KPMG

# GBMC HEALTHCARE, INC.
# AND SUBSIDIARIES

Consolidated Financial Statements and
Consolidating Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

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KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

# Independent Auditors' Report

The Board of Directors
GBMC HealthCare, Inc.:

We have audited the accompanying consolidated financial statements of GBMC HealthCare, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GBMC HealthCare, Inc. and its subsidiaries as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1–3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 28, 2020

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

| Assets | | 2020 | 2019 |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ | 96,755 | 10,318 |
| Short-term investments and limited or restricted use funds | | 25,995 | 12,075 |
| Patient accounts receivable | | 58,871 | 66,974 |
| Other receivables | | 18,392 | 19,653 |
| Other current assets | | 14,470 | 10,484 |
| Total current assets | | 214,483 | 119,504 |
| Noncurrent assets: | | | |
| Investments and limited or restricted use funds | | 498,376 | 466,457 |
| Property, plant and equipment, net | | 251,139 | 266,805 |
| Other assets | | 49,487 | 45,936 |
| Total noncurrent assets | | 799,002 | 779,198 |
| Total assets | $ | 1,013,485 | 898,702 |
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | $ | 71,718 | 71,340 |
| Insurance reserves, current | | 12,162 | 12,695 |
| Advances from third-party payors | | 107,151 | 13,556 |
| Current portion of long-term debt and capital lease liabilities | | 15,581 | 14,967 |
| Other current liabilities | | 5,814 | 5,150 |
| Total current liabilities | | 212,426 | 117,708 |
| Noncurrent liabilities: | | | |
| Long-term debt | | 116,521 | 128,804 |
| Capital lease liabilities | | 23,774 | 25,666 |
| Insurance reserves | | 44,161 | 41,030 |
| Pension liability | | 16,095 | 12,592 |
| Other long-term liabilities | | 2,110 | 1,412 |
| Total liabilities | | 415,087 | 327,212 |
| Net assets: | | | |
| Controlling interest | | 491,130 | 483,542 |
| Non-controlling interest | | 7,017 | 6,853 |
| Total net assets without donor restrictions | | 498,147 | 490,395 |
| Net assets with donor restrictions | | 100,251 | 81,095 |
| Total net assets | | 598,398 | 571,490 |
| Total liabilities and net assets | $ | 1,013,485 | 898,702 |

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2020 and 2019

(In thousands)

| | | 2020 | 2019 |
|---|---|---|---|
| Patient service revenue, net | $ | 562,524 | 575,446 |
| Other operating revenue | | 32,275 | 16,184 |
| Net assets released from restrictions | | 10,465 | 11,114 |
| Total operating revenue | | 605,264 | 602,744 |
| Operating expenses: | | | |
| Salaries, wages and employee benefits | | 383,094 | 364,577 |
| Expendable supplies | | 97,628 | 100,313 |
| Purchased services | | 82,663 | 80,941 |
| Depreciation and amortization | | 40,430 | 41,618 |
| Interest | | 6,076 | 6,484 |
| Total operating expenses | | 609,891 | 593,933 |
| Total operating (loss) income | | (4,627) | 8,811 |
| Other income: | | | |
| Contributions | | 1,627 | 1,995 |
| Fundraising expense | | (3,421) | (3,541) |
| Investment income, net | | 21,450 | 36,537 |
| Other components of net periodic pension cost | | (5,206) | (3,567) |
| Total other income | | 14,450 | 31,424 |
| Excess of revenues over expenses | $ | 9,823 | 40,235 |

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

| | | 2020 | 2019 |
|---|---|---|---|
| Excess of revenues over expenses | $ | 9,823 | 40,235 |
| Changes in net assets without donor restrictions: | | | |
| Pension related changes other than net periodic pension costs | | (1,165) | 3,277 |
| Net assets released for purchase of fixed assets | | 844 | 4,733 |
| Distribution to non-controlling interest | | (1,750) | (500) |
| Increase in net assets without donor restriction | | 7,752 | 47,745 |
| Changes in net assets with donor restrictions: | | | |
| Contributions | | 27,490 | 13,739 |
| Investment income, net | | 2,975 | 5,385 |
| Net assets released for operations | | (10,465) | (11,114) |
| Net assets released for purchase of fixed assets | | (844) | (4,733) |
| Increase in net assets with donor restriction | | 19,156 | 3,277 |
| Increase in net assets | | 26,908 | 51,022 |
| Net assets, beginning of year | | 571,490 | 520,468 |
| Net assets, end of year | $ | 598,398 | 571,490 |

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 26,908 | 51,022 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 40,430 | 41,618 |
| Realized and unrealized gains on investments | (17,008) | (33,400) |
| Pension related changes other than net periodic pension costs | 1,165 | (3,277) |
| Restricted investment income | (531) | (1,199) |
| Restricted contributions | (27,490) | (13,739) |
| Unrealized gains on joint ventures | (970) | (1,121) |
| Distribution to non-controlling interest | 1,750 | 500 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in patient accounts receivable | 8,103 | (12,973) |
| Increase in other receivables and other assets | (729) | (5,466) |
| Increase (decrease) in accounts payable and accrued expenses, current and noncurrent liabilities | 6,402 | (825) |
| Increase (decrease) in advances from third parties | 93,595 | (897) |
| Increase in pension liability and asset | 5,037 | 2,142 |
| Net cash provided by operating activities | 136,662 | 22,385 |
| Cash flows from investing activities: | | |
| Increase in investments and limited or restricted use funds, net | (16,149) | (220) |
| Purchases of alternative investments | (6,608) | (7,447) |
| Distributions from alternative investments | 1,349 | 653 |
| Additions to property and equipment | (28,519) | (36,540) |
| Net cash used in investing activities | (49,927) | (43,554) |
| Cash flows from financing activities: | | |
| Payment on long-term debt and capital lease liabilities | (15,011) | (14,248) |
| Proceeds from capital lease arrangement | 2,229 | 4,807 |
| Proceeds from restricted contributions | 20,156 | 11,075 |
| Distributions to non-controlling interest | (1,750) | (500) |
| Net cash provided by financing activities | 5,624 | 1,134 |
| Increase (decrease) in cash | 92,359 | (20,035) |
| Cash, beginning of year | 14,815 | 34,850 |
| Cash, end of year | $ 107,174 | 14,815 |
| Cash paid during the year for interest | $ 5,587 | 5,524 |
| Capital additions accrued but not paid | 576 | 3,419 |
| Restricted cash included in limited or restricted use funds | $ 10,419 | 4,497 |
| Cash | 96,755 | 10,318 |
| Total cash | $ 107,174 | 14,815 |

See accompanying notes to consolidated financial statements.

