liquidity that can perform well in a variety of markets and can protect against a market correction.
(d) This category invests in funds that provide exposure to Real Estate Investment Trusts (REITs), commodities, and natural resources. The strategy complements a policy portfolio and is intended to provide inflation protection relative to equities and fixed income.
(e) This category purchases investment grade fixed income securities with duration typically of one to three years.
(f) This category invests in fixed income securities issued by the U.S. Government, U.S. Government agencies, and of corporations domiciled in the United States, developed international markets and emerging markets. These securities have investment grade credit ratings and non-investment grade credit ratings.
(g) This category invests principally in U.S. dollar denominated high yield bonds with a focus on achieving superior risk-adjusted performance over extended periods. The portfolio focuses on capital preservation and mitigating volatility.
(h) This category purchases each stock in the Standard & Poor's 500 Index. The strategy is to buy and hold securities, trading when there is a change to the index, participant cash flows, or to reinvest cash from dividend income.

As of June 30, 2019, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	$ 26,374	$ 21,823	$ -	$ 48,197
Assets whose use is limited, current	5,056	30,376	-	35,432
Investments, non-current	143,946	32	-	143,978
Assets whose use is limited, non-current	49,962	68	-	50,030
Beneficial interest in perpetual trusts	-	-	47,212	47,212
	$ 225,338	$ 52,299	$ 47,212	324,849
Investments at NAV				174,402
				$ 499,251

As of June 30, 2018, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 10,753	$ 674	$ -	$ 11,427
U.S. treasury obligations	-	9,507	-	$ 9,507
U.S. agency obligations	-	65	-	$ 65
Bond mutual funds	144,326	-	-	$ 144,326
Equity mutual funds	49,192	-	-	$ 49,192
Corporate bonds	-	19,340	-	$ 19,340
Alternative investments	24,846	-	-	$ 24,846
Beneficial interest in perpetual trusts	-	-	47,351	$ 47,351
	$ 229,117	$ 29,586	$ 47,351	306,054
Investments at NAV				173,877
				$ 479,931

The unfunded commitments, redemption frequency and redemption notice periods for the investments that utilize Net Asset Value (NAV) for practical expedient purposes by strategy are as follows in thousands of dollars:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity (a)	$ 7,753	-	Daily/Annually	0-75 Days
Long Equity (b)	$ 28,099	-	Daily	
Multi-Strategy (c)	$ 7,264	-	Annually	90 Days
Real Assets (d)	$ 18,242	-	Daily	
Short Term Bond Fund (e)	$ 18,597	-	Daily	
Core Plus Bond Fund (f)	$ 66,699	-	Daily	
High Yield Bond Fund (g)	$ 5,108	-	Monthly	
Equity Index Funds (h)	$ 22,115	-	Daily	

(a) This category includes investments in hedge funds that invest in both long and short positions. The focus is on value, emphasizing low price-to-earnings ratios as well as discounts to private market value. Short equity investments are limited to 10% of assets.
(b) This category includes funds that invest principally in equity securities of small and large capitalization U.S. companies and other developed market countries.
(c) This category invests in hedge funds of funds that pursue multiple strategies to diversify risks and reduce downside exposure. The portfolio seeks a mixture of managers by style, size, geography and liquidity that can perform well in a variety of markets and can protect against a market correction.
(d) This category invests in funds that provide exposure to Real Estate Investment Trusts (REITs), commodities, and natural resources. The strategy complements a policy portfolio and is intended to provide inflation protection relative to equities and fixed income.
(e) This category purchases investment grade fixed income securities with duration typically of one to three years.
(f) This category invests in fixed income securities issued by the U.S. Government, U.S. Government agencies, and of corporations domiciled in the United States, developed international markets and emerging markets. These securities have investment grade credit ratings and non-investment grade credit ratings.
(g) This category purchases each stock in the Standard & Poor's 500 Index. The strategy is to buy and hold securities, trading when there is a change to the index, participant cash flows, or to reinvest cash from dividend income.
(h) This category purchases each stock in the Standard & Poor's 500 Index. The strategy is to buy and hold securities, trading when there is a change to the index, participant cash flows, or to reinvest cash from dividend income.

As of June 30, 2018, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	$ 25,885	$ 25,777	$ -	$ 51,662
Assets whose use is limited, current	4,653	3,551	-	8,204
Investments, non-current	149,456	91	-	149,547
Assets whose use is limited, non-current	49,123	167	-	49,290
Beneficial interest in perpetual trusts	-	-	47,351	47,351
	$ 229,117	$ 29,586	$ 47,351	306,054
Investments at NAV				173,877
				$ 479,931

4. Investment Income

Investment income and net realized gains (losses) for 2019 and 2018 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2019	2018
Investment income included in non-operating revenues:		
Interest and dividends	$ 6,883	$ 4,339
Net realized gains on sales of investments	11,626	7,451
Investment impairments	(499)	(2,181)
Total investment income on net assets without donor restrictions	$ 18,010	$ 9,609

	2019	2018
Investment income (net assets with donor restrictions):		
Interest and dividends	$ 1,329	$ 1,070
Net realized gains on sales of investments	405	3,125
Investment impairments	(38)	(573)
Total investment income on net assets with donor restrictions	$ 1,696	$ 3,622

Increases in net unrealized gains for 2019 and 2018 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2019	2018
Change in net unrealized (loss) gain on investments on assets without donor restrictions	$ (813)	$ (1,370)
Change in net unrealized gain on investments on net assets with donor restrictions	2,119	740
Total change in net unrealized (losses) gains	$ 1,306	$ (630)

Included in interest, dividends and net realized gains are investment management fees of $2.0 million and $1.9 million for fiscal years 2019 and 2018 respectively.

5. Assets Whose Use Is Limited

Assets whose use is limited by donors, trust agreements or board designation, in thousands of dollars, were comprised of the following at June 30, 2019 and 2018:

	2019	2018
Self-insurance assets internally designated	$ 87,680	$ 89,664
Board designated assets	13,116	12,457
Certificate of deposit held in trust used as debt collateral	27,007	-
Net assets with donor restrictions invested	91,417	86,895
	$ 219,220	$ 189,016

6. Land, Buildings and Equipment

A summary of land, buildings and equipment, in thousands of dollars, is as follows:

	2019	2018
Land and land improvements	$ 68,141	$ 67,541
Buildings	774,211	755,510
Equipment	746,883	715,797
Construction in progress	11,472	16,372
	1,600,707	1,555,220
Less: Accumulated depreciation	(1,010,641)	(938,240)
	$ 590,066	$ 616,980
Total depreciation expense	$ 72,298	$ 71,455

Included in equipment and construction in progress are capital leases of $16.2 million in 2019 and $15.8 million in 2018; included in accumulated depreciation is $8.8 million in 2019 and $8.1 million in 2018 pertaining to the accumulated amortization of capital leases.

Included in equipment are unamortized computer software costs of $158.5 million in 2019 and $149.0 million in 2018. Included in total depreciation expense is $16.4 million in 2019 and $15.7 million in 2018 pertaining to amortization of computer software.

7. Long-Term Obligations

Long-term obligations at June 30, 2019 and 2018, in thousands of dollars, consisted of the following:

	2019	2018
Series 2015A Bonds (a)	$ 448,842	$ 458,154
Capital leases (b)	4,503	5,888
Other (c)	2,491	4,028
	455,836	468,070
Less: Current portion	11,994	13,111
	$ 443,842	$ 454,959

a. On June 24, 2015, the Network issued $453,470,000 in Health System Revenue Bonds, Series 2015A through the Montgomery County Industrial Development Authority ("MCIDA"). The bond proceeds, along with other funds were used to:

   i. refunding of Series 2009A and 2010 bonds,

   ii. refinancing of taxable debt incurred as capitalized costs during construction of EMCM (Negative Arbitrage Loan)

   iii. payment of (or reimbursement for) cost of building renovations, equipment or other miscellaneous capital expenditures and,

   iv. payment of bond issuance costs.