## (1) Organization and Consolidation

GBMC HealthCare, Inc. (the Company), is a not-for-profit holding company, which includes: Greater Baltimore Medical Center, Inc. (Medical Center), Greater Baltimore Health Alliance, Physicians, LLC, GBMC Foundation, Inc., Gilchrist Hospice Care, Inc., GBMC Land, Inc., and GBMC Agency, Inc.

The Medical Center is a wholly owned not-for-profit hospital, which provides in-patient, outpatient, emergency care, and physician services primarily for residents of the Baltimore metropolitan area. The Medical Center was formed by agreement dated September 1, 1965, by the Hospital for Women of Maryland of Baltimore City (Women's Hospital) and Presbyterian Eye, Ear and Throat Charity Hospital (Presbyterian Hospital). In addition, the Medical Center has ownership of Ruxton Insurance Company, Ltd., an insurance captive domiciled in Bermuda. Ruxton insures the risks for malpractice and general liability claims. Effective July 1, 2017, physician practices that were in GBMC Physicians, LLC, a subsidiary of GBMC Agency, Inc., were transferred to the Medical Center. In 2019, the Medical Center opened GBMC Health Partners at Helping Up Mission, LLC, a wholly owned subsidiary, providing primary care services in Baltimore City.

Greater Baltimore Health Alliance Physicians, LLC (GBHA), is a wholly owned not-for-profit accountable care organization, which integrates community primary care with hospital and multi-specialty care in the Baltimore area.

GBMC Foundation, Inc. (Foundation) is a wholly owned not-for-profit organization, which coordinates fundraising efforts to benefit the Company and its subsidiaries.

Gilchrist Hospice Care, Inc. d/b/a Gilchrist Services, Inc. (Hospice) is a wholly owned not-for-profit organization, which provides inpatient and home hospice care in the greater Baltimore area. Hospice is the sole member of Joseph Richey House, Inc. (JRH) which provides inpatient hospice care in Baltimore city.

GBMC Land, Inc. (Land) is a wholly owned not-for-profit organization, which operates Physicians Pavilion North, a medical building on the campus of the Medical Center.

GBMC Agency, Inc. (Agency) is a wholly owned for-profit organization, which has ownership interest in various medical services companies as follows:

- Greater Baltimore Diagnostic Imaging Partners, LLC (GBDIP), a diagnostic imaging company, which is 50% owned and consolidated in the financial statements of the Company.
- GBMC Pavilion West Medical Arts LLC, which owns and operates the five upper floors of Physicians Pavilion West, a medical office building on the campus of the Medical Center.
- GBMC Pavilion Medical Arts, LLC which owns and operates Physicians Pavilion East, a medical office building on the campus of the Medical Center.



(Continued)

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

### *(b) Consolidation of Subsidiaries*

The Company's consolidated financial statements include the subsidiaries in which the Company has 50% or more voting interests or when the Company is deemed to have control. Significant intercompany accounts and transactions have been eliminated in consolidation.

### *(c) Cash*

Cash balances may exceed amounts insured by federal agencies and, therefore, bear a risk of loss. The Company has not experienced such losses on these funds.

### *(d) Limited or Restricted Use Funds Held*

Limited or restricted use funds primarily include assets held by trustees under agreement. Such funds include assets set aside for bond repayment, malpractice costs, capital replacement, and amounts restricted by donors. Independent third parties designate the assets held by trustees under agreement. The limited or restricted use funds are classified as current or noncurrent based upon the timing and nature of their intended use.

### *(e) Inventories*

Inventories, consisting of medical supplies and drugs are stated at the lower of cost or market, with cost being determined primarily under the first-in, first-out method and are included in other current assets.

### *(f) Investments and Investment Income*

Investments include amounts designated by management for specific purposes, insurance reserves, plant replacement, and other purposes. The Company's investment portfolio is considered a trading portfolio, with the exception of the alternative investments, and is classified as current or noncurrent assets based on management's intention as to use. The investment portfolio includes managed cash funds, which are classified as investments and limited or restricted use funds on the consolidated balance sheet. Limited or restricted use funds that are required for obligations classified as current liabilities are reported as current assets. Investments in marketable securities are measured at fair market value on the consolidated balance sheets. The fair value of the investments, with the exception of the alternative investments, is based on quoted market prices or dealer quotations. See note 4 for discussion of the measurement of fair value for investments.

Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore, values realized upon disposition may vary significantly from current reported values.

Investment income or loss (including realized gains and losses on investments, interest and dividends) on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the insurance captive investment is reported as other operating income. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) from all other net assets without donor restricted fund investments is included in excess of revenues over expenses unless restricted by donor or law. Investment income on investments of donor restricted net assets is recorded as an increase in net assets with donor restrictions to the extent restricted by the donor or law.

Investment income is recorded on the accrual basis. Purchases and sales of investments are reflected on a trade-date basis. Realized gains and losses on sales of investments are based on historical cost.

### *(g) Property, Plant and Equipment*

Property, plant and equipment are recorded at cost or, if donated, at fair market value at date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 50 years. The cost and accumulated depreciation relating to property, plant and equipment sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in other operating income in the consolidated statements of operations.

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

(In thousands)

***(h) Other Assets***

Other assets comprise the following items:

| | | 2020 | 2019 |
|---|---|---|---|
| Reinsurance receivable | $ | 14,603 | 13,976 |
| Goodwill | | 7,593 | 7,593 |
| Pledges receivable | | 22,202 | 15,389 |
| Deferred leasing costs | | 961 | 1,015 |
| Equity investments | | 1,212 | 630 |
| Pension asset | | — | 5,233 |
| Other | | 2,916 | 2,100 |
| | $ | 49,487 | 45,936 |

Goodwill is assessed annually for impairment at the reporting unit. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment tests as described in Accounting Standards Codification, Topic 350, *Intangibles – Goodwill and Other*. The more likely than not threshold is defined as having a likelihood of more than 50%.

At June 30, 2020 and 2019, the Company assessed the goodwill for its reporting unit, GBDIP, for impairment. The Company determined that it was not more likely than not that the fair value of GBDIP was less than its carrying amount. Accordingly, the Company concluded that goodwill was not impaired as of June 30, 2020 and 2019 without having to perform the two-step impairment test.