   In conjunction with (a) above, the Network has entered into a loan agreement with MCIDA whereby MCIDA has loaned the proceeds of the Series 2015A bonds to the Network. The Network has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2015A bonds.

   Stated interest rates on the bonds outstanding at June 30, 2019 range from 4.0% to 5.25%.

   As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, the Network has issued its Series 2015A Master Note and granted MCIDA through its Trustee a mortgage lien and security interest in certain real property owned by the Network.

   For the purpose of securing payment of the Series 2015A Bonds, AEHN (the Network parent company), AEMC, EMCM, EPPI, ECHA, MHMC, and Fornance, formed the AEHN Obligated Group (the "Obligated Group"). No other Network affiliates other than members of the Obligated Group were obligated or are guarantors of the Series 2015A Bonds.

b. During the fiscal year ended June 30, 2017, Albert Einstein Medical Center entered into capital lease agreements for information technology infrastructure. Some leases are payable in monthly installments through 2022, ranging from $127,000 in 2019 to $141,000 in 2022. One lease is payable in equal annual installments from 2019 through 2021 for $121,913.

   During the fiscal year ended June 30, 2019, Albert Einstein Medical Center entered into a capital lease agreement for clinical equipment. The lease is payable in monthly installments through 2022, ranging from $9,619 in 2019 to $11,032 in 2022.

c. During the fiscal year ended June 30, 2016, Einstein Medical Center Montgomery through an asset purchase agreement assumed Einstein/USP Surgery Centers, LLC's term loans secured by certain equipment that was purchased by Einstein Medical Center Montgomery from the joint venture. As of June 30, 2019, all debt obligations for the leases and loans have been paid in full.

   In 2016 Albert Einstein Healthcare Network commenced a $5.4 million revolving line of credit for a commercial card payment program. There are no stated interest rates on this line of credit as the balance is due in full each month. For the fiscal years ended June 30, 2019 and

2018, outstanding draws on this revolving line of credit were $2.5 million and $3.5 million respectively.

Cash paid for interest on long-term debt in 2019 and 2018 was $22.9 million and $23.3 million, respectively.

Principal payments and installments for debt service requirements over the next five years and thereafter, in thousands of dollars, are as follows:

	Series 2015A	Capital Leases	Other	Combined
2020	$ 7,785	$ 1,840	$ 2,491	$ 12,116
2021	8,175	1,897	-	10,072
2022	8,585	766	-	9,351
2023	9,015	-	-	9,015
2024	9,465	-	-	9,465
Thereafter	405,817	-	-	405,817
	$ 448,842	$ 4,503	$ 2,491	$ 455,836

8. Pension Plans

The Network has a non-contributory defined benefit retirement plan ("The Plan"), which provides retirement benefits, generally at age 65, to all employees other than the employees of EMCM and FPS. Benefits under the Plan are based on average final pay and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006. The measurement date used for plan assets and liabilities is June 30th of each year.

Both MHMC and FPS curtailed its individual non-contributory defined benefit plan effective May 31, 2003, when benefit accruals were frozen. On June 30, 2015 the MHMC and FPS plans were merged with the Plan. Due to the merger of the plans, all assets, liabilities, and participants of the MHMC and FPS plans were considered to be part of the Plan upon the merger effective date of June 30, 2015.

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The component recognized in unrestricted net assets, as of June 30 includes:

	2019	**2018**
Net actuarial loss	$ 249,567	$ 204,571

The changes in amounts in unrestricted net assets that have not been recognized in net periodic pension expense are as follows:

	2019	2018
Net assets without donor restrictions, prior year	$ 204,571	$ 226,910
Recognition of net actuarial losses	(16,331)	(17,629)
Increase (decrease) in net actuarial loss	61,327	(4,710)
	$ 249,567	$ 204,571

Year-end amounts in unrestricted net assets expected to be recognized as a component of net periodic pension expense during the following fiscal year is as follows:

	2019	2018
Amortization of net actuarial losses	$ 20,200	$ 15,581

The components of pension expense for the Plan were as follows:

	2019	2018
Components of net periodic pension cost		
Service cost	$ 22,451	$ 22,953
Interest cost	28,905	28,804
Expected return on plan assets	(36,556)	(38,690)
Recognized actuarial loss	16,331	17,629
Net periodic pension cost	$ 31,131	$ 30,696

Actuarial assumptions used to compute pension expense were as follows:

	2019	2018
Discount rate	4.30%	4.00%
Long-term rate of return	8.00%	8.00%
Compensation increase	3.47%	3.47%

The components of the pension plan financial position on the consolidated balance sheets, in thousands of dollars, were as follows:

	2019	2018
Change in benefit obligation		
Projected benefit obligation, beginning of year	$ 677,740	$ 723,092
Service cost	22,451	22,953
Interest cost	28,905	28,804
Actuarial loss (gain)	61,325	(30,032)
Benefit payments	(74,520)	(67,077)
Projected benefit obligation, end of year	715,900	677,740
Change in Plan assets		
Fair value of Plan assets, beginning of year	452,360	481,343
Actual return on Plan assets	36,554	13,367
Employer contributions	29,858	24,727
Benefit payments	(74,520)	(67,077)
Fair value of Plan assets, end of year	444,251	452,360
Funded status, end of year (non-current liability)	$ (271,649)	$ (225,380)

Included in Fair value of Plan assets are accrued income of $1.6 million and $2.0 million, and accrued expenses of $0.4 million and $0.5 million, as of June 30, 2019 and June 30, 2018, respectively.

Amounts recognized on the consolidated balance sheet consist of:

	2019	2018
Accrued pension liability	$ 271,649	$ 225,380
Net assets without donor restrictions (cumulative actuarial loss and prior service cost)	(249,567)	(204,571)
Net amount recognized	$ 22,082	$ 20,809

Assumptions utilized to estimate year-end pension obligations are as follows:

	2019	2018
Discount rate	3.70%	4.30%
Compensation increase	2.53%	3.47%

The Accumulated Benefit Obligaton was $685.6 million and $647.5 million as of June 30, 2019 and June 30, 2018, respectively.

Projected Benefit Payments

Benefit payments for the next ten years, in thousands of dollars, are currently projected to be:

2020	25,776
2021	28,076
2022	30,045
2023	31,868
2024	33,694
2025-2029	191,868

Asset Allocation

The asset allocation of the Plan's investments can be summarized as follows:

	Target Allocation 2019	Percentage of Plan Assets June 30 2019	2018
Equity Securities	45.0%	43.4%	44.5%
Debt Securities	40.0%	39.9%	39.4%
Alternative Investments	10.0%	10.9%	10.2%
Inflation Hedging	5.0%	4.8%	5.1%
Cash & Equivalents	-	1.0%	0.8%
Total	100.0%	100.0%	100.0%

The expected long-term rate of return for the U.S. plan assets of 8% is based on the expected return of each of the above categories, weighted based on the target allocations for each class. Equity securities are expected to return 10% on average over the long-term, while the average expected return for debt securities is 5% over the long-term.

The Network's investment policy utilizes a constant risk strategy, whereby employer contributions and the sale of securities are utilized to rebalance the asset allocation back to target levels when the actual asset allocation percentages vary from the target allocation percentages. Under normal market conditions, tolerance for variation from target percentages has been approximately 5%.