Deferred leasing costs include deferred leasing costs and prepaid land lease payments, which are amortized over the lease terms and expensed on a straight-line basis over the life of the related lease.

The Company accounts for its joint ventures using the equity method or at cost, as appropriate, and any income (loss) is included in other operating revenues in the consolidated statements of operations.

***(i) Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to the Company are reported at their fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions 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 purpose of the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

***(j) Net Assets with Donor Restrictions***

Donor restricted net assets are those whose use by the Company has been limited by donors to a specific purpose, time period or in perpetuity.

***(k) Insurance Reserves***

The provision for estimated insurance reserves include estimates of the ultimate costs for reported malpractice, health and workers' compensation claims and claims incurred but not reported.

***(l) Net Patient Service Revenue***

The Company applies Accounting Standards Codification (ASC) 606, Revenue Recognition, which provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Net patient service revenue is recognized, over time, as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized at the estimated net realizable amounts from patients and third-party payors for services rendered.

The Company generates revenues, primarily by providing healthcare services to its customers. Revenues are recognized when control of the promised good or service is transferred to our customers, in an amount that reflects the consideration to which the Company expects to be entitled from patients, third-party payors (including government programs and insurers) and others, in exchange for those goods and services.

Performance obligations are determined based on the nature of the services provided. The majority of the Company's healthcare services represent a bundle of services that are not capable of being distinct and as such, are treated as a single performance obligation satisfied over time as services are rendered. The Company also provides certain ancillary services which are not included in the bundle of services, and as such, are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

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

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

Rates for the Medical Center's facility-based patient service charges are established in accordance with the regulations and rate methodologies of Maryland's rate-setting authority, the Health Services Cost Review Commission (HSCRC), an independent agency of the Maryland State government. The HSCRC's GBR model is consistent with the Medical Center's mission of controlling utilization of acute-care services by managing a patient's total spectrum of medical care. The Global Budget Revenue (GBR) agreement allows the Medical Center to adjust unit rates, within certain limits, to achieve the overall revenue base for the Medical Center at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. While the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix, market share and uncompensated care. During the year ending June 30, 2020, the HSCRC issued regulations due to the impact of COVID-19 (see footnote 2u) on all hospitals in Maryland that allows hospitals to carry over any undercharge less amount recouped from other federal programs to the following fiscal year GBR cap. The HSCRC also may impose various other revenue adjustments that could be significant in the future.

Hospice revenue is reimbursed by Medicare and Medicaid based on the prospective payment system which is a predetermined fixed amount for a service based on the level of care provided. Centers for Medicare and Medicaid Services (CMS) reimburses physician services based on fee schedule updated annually. Other third-party payors are primarily reimbursed based on contractually agreed upon rates.

***(m) Disaggregation of Revenue***

The Company earns the majority of its revenues from contracts with customers. Revenues and adjustments not related to contracts with customers are included in other revenue.

(In thousands)

Operating revenues from contracts with customers by line of business are as follows for the years ended June 30:

| | | 2020 | 2019 |
|---|---|---|---|
| Hospital services | $ | 412,152 | 432,096 |
| Physician services | | 72,291 | 67,044 |
| Hospice services | | 65,719 | 63,291 |
| Radiology services – GBDIP joint venture | | 12,362 | 13,015 |
| Total revenues from contracts with customers | | 562,524 | 575,446 |
| Other nonpatient care | | 42,740 | 27,298 |
| Total operating revenues | $ | 605,264 | 602,744 |

### (n) *Excess of Revenue over Expenses*

The consolidated statements of operations include a performance indicator, excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses, consistent with industry practice include pension changes other than net periodic pension costs, contributions and distributions to non-controlling investors, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

### (o) *Financial Assistance and Community Benefits*

As part of the Company’s mission, it provides medical care without discrimination, including the ability of a patient to pay for services. Under the Company’s Financial Assistance Policy, patients who meet certain financial based criteria can qualify for free care on all or a portion of the total patient bill. The Company recorded $4,703 and $3,391 of financial assistance as a reduction of revenue during the years ended June 30, 2020 and 2019, respectively. The total direct and indirect cost of providing financial assistance was approximately $3,619 and $2,577 during the years ended June 30, 2020 and 2019, respectively.

In addition to its Financial Assistance Policy, the Company has a long-standing commitment of supporting the community through the provision of outreach services designed to address identified health and social issues. Specifically, the Company provides a variety of screening and early detection tests, wellness activities, social support services and educational seminars. A majority of these services are provided at either nominal or no cost to community members.

***(p) Rental Income***

Base rental income is recognized as revenue on a straight-line basis over the life of the lease. The difference between the rent recognized and the rental income as stipulated in the lease agreement has been recognized as a receivable in the accompanying consolidated balance sheets from inception of the lease. Rental income is included in other operating income in the accompanying consolidated statements of operations.

***(q) Income Taxes***

The Company is a not-for-profit corporation exempt from income taxes as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Company is subject to income tax on unrelated business income.

Income taxes are provided for earnings (loss) of those subsidiaries which are subject to federal and state income tax based on Agency's share of the subsidiaries' taxable income, whether or not distributed. Agency's share of these subsidiaries' net losses is deductible to the extent of Agency's tax basis in the subsidiaries.

The Financial Accounting Standards Board's (FASB) guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This standard also provides guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. The Company has adopted this guidance, and there were no amounts recorded in the consolidated financial statements as of and during the years ended June 30, 2020 and 2019 for uncertain tax positions.

On March 27, 2020, the Coronavirus Aid Relief and Economic Security Act (CARES Act), includes changes related to net operating losses and the Tax Cuts and Jobs Act enacted in FY18 included several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Company has reviewed these provisions and the potential impact and concluded the enactment of H.R.1 did not have a material effect on the operations of the organization.

GBMC Agency, Inc and Subsidiaries are taxable entities. An operating loss carry forward of approximately $114,292 is available to offset future taxable income through the year 2038. Effective for tax years after December 31, 2017, the net operating loss carry forward is indefinite. As of June 30, 2020, and 2019, deferred tax assets of $35,063 and $37,725 respectively, consisting primarily of net operating loss carry forwards, were offset by a related valuation allowance.

***(r) Going Concern***

Management evaluates whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issues. As of the date of this report, there are no conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern.

***(s) Use of Estimates***

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

***(t) New Accounting Pronouncements***

Effective July 1, 2019, the Company adopted ASU 2016-18, *Restricted Cash* (Topic 230), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company applied ASU 2016-18 retrospectively to all periods presented which resulted in a reclassification in the prior period of $4,497 of restricted cash on the statement of cash flows. The adoption of this standard did not have a significant impact on the consolidated financial statements other than the disclosure about the nature of cash and cash equivalents held by the Company.

The FASB issued ASU No. 2016-02, *Leases (Topic 842),* which requires leases with terms exceeding twelve months to be presented on-balance sheet by recognizing a lease liability and a right of use asset. The adoption of ASU No. 2016-02 is deferred to fiscal year 2021, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The adoption of the ASU is expected to increase the Company’s assets and liabilities but not have a significant impact on the results of operations or cash flows. ASU 2016-02 was amended to provide optional practical expedients as a relief in transition by allowing entities to adopt the standard prospectively without recasting prior comparative periods. The Company is planning to adopt this option. Adoption of this standard will result in the addition of approximately $18,000 in assets and liabilities to the consolidated balance sheet. The company will include new disclosures in 2021 in accordance with Topic 842.



(Continued)

***(u) COVID-19***

The CARES Act, which was enacted on March 27, 2020, authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the “PHSSEF”). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The Company received approximately $15,129 in payments from the initial PHSSEF payments all of which were recognized as other operating revenue for the year ended June 30, 2020.

To increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program for Part A and Part B payments. Accelerated payments can be requested for up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments). Such accelerated payments are interest free for healthcare providers up to 29 months. The program currently requires CMS to recoup the payments beginning one year from receipt by the provider, by withholding 25 percent of future Medicare fee-for-service payments for 11 months and then 50% future Medicare fee-for-service payments for the next 6 months. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity’s customers, which are accounted for under Topic 606 as revenue. In April 2020, the Company received approximately $90,009 of accelerated payments, which have been recorded on the consolidated balance sheet as of June 30, 2020 as advances from third party payors, in accordance with ASC 606. This liability will be reduced over time as revenue is recognized for claims submitted for services provided.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Company began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2020, the Company deferred $3,026 in social security taxes.

Due to the recent enactment of the CARES Act and the PPPHCE Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. We continue to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.



(Continued)

(In thousands)

### (3) Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables and patient service revenue from patients and third parties as of June 30, 2020 and 2019 was as follows:

| | Accounts receivable | | Revenue | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Medicare | 36 % | 34 % | 41 % | 42 % |
| Medicaid | 7 | 5 | 3 | 3 |
| Blue cross | 10 | 11 | 12 | 12 |
| HMO | 22 | 23 | 24 | 22 |
| Other third party payors | 22 | 24 | 19 | 19 |
| Self pay | 3 | 3 | 1 | 2 |
| Total | 100 % | 100 % | 100 % | 100 % |

The Company provides general acute healthcare services in the state of Maryland. The Company and other healthcare providers are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes, and
- Lawsuits alleging malpractice or other claims.

Such inherent risks require the use of certain management estimates in the preparation of the Company's consolidated financial statements and it is reasonably possible that a change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Company's revenues and the Company's operations are subject to a variety of other federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Company.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Company.



(Continued)

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Federal healthcare reform initiatives continue to prompt a national review of federally funded healthcare programs. In addition, the federal government and many states continue to fund programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Company has a response program and compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2020 or 2019 consolidated financial statements.

## (4) Investments and Limited or Restricted Use Funds

Guidance for fair value measurements establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under current guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last one is considered unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(In thousands)

The tables below present the balances of assets measured at fair value by levels excluding alternative investments in the amount of $26,900 and $21,360, which are accounted for under the equity method, as of June 30, 2020 and 2019, respectively:

| | | June 30, 2020 | | | |
|---|---|---|---|---|---|
| **Assets** | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Managed cash funds | $ | 37,450 | — | — | 37,450 |
| Common stock | | 184,054 | 8,320 | 759 | 193,133 |
| Foreign stock | | 13,457 | — | — | 13,457 |
| Mutual funds | | 51,611 | — | — | 51,611 |
| Mutual funds international | | 627 | — | — | 627 |
| Total equity | | 249,749 | 8,320 | 759 | 258,828 |
| Corporate debt securities | | — | 35,606 | — | 35,606 |
| Bonds – treasury | | 13,957 | — | — | 13,957 |
| Bonds – federal agency backed | | — | 4,326 | — | 4,326 |
| Bonds – mortgage-backed | | — | 678 | — | 678 |
| Bonds – fixed income | | — | 456 | — | 456 |
| Mutual funds – fixed income | | — | 146,008 | — | 146,008 |
| Municipal bonds | | — | 162 | — | 162 |
| Total fixed income | | 13,957 | 187,236 | — | 201,193 |
| Total investment and limited or restricted use funds | | 301,156 | 195,556 | 759 | 497,471 |
| Current portion | | 25,995 | — | — | 25,995 |
| Total noncurrent investment and limited or restricted use funds | $ | 275,161 | 195,556 | 759 | 471,476 |

(In thousands)

| | June 30, 2019 | | | |
|---|---|---|---|---|
| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Managed cash funds | $ 18,948 | — | — | 18,948 |
| Common stock | 173,583 | 8,263 | 822 | 182,668 |
| Foreign stock | 13,365 | — | — | 13,365 |
| Mutual funds | 56,231 | — | — | 56,231 |
| Mutual funds international | 654 | — | — | 654 |
| Total equity | 243,833 | 8,263 | 822 | 252,918 |
| Corporate debt securities | — | 30,978 | — | 30,978 |
| Bonds – treasury | 13,837 | — | — | 13,837 |
| Bonds – federal agency backed | — | 4,191 | — | 4,191 |
| Bonds – mortgage-backed | — | 1,188 | — | 1,188 |
| Bonds – fixed income | — | 527 | — | 527 |
| Mutual funds – fixed income | — | 134,315 | — | 134,315 |
| Municipal bonds | — | 270 | — | 270 |
| Total fixed income | 13,837 | 171,469 | — | 185,306 |
| Total investment and limited or restricted use funds | 276,618 | 179,732 | 822 | 457,172 |
| Current portion | 12,075 | — | — | 12,075 |
| Total noncurrent investment and limited or restricted use funds | $ 264,543 | 179,732 | 822 | 445,097 |

As of June 30, 2020, and 2019, the alternative investments consisted of subscription partnership agreements with capital commitments of approximately $49,370 and $44,400, respectively, which are subject to periodic distributions. These alternative investments are valued at fair value using net asset value (NAV) or equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. All assets are unable to be fully distributed to the limited partners until the dissolution of the partnership, which may not be until a point in the future. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third-party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third-party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

(In thousands)

The investment strategies within the alternative investments include strategies such as middle market growth, private equity, natural resources, and various other asset classes. The investments are subject to restrictions and are not available to be redeemed until certain time restrictions are met, which range from 7 to 10 years with a 2-year optional extension.