The following table presents the Plan's assets as of June 30, 2019, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	Level 1	Level 2	Level 3	Total Fair Value
Pension investment program:				
Cash management funds	$ -	$ 4,801	$ -	$ 4,801
U.S. treasury obligations	-	1,742	-	1,742
U.S. agency obligations	-	1,361	-	1,361
Bond mutual funds	37,198	-	-	37,198
Equity mutual funds	67,432	-	-	67,432
Corporate bonds	-	171,773	-	171,773
Alternative investments	6,976	-	-	6,976
Total pension investment program	$ 111,606	$ 179,677	$ -	291,283
Investments at NAV				151,750
				$ 443,033

The unfunded commitments, redemption frequency and redemption notice periods for the Plans' investments that utilize Net Asset Value (NAV) for practical expedient purposes by strategy are as follows in thousands of dollars:

Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity (a)	$ 6,486	-	Daily/Quarterly	45-90 Days
Event Driven (b)	14,462	-	Quarterly/Annually	45-65 Days
Multi-Strategy (c)	19,394	-	Monthly/Quarterly	65-90 Days
Real Assets (d)	21,468	-	Daily	
Equity Index Funds (e)	63,567	-	Daily	
Long Equity (f)	26,372	-	Daily/Monthly	10 Days

(a) This category includes investments in hedge funds that invest in long and short positions in both domestic and international stocks.
(b) This category includes investments in hedge funds that seek to preserve capital and to profit from merger arbitrage, distressed investments, and extraordinary corporate actions with predictable outcomes.
(c) This category invests in hedge funds of funds that pursue multiple strategies to diversify risks and reduce downside exposure. The portfolio seeks a mixture of managers by style, size,

geography and liquidity that can perform well in a variety of markets and can protect against a market correction.

(d) This category invests in funds that provide exposure to Real Estate Investment Trusts (REITs), commodities, and natural resources. The strategy complements a policy portfolio and is intended to provide inflation protection relative to equities and fixed income.

(e) This category purchases each stock in the Standard & Poor's 500 Index. The strategy is to buy and hold securities, trading when there is a change to the index, participant cash flows, or to reinvest cash from dividend income.

(f) This category includes funds that invest principally in equity securities of small and large capitalization U.S. companies and other developed and emerging market countries.

The following table presents the Plan's assets as of June 30, 2018, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	Level 1	Level 2	Level 3	Total Fair Value
Pension investment program:				
Cash management funds	$ -	$ 7,461	$ -	$ 7,461
U.S. treasury obligations	-	20,342	-	20,342
U.S. agency obligations	-	1,611	-	1,611
Bond mutual funds	34,633	-	-	34,633
Equity mutual funds	66,521	-	-	66,521
Corporate bonds	-	150,857	-	150,857
Alternative investments	6,538	-	-	6,538
Total pension investment program	$ 107,692	$ 180,271	$ -	287,963
Investments at NAV				162,915
				$ 450,878

The unfunded commitments, redemption frequency and redemption notice periods for the Plans' investments that utilize Net Asset Value (NAV) for practical expedient purposes by strategy are as follows in thousands of dollars:

Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity (a)	$ 6,424	-	Daily/Quarterly	45-90 Days
Event Driven (b)	13,524	-	Quarterly/Annually	45-65 Days
Multi-Strategy (c)	19,679	-	Monthly/Quarterly	65-90 Days
Real Assets (d)	23,295	-	Daily	
Equity Index Funds (e)	74,296	-	Daily	
Long Equity (f)	25,697	-	Daily/Monthly	10 Days

(a) This category includes investments in hedge funds that invest in long and short positions in both domestic and international stocks.
(b) This category includes investments in hedge funds that seek to preserve capital and to profit from merger arbitrage, distressed investments, and extraordinary corporate actions with predictable outcomes.
(c) This category invests in hedge funds of funds that pursue multiple strategies to diversify risks and reduce downside exposure. The portfolio seeks a mixture of managers by style, size, geography and liquidity that can perform well in a variety of markets and can protect against a market correction.
(d) This category invests in funds that provide exposure to Real Estate Investment Trusts (REITs), commodities, and natural resources. The strategy complements a policy portfolio and is intended to provide inflation protection relative to equities and fixed income.
(e) This category purchases each stock in the Standard & Poor's 500 Index. The strategy is to buy and hold securities, trading when there is a change to the index, participant cash flows, or to reinvest cash from dividend income.

Contributions

The Network, in its unaudited projections, projects that it will contribute $41.6 million to the Plan during the 2020 fiscal year.

In addition to the defined benefit plan, the Network maintains defined contribution plans that cover substantially all employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Total plan expenses for the years ended June 30, 2019 and 2018 were $2.2 million and $2.1 million, respectively.

9. Professional Liability Claims

At June 30, 2019 and 2018 the Network has accrued professional liability claims of approximately $158.0 million and $175.2 million, respectively. In addition, the Network has recorded $57.5 million and $59.8 million for 2019 and 2018, respectively, of insurance liabilities that are recoverable from insurance carriers. These claims have been discounted at a 3% rate. As of June 30, 2019, and 2018 the carrying amount of these accrued liability claims before discounting was $233.9 million and $256.5 million, respectively. The Network has recognized professional liability expense of approximately $35.3 million and $47.1 million, for the years ended June 30, 2019 and 2018 respectively.

The Network obtains primary hospital and physician professional liability and general liability coverage through BRRG. BRRG provides the first (“primary”) layer of professional liability on a claims made coverage basis with limits of $500,000 per professional incident/$2,500,000 annual aggregate per licensed acute care hospital, $500,000 per professional incident/$1,500,000 annual aggregate per long term care facility, $1,000,000 per professional incident/$3,000,000 annual aggregate for Belmont for claims that occurred prior to July 1, 2015 but reported after July 1, 2015, $1,000,000 per professional incident/$3,000,000 annual aggregate for non-healthcare professional liability, $500,000 per professional incident and $1,500,000 annual aggregate per physician and $1,000,000 per professional incident/$3,000,000 annual aggregate per employed Dentist at June 30, 2019 and 2018. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. BRRG provides general liability coverage on an occurrence basis with limits of liability of $1,000,000 per occurrence/$3,000,000 annual aggregate. The premiums charged for the primary layer are determined by an independent actuary inclusive of loss and loss adjustment

expense experience and other factors, based on the actuary's best estimate of expected losses during fiscal years 2019 and 2018, plus a charge for premium tax and operating expenses. The premiums charged by BRRG are subject to annual retrospective adjustments made to align assets available for payment of claims at fiscal year-end with estimated liabilities. Claims are recorded on a discounted basis using a rate of 3% as of June 30, 2019 and 2018.

The second layer of coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). MCARE acts as a service agent to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by AEHN and most of the physicians they insure. This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital, long term care facility and per employed physician at June 30, 2019 and June 30, 2018. The annual assessments for MCARE Fund coverage are based on a schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred.

AEHN and its employed/insured physicians paid surcharge assessments during fiscal years 2019 and 2018 totaling $5.4 million and $5.4 million, respectively. The actuarially computed liability to all Pennsylvania healthcare providers (hospital, physicians and others) participating in the Commonwealth's MCARE Fund at December 31, 2017 (the latest date for which such information is available) was $982 million. No provision has been made for any MCARE Fund unfunded liabilities in the accompanying financial statements as AEHN's portion of the MCARE Fund unfunded liability cannot be reasonably estimated. Of those insurance liabilities that are recoverable from insurance carriers noted above, $44.4 million and $46.1 million are recoverable from MCARE, for fiscal years ended June 30, 2019, and 2018 respectively.

The Network's recorded expense for potential losses in excess of the primary and MCARE layers up to a $6 million each professional incident/$6 million annual aggregate retention excess of $6 million each and every professional incident (acute care facilities excluding EMCM and any potential losses from the former operations of MHMC), $5 million each and every professional incident (EMCM, MH, Fornance, Einstein at Elkins Park) and $4 million each professional incident/$4 million annual aggregate retention excess of $2 million each and every professional incident (psychiatric, rehabilitation and long term care services) is based on actuarially determined estimates at the expected level for fiscal years 2019 and 2018. A 3% discount rate was utilized for fiscal year 2019 and fiscal year 2018. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change. Primary and MCARE erode these retentions.

During fiscal years 2019 and 2018, BRRG provided excess, professional liability on a claims made coverage basis and umbrella liability coverage on an occurrence basis with limits of liability of $40 million per professional incident/ $40 million annual aggregate and $40 million per occurrence/ $40 million annual aggregate respectively in excess of underlying coverage and limits. BRRG has reinsured 100% of the excess professional liability and umbrella liability to reinsurance companies, Continental Casualty Company, Berkley Insurance Company and Ironshore, all rated A or better by A.M. Best.

10. Commitments and Contingencies

Operating Leases

The Network and its related entities have various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2019, the minimum future rental commitment, in thousands of dollars, is as follows:

2020	$ 6,811
2021	6,128
2022	4,959
2023	3,422
2024	2,209
Thereafter	8,247
Total minimum lease payments	$ 31,776

Total rent expense was $12.6 million in 2019 and $14.4 million in 2018.

Lines and Letters of Credit

The Network had a $28 million open line of credit and $28 million of aggregated open lines of credit as of June 30, 2019 and 2018 respectively. The Network may issue letters of credit under the line of credit provided that the aggregate of all such letters does not exceed $28 million. The Network had open letters of credit under the line of credit aggregating to $26.5 million as of June 30, 2019. The Network had letters of credit issued under separate credit facilities aggregating to $26.5 million as of June 30, 2018. Letters of credit are reviewed and renewed, as needed on an annual basis. The letters are secured by a certificate of deposit held in trust.

Litigation

The Network is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position or results of operations of the Network.

In November 2009, two Federal and two State lawsuits were filed against the Network and certain individuals alleging violations of certain laws. All claims are based on allegations that the Network failed to pay employees for compensable work completed during meal breaks before and after scheduled work hours and time spent in training sessions and failure to maintain proper records and carry out certain fiduciary duties with respect to the calculation of benefits. Plaintiffs purport to bring these claims on behalf of a class of employees. The Federal and State cases were subsequently consolidated in Federal Court. After allowing multiple amendments to plaintiffs' Complaint, the Federal Court, by order dated August 7, 2012, dismissed plaintiffs' operative complaint – the Third Amended Complaint – in its entirety. The Federal Court dismissed the federal claims with prejudice and declined to exercise jurisdiction over the state law claims. On

September 5, 2012, plaintiffs filed an appeal with the Third Circuit. On August 26, 2014, the Third Circuit Court of Appeals affirmed the August 2012 dismissal.

On October 17, 2012, plaintiffs filed a motion with the Court of Common Pleas of Philadelphia, seeking to reinstate the original November 2009 State Court complaint. The Network removed this action to Federal Court on November 16, 2012, and plaintiffs filed a motion for remand. Proceedings were stayed while the aforementioned appeal was pending in the Third Circuit. The stay was lifted following the Third Circuit's decision. By order dated August 31, 2016, the Federal Court granted Plaintiffs' motion for remand, finding that because the motion to reinstate had never been ruled upon there was no active case to remove to the Federal Court.

Plaintiffs did not take any further action with respect to the original November 2009 State Court complaint. Rather, on November 17, 2016, Plaintiffs sought to reinstate in State Court the Third Amended Complaint that had been dismissed by the Federal Court. The Network opposed Plaintiffs' efforts. By order dated May 15, 2017, the State Court granted Plaintiffs' motion to reinstate the Third Amended Complaint. On June 14, 2017, the Network filed a motion for reconsideration of the State Court's May 15, 2017 order. That motion was denied by the Philadelphia Court of Common Pleas on August 25, 2017. The Network filed a petition for review with the Pennsylvania Superior Court on August 14, 2017. That petition was granted on November 29, 2017.

After the motion for reconsideration was denied by the Court of Common Pleas, but before the petition for review was granted by the Superior Court, there was additional activity in the Court of Common Pleas. On June 28, 2017, the Network filed preliminary objections to the Third Amended Complaint. Plaintiffs amended their complaint on September 19, 2017. The Network filed a new set of preliminary objections to the Amended Complaint on October 10, 2017. Although the Superior Court had accepted the Network's appeal by order dated November 29, 2017, the Court of Common Pleas still ruled on the preliminary objections on January 24, 2018. The Court of Common Pleas ordered plaintiffs to submit a verification in support of their Amended Complaint, but otherwise denied the preliminary objections. By order dated February 16, 2018, all proceedings in the Court of Common Pleas were stayed.

The appeal is now proceeding in the Superior Court. The Network filed a statement of errors complained of on March 2, 2018. On July 16, 2018, the Court of Common Pleas issued an opinion explaining its reasoning for its May 15, 2017 order. The Network filed its opening brief in Superior Court on October 31, 2018. Plaintiffs filed an opposition brief on January 16, 2019, and the Network filed a reply brief on March 4, 2019. The Superior Court heard oral argument on the appeal on July 16, 2019. The Superior Court has not yet issued a ruling.

The Network is and intends to defend the claims vigorously. At this time, the Network is unable to determine the cost of defending the lawsuits or the impact, if any, the lawsuits may have on its results of operations.

Other

A large portion of the Network's net revenue is derived from services provided to beneficiaries of government sponsored health care programs, principally Medicare and Medicaid. The Network, like other health care providers who participate in these programs, is required to adhere to billing, coding and other requirements. As a condition of its receiving payment and continued participation in Medicare and Medicaid programs, the Network must comply with extensive federal and state

regulations and must submit to reviews and audits by the federal and state agencies charged with administering these programs.

Violations of these billing, coding and other similar requirements can subject the Network to claims by the government for repayment of amounts it received for the services billed to the government programs, as well as for civil monetary penalties of up to three times the amount of payments received from the programs. Failure to comply with any of the laws or regulations under these programs could have a material, adverse effect on the Network's financial position and results of operations.

11. Donor Restricted Endowment Funds

The Network adopted FASB guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enhanced version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and additional disclosures about an organization's endowment funds. Pennsylvania is one of three states that have not adopted UPMIFA to date, however certain disclosures are made as required under the FASB guidance.

The Network's endowments consist of 424 individual funds established for purposes specified by donors (Specific Purpose Funds), 126 individual funds for which donors have established permanent balances (Endowment Funds), 16 outside trust funds where the Network is a benefactor (Perpetual Trusts) and 1 fund established by the Board of Trustees to underwrite rehabilitation research (Board Designated Funds). Net assets associated with each of these groups of funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Network has adopted investment and spending policies for endowment assets that attempt to provide a predicable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner, and adhere to the established guidelines.

The Network's spending formula can be characterized as applying a spending rate to a three year market value average (utilizing a 12 quarter rolling average) of endowment assets. The spending formula is reviewed and updated annually. For the periods ended June 30, 2019 & 2018, the spending rate was 4%.