As of June 30, 2020, and 2019, the Level 3 investments consist of holdings of donated stock in a closely held company of $759 and $822, respectively. The value of the donated stock is based on independent appraisals obtained by the closely held company. There were no significant transfers between levels during the years ended June 30, 2020 and 2019.

Investments and limited or restricted use funds comprise the following uses and purposes at June 30:

| | | 2020 | 2019 |
|---|---|---|---|
| Limited use for debt service | $ | 4,529 | 4,436 |
| Insurance settlements | | 56,323 | 53,725 |
| Alternative investments | | 26,900 | 21,360 |
| Investments with donor restrictions | | 71,043 | 59,222 |
| Investments without donor restrictions – board-designated | | 22,056 | 21,185 |
| Investments without donor restrictions | | 343,520 | 318,604 |
| | $ | 524,371 | 478,532 |

(In thousands)

Investment income and gains from investments and limited use funds comprise the following for the years ended June 30:

| | | Without donor restrictions | |
|---|---|---|---|
| | | 2020 | 2019 |
| Income from investments: | | | |
| Dividends and interest, net | $ | 6,886 | 7,323 |
| Realized gains on sales of investments | | 11,220 | 13,014 |
| Unrealized gains on investments | | 3,344 | 16,200 |
| Total income from investments without donor restrictions | | 21,450 | 36,537 |
| | | With donor restrictions | |
| Income from investments: | | | |
| Dividends and interest, net | | 531 | 1,199 |
| Realized gains on sales of investments | | 1,815 | 2,223 |
| Unrealized gains on investments | | 629 | 1,963 |
| Total income from investments with donor restrictions | | 2,975 | 5,385 |
| Total investment income, net | $ | 24,425 | 41,922 |

## (5) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30 are as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Financial assets: | | | |
| Cash | $ | 96,755 | 10,318 |
| Patient accounts receivable | | 58,871 | 66,974 |
| Other receivables | | 8,302 | 9,967 |
| Investments without donor restrictions | | 343,520 | 318,604 |
| Total financial assets available within one year | | 507,448 | 405,863 |
| Liquidity resource: | | | |
| Bank line of credit | | 10,000 | 10,000 |
| Total financial assets and liquidity resources available within one year | $ | 517,448 | 415,863 |

(In thousands)

The Company manages its financial assets to be available to meet operating expenditures, liabilities and other obligations as they come due. Although the noncurrent investments disclosed in the table above are intended to be held long-term, management could utilize those investments within the next year if deemed necessary. In addition, the Company maintains a $10,000 line of credit with a commercial bank to meet unanticipated liquidity needs. No amounts were borrowed as of June 30, 2020 or 2019.

## (6) Property, Plant and Equipment

The following is a summary of the cost of property, plant and equipment as of June 30:

| | | 2020 | 2019 |
|---|---|---|---|
| Land and land improvements | $ | 23,370 | 23,301 |
| Buildings and building service equipment | | 425,158 | 415,169 |
| Movable equipment | | 234,961 | 225,090 |
| Capital leases | | 39,241 | 40,177 |
| Construction in progress | | 11,436 | 7,317 |
| | | 734,166 | 711,054 |
| Less accumulated depreciation and amortization | | (483,027) | (444,249) |
| Total property, plant and equipment, net | $ | 251,139 | 266,805 |

| | | 2020 | 2019 |
|---|---|---|---|
| Depreciation expense | $ | 40,056 | 41,220 |
| Amortization expense | | 374 | 398 |
| Total depreciation and amortization expense | $ | 40,430 | 41,618 |

Construction-in-progress includes one ongoing capital project of the Company as of June 30, 2020. This is for construction of a new inpatient care center in Baltimore which has broken ground and is being built on the former site of Memorial Stadium. The budgeted total cost for the project is $15,350. The construction vendor is Southway Builders which has a not to exceed contract price of $11,986. In connection with this project, the Company has total unspent commitments of $14,687 as of June 30, 2020.

(In thousands)

## (7) Long-Term Debt

Long-term debt as of June 30 consisted of the following:

| | | 2020 | 2019 |
|---|---|---|---|
| MHHEFA project and refunding revenue bonds: | | | |
| 2017 Capital One Bank term note – 3.8% | $ | 25,725 | 25,725 |
| Series 2017 bonds: | | | |
| 2.66% term bonds | | 71,455 | 72,195 |
| 2015 PNC Bank term note – 2.3% | | 13,288 | 20,639 |
| Series 2012 bonds: | | | |
| 3.25%–5.00% term bonds | | 3,475 | 3,475 |
| Series 2011 bonds: | | | |
| 2.50%–5.75% term bonds | | 12,585 | 16,080 |
| Series 1995 bonds: | | | |
| Variable rate serial bonds | | 3,210 | 3,670 |
| Unamortized deferred financing costs | | (797) | (934) |
| | | 128,941 | 140,850 |
| Less current portion of long-term debt | | (12,420) | (12,046) |
| | $ | 116,521 | 128,804 |

On March 8, 2017, Maryland Health and Higher Education Facilities Authority (MHHEFA) issued $73,720 of tax exempt Revenue Bonds, Series 2017, on behalf of the Company. The bond proceeds were used to refund a portion of the Series 2012 Revenue Bonds ($32,205) and a portion of the Series 2011 Revenue Bonds ($32,480). The Series 2017 bonds are due on July 1 in annual installments ranging from $740 in 2020 to $7,280 in 2035.

On March 8, 2017, the Company obtained a $25,725 taxable term note from Capital One, N.A. to fund the Company's nonunion defined benefit pension plan. The 2017 note is due in annual installments ranging from $2,445 beginning in 2025 to $3,735 in 2033.

On March 1, 2015, the Company obtained a $50,000 taxable term note from PNC Bank, National Association to finance components of the system-wide integrated health record conversion and other capital projects. The 2015 note is due in monthly installments of $627, expiring on March 1, 2022.