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

The Board of Trustees has interpreted the State Prudent Management of Institution Funds Act ("SPMIFA") as requiring the preservation of the fair value 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 a permanent endowment, (b) the original value of subsequent gifts to a

permanent endowment, and (c) accumulations to a 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 remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by SPMIFA. A summary of net asset composition by type of endowment restrictions fund and changes in net assets by those types of funds, in thousands of dollars, is as follows:

June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Specific Purpose	Endowments	Perpetual Trusts
Donor-restricted endowment funds	$ -	$ 83,314	$ 10,928	$ 47,209
Board-designated endowment funds	13,116	-	-	-
Total Funds	$ 13,116	$ 83,314	$ 10,928	$ 47,209

June 30, 2018:

	Without Donor Restrictions	Donor Restricted		
	Board Designated	Specific Purpose	Endowments	Perpetual Trusts
Donor-restricted endowment funds	$ -	$ 78,115	$ 9,903	$ 47,348
Board-designated endowment funds	12,462	-	-	-
Total Funds	$ 12,462	$ 78,115	$ 9,903	$ 47,348

Changes in Net Assets functioning as endowments for the fiscal years ended June 30, 2019 and 2018, in thousands of dollars, are as follows:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Specific Purpose	Endowments	Perpetual Trusts
Endowment net assets June 30, 2017	$ 11,641	$ 75,273	$ 9,865	$ 44,538
Investment return:				
Investment income	150	1,070	-	-
Net appreciation (realized and unrealized)	671	3,655	-	210
Total investment return	821	4,725	-	210
Contributions	-	4,999	38	-
Appropriation of endowment assets for expenditure	-	(6,309)	-	-
Other changes:				
Change in beneficial interest in Perpetual trust	-	-	-	2,600
Investment impairment	-	(573)	-	-
Endowment net assets June 30, 2018	12,462	78,115	9,903	47,348
Investment return:				
Investment income	159	1,354	-	-
Net appreciation (realized and unrealized)	506	3,234	-	(735)
Total investment return	665	4,588	-	(735)
Contributions	-	7,965	1,025	-
Appropriation of endowment assets for expenditure	(11)	(7,316)	-	-
Other changes:				
Change in beneficial interest in Perpetual trust	-	-	-	596
Investment impairment	-	(38)	-	-
Endowment net assets June 30, 2019	$ 13,116	$ 83,314	$ 10,928	$ 47,209

	2019	2018
With Donor Restrictions		
Endowment funds		
(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	$ 58,137	$ 57,251
Total endowment funds classified as perpetual	$ 58,137	$ 57,251
(2) The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
Cumulative realized and unrealized gains	$ 45,610	$ 44,281
Funds appropriated for specific purpose expenditure	37,704	33,834
Total endowment funds subject to a time restriction	$ 83,314	$ 78,115

The Network receives contributions in support of research, education and clinical activities. Net assets with donor restrictions were available on June 30, 2019 and 2018 in thousands of dollars, are as follows.

	2019	2018
Subject to expenditure for specified purpose:		
Buildings and Equipment	$ 4,239	$ 4,165
Clinical Care Support	24,216	23,113
Education	1,058	918
Other	726	980
Research	7,465	4,658
Total expenditure for specified purpose	37,704	33,834
Endowments:		
Perpetual in nature		
Buildings and Equipment	250	250
Charity care	951	951
Clinical Care Support	56,057	55,171
Education	15	15
Other	373	373
Research	491	491
Total expenditure for specified purpose	58,137	57,251
Subject to endowment spending policy:		
Buildings and Equipment	18	12
Charity care	7,972	7,764
Clinical Care Support	31,143	30,199
Education	60	58
Other	1,831	1,780
Research	4,586	4,468
Total expenditure for specified purpose	45,610	44,281
Total net assets with donor restrictions	$ 141,451	$ 135,366

12. Functional Expenses

The following is a summary of operating expenses by nature and function for the years ending June 30, 2019 and 2018 in thousands of dollars. Reclassifications were made to the prior year presentation.

Year ened June 30, 2019	Hosptial Services					Physcian Services			General & Adminstrative Support			
	Acute Care	Research	Skilled Nursing	Rehabilitation	Total	Tertiary	Primary	Total	Hospital & Physician Services	Other	Total	Total
Salaries and employee benefits	$ 454,858	$ 10,344	$ 5,151	$ 65,938	$536,291	$ 131,129	$ 43,800	$ 174,929	$ 45,019	$ -	$ 45,019	$ 756,239
Supplies	157,945	653	239	4,940	163,777	4,817	5,732	10,549	347	-	347	174,673
External physician, clinical and professional service fees	86,426	2,268	92	7,299	96,085	14,536	4,264	18,800	17,297	1,186	18,483	133,368
Depreciation and amortization	60,968	3	471	1,631	63,073	602	814	1,416	7,611	414	8,025	72,514
Interest expense	21,040	-	-	-	21,040			-	-	-	-	21,040
Insurance	23,037	28	281	342	23,689	12,738	1,644	14,382	315	(953)	(638)	37,433
Other	64,777	3,281	1,688	8,997	78,743	7,955	4,628	12,583	6,026	577	6,603	97,929
Total Functional Expenses	$ 869,051	$ 16,577	$ 7,922	$ 89,147	$982,698	$ 171,777	$ 60,882	$ 232,659	$ 76,615	$ 1,224	$ 77,839	$ 1,293,196

Year ened June 30, 2018	Hosptial Services					Physcian Services			General & Adminstrative Support			
	Acute Care	Research	Skilled Nursing	Rehabilitation	Total	Tertiary	Primary	Total	Hospital & Physician Services	Other	Total	Total
Salaries and employee benefits	$ 437,348	$ 10,466	$ 4,845	$ 63,798	$516,457	$ 126,714	$ 47,680	$ 174,394	$ 53,156		$ 53,156	744,007
Supplies	159,189	721	188	4,972	165,070	4,785	5,715	10,500	444		444	176,014
External physician, clinical and professional service fees	72,576	1,069	97	7,179	80,921	19,039	4,916	23,955	15,153	1,265	16,418	121,294
Depreciation and amortization	59,845		296	1,343	61,484	602	1,156	1,758	8,374	420	8,794	72,036
Interest expense	21,279				21,279			-			-	21,279
Insurance	28,448	25	287	350	29,110	12,301	2,071	14,372	314	5,700	6,014	49,496
Other	64,925	3,319	1,551	8,801	78,596	6,826	5,321	12,147	6,121	567	6,688	97,431
Total Functional Expenses	$ 843,610	$ 15,600	$ 7,264	$ 86,443	$952,917	$ 170,267	$ 66,859	$ 237,126	$ 83,562	$ 7,952	$ 91,514	$ 1,281,557

13. Liquidity and Availability

The Financial assets available for general expenditure within one year of the balance sheet date, comprise the following at June 30, 2019 in thousands of dollars:

	2019
Cash and cash equivalents	$ 84,657
Accounts receivable	159,421
Other receivables	5,336
Investments	232,821
Total financial assets available within one year	$ 482,235

The Network's endowment funds consist of donor-restricted endowments and funds designated by the board as endowment. Income from endowments is restricted for specific purposes, as described in Note 11. The Network has a spending policy and $1.3 million of appropriation from the endowments will be available in the next twelve months. As part of a liquidity management plan,

the Network has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements is invested in short-term investments.

14. Asset Retirement Obligations

As of June 30, 2019, and 2018, $4.9 million and $4.7 million, respectively, of conditional asset retirement obligations are included within other non-current liabilities in the balance sheet and relate to asbestos remediation. Interest accretion costs reduced operating income and increased the conditional asset retirement liability by $186,000 for the year ended June 30, 2019 and by $177,000 for the year ended June 30, 2018.

Part II – Schedules of Expenditures of Federal, State and City Awards

Albert Einstein Healthcare Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster							
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES							
National Institutes of Health							
Prospective Surveillance Drug and HDS-Induced Liver Injury	93.847	$ 360,623	$ -			$ 360,623	$ -
Drug-Induced Liver Injury Network	93.847	-	3,964	Duke University	2037923	3,964	-
Multicenter Evaluation of Memory Remediation After TBID	93.433	-	19,280	Memorial Hermann Health System	19-MEMRI-NCE-03	19,280	-
Cognitive Control & Sentence Processing in Aphasia	93.173	-	114,753	The George Washington University	18-S15	114,753	-
Priming with IDCS: Expanding the Window of Recovery in Chronic Stroke	93.865	-	3,734	The University of the Sciences in Philadelphia	000509380-SP004-008	3,734	-
Postdoctoral Training in Translational Neurorehabilitation Research	93.865	234,191	-			234,191	-
Coordinating Two Arms for Function: Contribution of task goals and unimanual impairments	93.865	51,902	-			51,902	-
Perceptual Motor Interaction to Improve Bimanual Coordination after Stroke	93.865	263,967	-			263,967	59,561
Temporal Patterns of Participation Restrictions and Depression after TBI	93.865	52,601	-			52,601	20,286
National Institutes of Neurological Disorders & Stroke							
Understanding Action Selection in the Tool Use Network	93.853	459,482	-			459,482	10,989
Virtual Reality Treatment of Phantom Leg Pain	93.853	-	56,893	University of Pennsylvania	572134	56,893	-
Texas TBI Model System of TIRR	93.433	-	9,187	Memorial Hermann Health System	18-1001	9,187	-
National Institute on Deafness and Other Communication Disorders							
Retrieval Practice - Principles	93.173	446,147	-			446,147	42,634
Conceptual Combination	93.173	-	58,665	University of Pennsylvania	568653	58,665	-
United States Department of Defense							
United States Air Force							
########	4103977234		49,221	Lockheed Martin Corporation	FA8750-18-C-0026	49,221	
Administration For Community Living-DRRP							
The Moss Traumatic Brain Injury Model System	93.433	525,122	-			525,122	-
		2,394,035	315,697			2,709,732	133,470
UNITED STATES DEPARTMENT OF THE ARMY MEDICAL RESEARCH ACQUISITION ACTIVITY							
TBI Endpoints Development	12.420	-	35,914	The Regents of the University of California	8601sc	35,914	-
		-	35,914			35,914	-
Total Research and Development Cluster		**2,394,035**	**351,611**			**2,745,646**	**133,470**

The accompanying notes are an integral part of the Schedules of Expenditures of Federal, State and City Awards

Albert Einstein Healthcare Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Other Sponsored Programs from Other Federal Agencies							
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Administration on Aging							
Premier Years - Apprise Funds	93.324	-	38,714	Philadelphia Corporation for Aging	9-0495-00	38,714	-
Premier Years - Apprise Telecenter	93.324	-	27,000	Philadelphia Corporation for Aging	1-0495-15	27,000	-
		-	65,714			65,714	-
Premier Years - Apprise Funds	93.071	-	13,134	Philadelphia Corporation for Aging	9-0495-02	13,134	-
		-	78,848			78,848	-
National Institute of Arthritis and Musculoskeletal and Skin Diseases							
Post Traumatic Syndrome Study-Longitudinal Assessment	93.846		44,273	Universiy of North Carolina at Chapel Hill	UNC O1C#18-0744	44,273	-
Influence of PTSD Symptoms on Chronic Pain Development after Sexual Assault	93.846	-	3,073	Universiy of North Carolina at Chapel Hill	5107192	3,073	-
		-	47,346			47,346	-
Contrast-Enhanced Ultrasound Evaluation of Focal Liver Lesions	93.393	-	69,723	Thomas Jefferson University	080-30000-S27901	69,723	-
		-	69,723			69,723	
Health Resources and Services Administration							
Ambulatory/Outpatient Medical Care Services	93.914	-	230,404	City Of Philadelphia Department of Public Health	R8925	230,404	-
Ryan White Amended - Holdsworth	93.914	-	50,805	City Of Philadelphia Department of Public Health	RS8874	50,805	-
		-	281,209			281,209	-
MCH Services Block Grant	93.994	-	271,203	Commonwealth of Pennsylvania Department of Health	4100067643RI	271,203	-
Ryan White Title III Funding: Early Intervention Services	93.918	382,539				382,539	-
Healthy Start Initiative-Eliminating Racial/Ethnic Disparities	93.926	621,332	-			621,332	-
Nurse Family Partnership	93.870	-	94,631	Maternal Infant & Early Childhood Home Visiting	4100070325	94,631	-
		1,003,871	647,043			1,650,914	
Centers for Disease Control							
HIV Testing in Healthcare Settings	93.940	-	127,766	City Of Philadelphia Department of Public Health	CP8007	127,766	-
		-	127,766			127,766	
National Institute on Aging							
Aspirin in Reducing Events in the Elderly	93.866	-	100	Minneapolis Medical Research Foundation	AS-1901	100	-
		-	100			100	
Substance Abuse and Mental Health Services Administration							
Emergency Mental Health-Adult-Crisis Response Center	93.958	-	393,746	Philadelphia Department of Behavioral Health and Intellectual Disability Service	17-20362-03	393,746	-
		-	393,746			393,746	
Total Other Sponsored Programs from Other Federal Agencies		**1,003,871**	**1,364,572**			**2,368,443**	-
SNAP Cluster							
U.S. Department of Agriculture							
Nutrition and Education Program/Eat Right Now	10.561	-	3,632,705	The Pennsylvania State University	5974-AEHN-COP-9151	3,632,705	-
		-	3,632,705			3,632,705	
Total SNAP Cluster		**-**	**3,632,705**			**3,632,705**	**-**
Total Federal Award Expenditures		**$ 3,397,906**	**$ 5,348,888**			**$ 8,746,794**	**$ 133,470**

The accompanying notes are an integral part of the Schedules of Expenditures of Federal, State and City Awards

Albert Einstein Healthcare Network
Schedule of Expenditures of State Awards
Year Ended June 30, 2019

State Program	Program Number	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Commonwealth of Pennsylvania Department of Human Services							
Community Services - Student Assistance Program	PAC ID - 0103-0228	$ -	$ 283,857	Philadelphia Department of Behavioral Health and Intellectual Disability Services	17-20362-03	$ 283,857	-
Long Term Structured Residential	PAC ID - 0100-1605	-	3,565,123	Philadelphia Department of Behavioral Health and Intellectual Disability Services	17-20362-03	3,565,123	-
Emergency Mental Health-Adult-Crisis Response Center	PAC ID - 0100-1031	-	502,228	Philadelphia Department of Behavioral Health and Intellectual Disability Services	17-20362-03	502,228	-
Community Services - Student Assistance Program	PAC CD - 0199-0228	-	64,000	Philadelphia Office of Addiction Services	17-20362-03	64,000	-
Community Based Care Management Program		-	248	Health Partners Plans, Inc	400014600	248	-
Nurse Family Partnership			265,410	Office of Child Development & Early Learning & Maternal Infant & Early Childhoo	4100070244	265,410	
Total PA Department of Human Services		**-**	**4,680,866**			**4,680,866**	**-**
Commonwealth of Pennsylvania Department of Health							
PA C.U.R.E. 2017 Project 1 & 2		15,769	-		4100077009	15,769	-
PA C.U.R.E. 2018 Project 1	RFA#67-60	30,925	-		4100079686	30,925	-
PACT: PA Consortium on TBI		-	100,331	University of Pennsylvania	573287	100,331	-
Examining Elderly TBI and Risk for Neurodegeneration	5788-COP-AEHN-7082		101,121	Pennsylvania State University	5788-COP-AEHN-7082	101,121	-
Total PA Department of Health		**46,694**	**201,452**			**248,146**	**-**
Total State Award Expenditures		**$ 46,694**	**$ 4,882,318**			**$ 4,929,012**	**$ -**

The accompanying notes are an integral part of the Schedules of Expenditures of Federal, State and City Awards

Albert Einstein Healthcare Network
Schedule of Expenditures of City Awards
Year Ended June 30, 2019

City Program	Program Number	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures
Philadelphia Department of Public Health						
HIV Medical Case Management Services	93.914	$ -	$ 16,294	Aids Activities Coordinatiing Office (AACO)	RS9654	$ 16,294
Montgomery County Office of Children & Youth Special Grant Initiative						
Nurse Family Partnership		92,737				92,737
Total City Award Expenditures		**$ 92,737**	**$ 16,294**			**$ 109,031**

The accompanying notes are an integral part of the Schedules of Expenditures of Federal, State and City Awards

1. General Information

The accompanying schedules of expenditures of federal, state and city awards (the "Schedules") present the activities in all the federal, state and city financial assistance programs of Albert Einstein Healthcare Network ("AEHN") as of June 30, 2019. All financial assistance received directly from federal, state or city agencies, as well as financial assistance passed through other governmental agencies or not-for-profit organizations is included on the schedules. The information in the Schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement and the City of Philadelphia Subrecipient Audit Guide.