On April 11, 2012, MHHEFA issued $35,680 of tax exempt Revenue Bonds, Series 2012, on behalf of the Company. The bond proceeds and limited use funds were used to refund Series 2001 Revenue Bonds ($40,265). Bond proceeds from the Series 2017 revenue bonds were used to refund a portion of the Series 2012 Revenue Bonds ($32,205). The remaining amount of the Series 2012 Bonds are due on July 1 in installments of $1,710 in 2023 and $1,765 in 2024.

(In thousands)

On April 20, 2011, MHHEFA issued $67,945 of tax exempt Revenue Bonds, Series 2011, on behalf of the Company. The bond proceeds and limited use funds were used to finance construction and renovation to the hospital and to refund, a) the Series 2009 Revenue Bonds ($45,000); b) a portion of Series 2001 Revenue Bonds ($12,565); and c) the Series 1993 Revenue Bonds ($11,975). Bond proceeds from the Series 2017 revenue bonds were used to refund a portion of the Series 2011 Revenue Bonds ($32,480). The remaining amount of the Series 2011 bonds are due on July 1 in annual installments ranging from $3,345 in 2020 to $3,830, with a final installment of $1,930 in 2025.

On October 4, 1995, MHHEFA issued $10,000 of tax exempt Revenue Bonds, Series 1995, on behalf of the Company. The Series 1995 bonds are due on July 1 in annual installments ranging from $445 in 2020 to $590 in 2026. The bonds bear interest at a variable rate, which is determined on a weekly basis by the remarketing agent of the issue. The rate was .31% and 2.10% as of June 30, 2020 and 2019, respectively. The Series 1995 Bonds are supported by a Standby Bond Purchase Agreement issued by M&T Bank, covering the remaining portion of the obligation, effective through July 1, 2025.

The PNC 2015 note, Series 2017, 2012, 2011, and 1995 Revenue Bonds are collateralized equally and ratably by a lien on all gross receipts of the Company. The term notes and bond proceeds were loaned to the Company pursuant to the Master Trust Indenture.

The aggregate future maturities of long-term debt as of June 30, 2020 are as follows:

| | Long-term debt |
|---|---|
| 2021 | $ 12,420 |
| 2022 | 10,868 |
| 2023 | 5,135 |
| 2024 | 5,330 |
| 2025 | 7,974 |
| Thereafter | 88,011 |
| | 129,738 |
| Unamortized deferred financing costs | (797) |
| | $ 128,941 |

The fair value of the Company’s long-term debt, which is estimated, based on quotes from underwriters, was approximately $130,310 and $142,828 as of June 30, 2020 and 2019, respectively.

(In thousands)

Deferred financing costs related to long-term borrowings, are amortized on a straight-line basis, which approximates the effective interest rate method, over the life of the borrowings, which ranges from 7 to 30 years. The Company has incurred deferred financing costs related to the issuance of MHHEFA Series 2017, Series 2012, Series 2011, Series 1995 Revenue Bonds and 2017 Capital One and 2015 PNC Bank term note payables that have been capitalized. Accumulated amortization at June 30, 2020 and 2019 amounted to $1,681 and $1,542, respectively.

Under the Master Trust Indenture, the Company is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.1 to 1.0.

The Company has a line of credit in the amount of $10,000. The line of credit bears interest at the LIBOR Daily Floating Rate. No amounts were drawn on this line during the years ended June 30, 2020 and 2019.

## (8) Net Assets with Donor Restrictions

The Company receives contributions in support of various needs. Net assets with donor restrictions were available for the following at June 30:

| | | 2020 | 2019 |
|---|---|---|---|
| Subject to expenditure for specified purpose: | | | |
| Departmental needs | $ | 27,126 | 21,798 |
| Education | | 7,385 | 7,228 |
| Buildings and equipment | | 16,114 | 6,074 |
| Uncompensated care | | 5,065 | 4,686 |
| Research | | 1,769 | 1,906 |
| Total expenditure for specified purpose | | 57,459 | 41,692 |
| Net assets perpetual in nature subject to spending policy: | | | |
| Departmental needs | | 22,825 | 18,598 |
| Education | | 3,290 | 3,113 |
| Uncompensated care | | 12,618 | 12,447 |
| Research | | 3,547 | 2,536 |
| General support | | 512 | 512 |
| Total subject to endowment spending policy | | 42,792 | 37,206 |
| Subject to passage of time: | | | |
| Pledges | | — | 2,197 |
| Total net assets with donor restrictions | $ | 100,251 | 81,095 |

(In thousands)

Net assets were released from donor restrictions as expenditures were made, which satisfied the following restricted purposes for the years ended June 30:

| | | 2020 | 2019 |
|---|---|---|---|
| Departmental needs | $ | 6,217 | 8,658 |
| Education | | 499 | 397 |
| Uncompensated care | | 1,141 | 1,161 |
| Research | | 609 | 898 |
| Buildings and equipment | | 844 | 4,733 |
| Time restriction | | 1,999 | — |
| Total net assets released from donor restrictions | $ | 11,309 | 15,847 |

The Company has interpreted the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as net assets with donor restrictions perpetual in nature the original value of the gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions perpetual in nature is classified as net assets with donor restrictions subject to expenditure for specified purpose until those amounts are appropriated for expenditure by the Company in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance, with UPMIFA, the Company considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Company and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

(In thousands)

The Company had the following activities among its endowment fund during the years ended June 30 delineated by net asset class:

| | | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2018 | $ | 1,815 | 53,395 | 55,210 |
| Investment return: | | | | |
| Investment income, net | | 170 | 1,113 | 1,283 |
| Net appreciation (realized and unrealized) | | 659 | 4,319 | 4,978 |
| Total investment return | | 829 | 5,432 | 6,261 |
| Contributions | | — | 2,085 | 2,085 |
| Appropriation of endowment assets for expenditure | | (163) | (3,268) | (3,431) |
| Endowment net assets, June 30, 2019 | | 2,481 | 57,644 | 60,125 |
| Investment return: | | | | |
| Investment income, net | | 861 | 951 | 1,812 |
| Net appreciation (realized and unrealized) | | 1,774 | 2,017 | 3,791 |
| Total investment return | | 2,635 | 2,968 | 5,603 |
| Contributions | | — | 5,618 | 5,618 |
| Appropriation of endowment assets for expenditure | | (169) | (5,817) | (5,986) |
| Endowment net assets, June 30, 2020 | $ | 4,947 | 60,413 | 65,360 |

### *(a) Endowment Funds with Deficits*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets without donor restrictions. As of June 30, 2020, and 2019, there were no endowments with deficits.