2. Basis of Accounting

The accompanying schedules of expenditures of federal, state and city awards are presented using the accrual basis of accounting. The amounts reported in these schedules as expenditures may differ from certain financial reports submitted to federal, state or city funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. Relationship to Basic Consolidated Financial Statements

Federal, state and city awards expenditures are reported on the statement of operations. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedules of federal, state and city awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal, state and city awards. Because the Schedules present only a selected portion of the activities of AEHN, they are not intended to, and do not present either the financial position, changes in net assets or cash flows of AEHN.

4. Facilities and Administrative Costs

Expenditures consist of direct costs and facilities and administrative (indirect) costs. AEHN has a predetermined facilities and administrative rate for federal awards, which is effective from July 1, 2018 to June 30, 2019. AEHN applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance. The rate is a percentage of modified total direct costs for the year ended June 30, 2019 as follows:

AEHN Facility	Rate
Albert Einstein Medical Center	55.0%
Moss Rehabilitation Hospital	58.0%

5. State Program Funding Pass Through–Commonwealth of Pennsylvania Department of Health

Total Accrued Revenue Recognized in FY'2019

	CFDA/Program Number	Pass-Through/Direct Entity Identification or Award Number	Amount
MCH Services Block Grant	93.994	4100067643RI	271,203
PA C.U.R.E. 2017 Project 1 & 2		4100077009	15,769
PA C.U.R.E. 2018 Project 1	RFA#67-60	4100079686	30,925
PACT: PA Consortium on TBI		573287	100,331
Examining Elderly TBI and Risk for Neurodegeneration		5788-COP-AEHN-7082	101,121

Total Cash Received in FY'2019

	CFDA/Program Number	Pass-Through/Direct Entity Identification or Award Number	Amount
PA C.U.R.E. 2018 Project 1	RFA#67-60	4100079686	$ 59,512
MCH Services Block Grant	93.994	4100067643RI	277,961
PACT: PA Consortium on TBI		573287	77,231
Examining Elderly TBI and Risk for Neurodegeneration		5788-COP-AEHN-7082	80,827

Part III – Reports on Internal Control and Compliance

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Albert Einstein Healthcare Network and its subsidiaries, ("the Network"), which comprise the consolidated balance sheets as of June 30, 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Network's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Network's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Philadelphia, PA
September 23, 2019

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance, Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement and the City of Philadelphia Subrecipient Audit Guide

To the Board of Trustees of the
Albert Einstein Healthcare Network

Report on Compliance for Each Major Federal, State, and City of Philadelphia Program

We have audited Albert Einstein Healthcare Network's ("the Network's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement, the Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement, and the City of Philadelphia Subrecipient Audit Guide,* that could have a direct and material effect on each of the Network's major federal, state and city programs for the year ended June 30, 2019. The Network's major federal, state, and city programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal, state, and city statutes, regulations and the terms and conditions of its federal, state, and city awards applicable to its federal, state, and city programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Network's major federal, state, and city programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *the Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement, and the City of Philadelphia Subrecipient Audit Guide*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal, state, or city program occurred. An audit includes examining, on a test basis, evidence about the Network's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal, state, and city program. However, our audit does not provide a legal determination of the Network's compliance.

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T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Opinion on Each Major Federal, State, and City of Philadelphia Program

In our opinion, the Network complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal, state, and city programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Network is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Network's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal, state, and city program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal, state, and city program and to test and report on internal control over compliance in accordance with the Uniform Guidance, the *Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement, and the City of Philadelphia Subrecipient Audit Guide,* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal, state, or city program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal, state, or city program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal, state, or city program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance, the Commonwealth of Pennsylvania, Department of Human Services Single Audit Supplement, and the City of Philadelphia Subrecipient Audit Guide*. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Philadelphia, PA
October 28, 2019

Part IV – City of Philadelphia Requirements and Supplemental Schedule

AIDS Activities Coordinating Office (AACO)
Ambulatory/Outpatient Medical Care Services,
City of Philadelphia Contract #R8925
Einstein Medical Center Philadelphia
Schedule of Contractual Performance
July 1, 2018 to June 30, 2019

	Ambulatory/Outpatient Medical Care Services #R8925
Expenditures by program activity	
Personnel services	$ 169,185
Fringe benefits	37,106
Total personnel expenditures	206,291
Total supplies and other expense	4,770
Total direct expenditures	211,061
Indirect expenditures	19,343
Total actual expenditures	$ 230,404
Net AACO Funded expeditures	$ 230,404
Total Funding	$ 230,404

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Program Activity Invoice Summary by Contract Number
July 1, 2018 to June 30, 2019

Program Activity
Invoice Summary
XMH MR

Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved

Period Covered

From July 1, 2018 to June 30, 2019

			Eligible Expenditures			
Program Activity	**PAC ID**	**Contract Number**	**Personnel**	**Facilities & Administrative**	**Total**	**Net to Be Funded****
Crisis Response Center	*	17-20362-03	$ 3,837,330	$ 1,915,637	$ 5,752,967	$ 1,243,831
Long-term structured residence	*	17-20362-03	3,082,171	3,945,574	7,027,745	3,565,123
Total			$ 6,919,501	$ 5,861,211	$ 12,780,712	$ 4,808,954

* See Schedule of Adjustments on Summary of Program Activity by Program Activity Code, pages 52-54
** Represents maximum contract amount.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code
Albert Einstein Medical Center
July 1, 2018 to June 30, 2019

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit	Adjustments/ Differences	
Contract Number 17-20362-03				
PAC ID 0103-0228				
Personnel	$ 209,795	$ 222,482	(12,687)	A
Operating	4,436	19,208	(14,772)	B
Administration	32,135	78,154	(46,019)	B
Total expenses	246,366	319,844	(73,478)	
Hospital funded	-	35,986	(35,986)	
Hospital cash collections	-	-	-	
Total revenue	-	35,986	(35,986)	
Net eligible to be funded	$ 246,366	$ 283,858	$ (37,492)	
PAC ID 0199-0228				
Personnel	$ 18,422	$ 17,996	426	A
Operating	25,919	51,258	(25,339)	B
Administration	6,651	11,513	(4,862)	B
Total expenses	50,992	80,767	(29,775)	
Hospital funded	-	16,767	(16,767)	
Hospital cash collections	-	-	-	
Total revenue	-	16,767	(16,767)	
Net eligible to be funded	$ 50,992	$ 64,000	$ (13,008)	

A. The employee benefits are estimated using the 2018 Medicare filed cost report.

B. The administrative costs are estimated using the 2018 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2018 to June 30, 2019

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit	Adjustments/ Differences	
PAC ID 0100-1605				
Personnel	$ 3,230,344	$ 3,082,171	$ 148,173	A
Operating	2,312,359	3,027,865	(715,506)	B
Administration	1,485,041	917,709	567,332	B
Total expenses	7,027,744	7,027,745	(1)	
Hospital funded	3,282,847	3,282,848	(1)	
Hospital cash collections	-	-	-	
Other revenue	179,774	179,774	-	
Total revenue	3,462,621	3,462,622	(1)	
Net eligible to be funded	$ 3,565,123	$ 3,565,123	$ -	

A. The employee benefits are estimated using the 2018 Medicare filed cost report.

B. The administrative costs are estimated using the 2018 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2018 to June 30, 2019

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit	Adjustments/ Differences	
PAC ID 0100-1031				
Personnel	$ 3,663,341	$ 3,596,852	$ 66,489	A
Operating	406,739	474,838	(68,099)	B
Administration	1,450,575	1,280,666	169,909	B
Total expenses	5,520,655	5,352,356	168,299	
Hospital funded	3,381,782	3,213,483	168,299	
Hospital cash collections	1,242,899	1,242,899	-	
Total revenue	4,624,681	4,456,382	168,299	
Net eligible to be funded	$ 895,974	$ 895,974	$ -	

A. The employee benefits are estimated using the 2018 Medicare filed cost report.

B. The administrative costs are estimated using the 2018 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavior Health and Intellectual Disability Services
Schedule of Program Activity Invoice Summary by Program Activity Code
July 1, 2018 to June 30, 2019

Program Activity
Invoice Summary
XMH MR

Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved

Period Covered

From July 1, 2018 to June 30, 2019

			Eligible Expenditures			
Program Activity	**PAC ID**	**Contract Number**	**Personnel**	**Facilities & Administrative**	**Total**	**Net to Be Funded***
Emergency Mental Health-Adult-Crisis Response Center	0100-1031	17-20362-03	$ 3,596,852	$ 1,755,505	$ 5,352,357	$ 895,974
Community Service -Student Assistance Program	0199-0228	17-20362-03	17,996	62,771	80,767	64,000
Community Service -Student Assistance Program	0103-0228	17-20362-03	222,482	97,361	319,843	283,857
Long Term Structured Residence	0100-1605	17-20362-03	3,082,171	3,945,574	7,027,745	3,565,123
Total			$ 6,919,501	$ 5,861,211	$ 12,780,712	$ 4,808,954

* Represents maximum contract amount

Independent Accountant's Report on Compliance with Specified Indirect Cost Allocation Requirements

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have examined Albert Einstein Healthcare Network's ("the Network's") compliance with allocating indirect costs reflected in the City of Philadelphia, Department Behavioral Health and Intellectual disAbility Services program activity summary as required by the Commonwealth of Pennsylvania, Department of Human Services, Section 4300.94 of the Title 4300 Regulations during the year ended June 30, 2019. Management of the Network is responsible for the Network's compliance with the specified requirements. Our responsibility is to express an opinion on the Network's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Network complies, in all material respects, with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Network's compliance with specified requirements.

In our opinion, the Network complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2019.

This report is intended solely for the information and use of the Network's Board of Trustees, audit committee, management, and the City of Philadelphia, Department Behavioral Health and Intellectual disAbility Services and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Philadelphia, PA
October 28, 2019

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Independent Accountant's Report on Cost Allocation
(For Upcoming Budget Year)

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have performed the procedures enumerated below with the respect to the administrative costs distribution included in the Line Item Budget for the year ended June 30, 2020 submitted by Albert Einstein Healthcare Network ("the Network") to the City of Philadelphia, Department of Behavioral Health and Intellectual disAbility Services, solely to assist in evaluating compliance with the requirements of the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of Title 4300 for the year ended June 30, 2020. Management is responsible for the Network's compliance with those requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and results thereof are as follows:

a. We reviewed a schedule contained within the 2020 Line Item Budget which reflected the allocation factors utilized in distributing administrative costs.

b. We confirmed our understanding of the method of allocating administrative costs through a review of supporting work papers and by discussions with management responsible for allocation factors.

c. We compared the Network's method of allocating costs to those requirements as specified in Section 4300.94 of the Title 4300 Regulations Related Methods for Allocating Indirect Costs in order to determine whether the cost allocation is in compliance with those regulations.

d. We compared the allocation methods used between the current fiscal year and prior fiscal year to determine consistency between years. The cost allocation method is based upon direct costs for each program. Actual costs are tracked and totaled. The program's percentage of direct costs is calculated. Indirect costs are allocated to each program based on these percentages.

The Commonwealth of Pennsylvania, Department of Human Services, Section 4300.94 of Title 4300 Regulations state "The overall objective of the allocation process is to distribute the indirect costs of the Agency to its various services or cost categories in reasonable proportion with the benefits provided to these services or cost categories." The Regulations require that the method used result in a fair and equitable distribution of costs which shall be in direct relation to actual benefits accruing to the services to which costs are charged.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Network's compliance with the requirements enumerated above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is intended for the information of the Network's Board of Trustees, audit committee, management, and the City of Philadelphia, Department of Behavioral Health and Intellectual disAbility Services and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Philadelphia, PA
October 28, 2019

Part V – Schedule of Findings and Questioned Costs

(1) Part I – Summary of Auditor's Results

Financial Statements

(i) Type of auditor's report issued: Unmodified

(ii) Internal control over financial reporting:
Material weakness(es) identified? ___ yes _X_ no
Significant deficiency(ies) identified not considered to be material weaknesses? ___ yes _X_ none reported

(iii) Noncompliance material to financial statements noted? ___ yes _X_ no

Federal Awards

(iv) Internal control over major programs:
Material weakness(es) identified? ___ yes _X_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes _X_ none reported

(v) Type of auditor's report issued on compliance for major programs: Unmodified

(vi) Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? __yes _X_no

(vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.914	Ambulatory/Outpatient Medical Care Services
93.914	Ryan White Amended
10.561	Nutrition and Education Program

(viii) Dollar threshold used to distinguish between Type A and Type B programs: $750,000

(ix) Auditee qualified as low-risk auditee? _X_ yes ___no

State Awards

(iv) Internal control over major programs:
Material weakness(es) identified? ___ yes _X_ no
Significant deficiency(ies) identified that are not considered
To be material weaknesses? ___ yes _X_ none reported

(v) Type of auditor's report issued on compliance for major programs: Unmodified

(vi) Any audit findings disclosed that are required to be reported in accordance with Government Auditing Standards and Commonwealth of Pennsylvania Department of Human Services Single Audit Supplement? ___ yes _X__ no

(vii) Identification of major programs:

Program Number(s)	Name of State Program or Cluster
PAC CD - 0100-1605	Long Term Structured Residential
4100070244	Nurse Family Partnership

(viii) Dollar threshold used to distinguish between Type A and B programs: $750,000

(ix) Auditee qualified as low-risk auditee? _X_ yes ____ no

City Awards

(iv) Internal control over major programs:
Material weakness(es) identified? ___ yes _X_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses? ____yes _X_ none reported

(v) Type of auditor's report issued on compliance for major programs: Unmodified

(vi) Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and the City of Philadelphia Subrecipient Audit Guide? ___yes _X_ no

(vii) Identification of major programs:

Program Number(s)	Name of State Program or Cluster

Note: City awards with State pass through funding were selected as major programs. Refer to the State Awards section of the Schedule of Findings and Questioned Costs for City awarded major programs with State pass through funding.

(viii) Dollar threshold used to distinguish between Type A and Type B programs: $750,000

(ix) Auditee qualified as low-risk auditee? _X_ yes ____ no

Part II – Financial Statement Findings

None noted

Part III – Federal, State and City of Philadelphia Award Findings and Questioned Costs
None Noted

Prior Year Audit Findings

There were no Federal, State or City findings or questions costs from prior audits that require an update in this report.