(In thousands)

### *(b) Return Objectives and Risk Parameters*

The Company has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The Company expects its endowment funds over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

### *(c) Strategies Employed for Achieving Investment Objectives*

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

### *(d) Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives*

The Board of Directors of the Company approves the method to be used to appropriate endowment funds for expenditure. The Company amended its endowment spending allocation policy to conform to UPMIFA, which was passed by Maryland on April 14, 2009 and limits annual endowment spending to 7% of the annual market value per year.

## (9) Functional Expenses

The Company provides general healthcare services to residents within its geographic location. Natural expenses that are attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort. Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses were categorized as follows for the years ended June 30:

| | June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Program services | | | | | Support services | |
| | Hospital services | Physician services | Hospice services | Other program services | Total program services | Administration/ general | Total |
| Operating expenses: | | | | | | | |
| Wages and employee benefits | $ 184,014 | 82,007 | 44,438 | 17,311 | 327,770 | 55,324 | 383,094 |
| Expendable supplies | 77,279 | 11,192 | 4,929 | 1,822 | 95,222 | 2,406 | 97,628 |
| Purchased services | 27,213 | 19,130 | 7,302 | 11,831 | 65,476 | 17,187 | 82,663 |
| Depreciation and amortization | 26,972 | 3,638 | 370 | 2,706 | 33,686 | 6,744 | 40,430 |
| Interest | 4,535 | 51 | — | 1,265 | 5,851 | 225 | 6,076 |
| Total operating expenses | $ 320,013 | 116,018 | 57,039 | 34,935 | 528,005 | 81,886 | 609,891 |

(In thousands)

| | June 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Program services | | | | | Support services | |
| | Hospital services | Physician services | Hospice services | Other program services | Total program services | Administration/ general | Total |
| Operating expenses: | | | | | | | |
| Wages and employee benefits | $ 172,937 | 90,202 | 33,046 | 11,215 | 307,400 | 57,177 | 364,577 |
| Expendable supplies | 84,810 | 7,269 | 4,342 | 1,109 | 97,530 | 2,783 | 100,313 |
| Purchased services | 34,181 | 26,946 | 7,528 | 4,052 | 72,707 | 8,234 | 80,941 |
| Depreciation and amortization | 25,090 | 6,862 | 414 | 4,124 | 36,490 | 5,128 | 41,618 |
| Interest | 3,792 | 102 | — | 1,333 | 5,227 | 1,257 | 6,484 |
| Total operating expenses | $ 320,810 | 131,381 | 45,330 | 21,833 | 519,354 | 74,579 | 593,933 |

## (10) Leases

### *(a) Capital Leases*

The Company is obligated under a long-term lease expiring in 2030 for the use of a medical office building. Payments increase at varying rates from $2,253 and $3,005 per year over the remaining life. Interest rates approximated 5.76% as of June 30, 2020 and 2019, respectively.

Scheduled principal and interest payments on capital lease and financing obligations are as follows:

| | Payment | Principal |
|---|---|---|
| 2021 | $ 4,515 | 3,161 |
| 2022 | 4,271 | 3,061 |
| 2023 | 4,271 | 3,210 |
| 2024 | 3,739 | 2,830 |
| 2025 | 2,998 | 2,214 |
| Thereafter | 14,271 | 12,459 |
| | 34,065 | 26,935 |
| Less amount representing interest | (7,130) | — |
| | $ 26,935 | 26,935 |

### *(b) Operating Leases*

The Company leases land, office space, and equipment under leases ranging from 2 to 13 years. Options to renew these leases range from 1 to 10 years.

(In thousands)

Minimum future rental expense for the years subsequent to June 30 is as follows:

| | Equipment | Facility | Total |
|---|---|---|---|
| 2021 | $ 1,183 | 3,098 | 4,281 |
| 2022 | 1,183 | 2,580 | 3,763 |
| 2023 | 1,183 | 2,056 | 3,239 |
| 2024 | 1,183 | 1,836 | 3,019 |
| 2025 | 1,183 | 937 | 2,120 |
| Thereafter | — | 7,468 | 7,468 |
| | $ 5,915 | 17,975 | 23,890 |

Most of the Company's leases contain renewal options and provisions for pass-through of operating expenses and real estate taxes. These provisions are not included in the minimum future rental expense unless exercised. Rental expense, including pass-through, associated with the facility leases amounted to $3,102 and $2,488 for the years ended June 30, 2020 and 2019, respectively.

## (11) Retirement Plans

### *(a) Defined Benefit Plan*

The Company has two noncontributory defined benefit pension plans, Greater Baltimore Medical Center Retirement Plan (DB Non-Union) and the Pension Plan for Members of the Bargaining Unit of Greater Baltimore Medical Center (DB Union), covering all full-time employees with at least one year of service. Benefits under the plans are determined based on increasing percentages (depending on years of service) of final average compensation. Annual contributions are made to these plans in accordance with the Employment Retirement Income Security Act (ERISA) regulations.

Effective June 30, 2007, the DB Non-Union plan was frozen. As a result, no future benefits may be earned; however, employees are eligible to vest under the terms of the plan. Effective September 3, 2020, the Board resolved to terminate the frozen Non-Union Pension Plan. Plan accounts will be distributed as soon administratively possible. The Company filed a Determination Letter request with the IRS with an effective date of plan termination of November 30, 2020. Before Plan Accounts are distributed, each Participant will be given the choice between (1) receiving their Plan Account distributed in a lump sum or (2) purchase an annuity contract from an insurance company.

(In thousands)

The following tables set forth the plans' funded status and amounts recognized in the Company's consolidated financial statements as of June 30, 2020 and 2019. The change in benefit obligation, plan assets, and funded status of the pension plans is as follows:

| | | DB Union | |
|---|---|---|---|
| | | **2020** | **2019** |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 39,263 | 35,334 |
| Service cost | | 1,028 | 898 |
| Interest cost | | 1,408 | 1,469 |
| Actuarial loss | | 3,377 | 3,141 |
| Benefits paid | | (1,730) | (1,579) |
| Benefit obligation at end of year | | 43,346 | 39,263 |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | | 26,671 | 24,472 |
| Actual return on plan assets | | 1,030 | 1,455 |
| Employer contribution | | 1,362 | 2,323 |
| Benefits paid | | (1,730) | (1,579) |
| Administrative expenses paid | | (82) | — |
| Fair value of plan assets at end of year | | 27,251 | 26,671 |
| Funded status at end of year | $ | (16,095) | (12,592) |

| | | DB Non-Union | |
|---|---|---|---|
| | | **2020** | **2019** |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 182,641 | 171,749 |
| Service cost | | — | — |
| Interest cost | | 6,496 | 7,163 |
| Actuarial loss | | 20,477 | 12,095 |
| Benefits paid | | (8,733) | (8,366) |
| Benefit obligation at end of year | | 200,881 | 182,641 |

(In thousands)

| | | DB Non-Union | |
|---|---|---|---|
| | | **2020** | **2019** |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | $ | 187,875 | 174,118 |
| Actual return on plan assets | | 24,675 | 22,123 |
| Employer contribution | | — | — |
| Benefits paid | | (8,733) | (8,366) |
| Administrative expenses paid | | (237) | — |
| Fair value of plan assets at end of year | | 203,580 | 187,875 |
| Funded status at end of year | $ | 2,699 | 5,234 |

Amounts recognized in unrestricted net assets as of June 30, 2020 and 2019 are as follows:

| | | DB Union | |
|---|---|---|---|
| | | **2020** | **2019** |
| Net prior service cost | $ | — | — |
| Net actuarial loss | | 12,479 | 9,890 |
| | $ | 12,479 | 9,890 |

| | | DB Non-Union | |
|---|---|---|---|
| | | **2020** | **2019** |
| Net prior service cost | $ | — | — |
| Net actuarial loss | | 50,110 | 51,534 |
| | $ | 50,110 | 51,534 |

The components of net benefit costs other than the service cost of $1,028 and $898 were recorded in other income in the consolidated statements of operations for the year ended June 30, 2020 and 2019, respectively. Service costs is included as a component of fringe benefits, which is recorded as salaries, wages, and employee benefits in the accompanying consolidated statements of operations.



(Continued)

(In thousands)

Components of net periodic benefit cost for the years ended June 30, 2020 and 2019 are as follows:

| | DB Union | |
|---|---|---|
| | 2020 | 2019 |
| Service cost | $ 1,028 | 898 |
| Interest cost | 1,408 | 1,469 |
| Expected return on plan assets | (1,265) | (1,716) |
| Amortization of prior service cost | — | — |
| Amortization of loss deferral | 1,105 | 526 |
| Net periodic pension benefit cost | $ 2,276 | 1,177 |

| | DB Non-Union | |
|---|---|---|
| | 2020 | 2019 |
| Service cost | $ — | — |
| Interest cost | 6,496 | 7,163 |
| Expected return on plan assets | (6,906) | (8,479) |
| Amortization of prior service cost | — | (361) |
| Amortization of loss deferral | 4,368 | 4,965 |
| Net periodic pension benefit cost | $ 3,958 | 3,288 |

Amounts in net assets without donor restrictions expected to be recognized as a component of net periodic pension benefit cost in fiscal year 2021:

| | DB Union | DB Non-Union | Total |
|---|---|---|---|
| Prior service cost | $ — | — | — |
| Net actuarial loss | 1,489 | 4,132 | 5,621 |
| | $ 1,489 | 4,132 | 5,621 |



(Continued)

(In thousands)

*(i) Assumptions*

The weighted average assumptions used in developing the projected pension benefit obligations for the plans as of June 30, were as follows:

| | DB Union | | DB Non-Union | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Discount rate | 3.10 % | 3.65 % | 2.86 % | 3.65 % |
| Rate of compensation increase | 4.00 | 4.00 | — | — |

The weighted average assumptions used to determine the net periodic benefit costs for the plans as of June 30, were as follows:

| | DB Union | | DB Non-Union | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Discount rate | 3.65 % | 4.33 % | 3.65 % | 4.33 % |
| Expected return on plan assets | 6.75 | 7.00 | 4.00 | 5.00 |
| Rate of compensation increase | 4.00 | 4.00 | — | — |

The accumulated benefit obligation for the pension plans, which differs from the estimated actuarial present value of the projected benefit obligation because it is based on current rather than future compensation levels, was $241,770 and $219,442 as of June 30, 2020 and 2019, respectively. In 2019, GBMC utilized the RP-2014 Mortality Table with generational improvements using projection scale MP-2018. In 2020, GBMC updated to the Pri-2012 Mortality Table, projected generally using the MP-2019 Mortality Improvement Scale.

*(ii) Expected Long-Term Rate of Return*

The expected long-term rate of return assumption used was based on a total plan return estimation by looking at the current yields available from fixed-income and reasonable equity return assumption based on long-term market trends and applying this to the plan's asset mix. In addition, the actual long-term historical returns realized by the pension plans were taken into consideration.



(Continued)

(In thousands)

*(iii) Estimated Future Benefit Payments*

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

| | DB Non-Union | DB Union | Total |
|---|---|---|---|
| 2021 | $ 9,762 | 1,688 | 11,450 |
| 2022 | 10,140 | 1,729 | 11,869 |
| 2023 | 10,260 | 1,794 | 12,054 |
| 2024 | 10,420 | 1,861 | 12,281 |
| 2025 | 10,605 | 1,919 | 12,524 |
| 2026–2030 | 54,843 | 10,088 | 64,931 |
| Total | $ 106,030 | 19,079 | 125,109 |

The Company’s pension plan weighted average asset allocations as of June 30 by asset category were as follows:

| | DB Union | |
|---|---|---|
| | **2020** | **2019** |
| Equity securities | 51 % | 52 % |
| Debt securities | 46 | 46 |
| Cash and cash equivalents | 3 | 2 |
| | 100 % | 100 % |

| | DB Non-Union | |
|---|---|---|
| | **2020** | **2019** |
| Debt securities | 98 % | 87 % |
| Cash and cash equivalents | 2 | 13 |
| | 100 % | 100 % |

(In thousands)

The following tables set forth by level, within the fair value hierarchy, the DB Union Plan's assets at fair value as of June 30:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Managed cash funds | $ 673 | — | — | 673 |
| Common collective trust | — | 12,606 | — | 12,606 |
| Total fixed income | — | 12,606 | — | 12,606 |
| Common stock | 8,136 | — | — | 8,136 |
| Foreign stock | 699 | — | — | 699 |
| Mutual funds | 3,787 | — | — | 3,787 |
| Mutual funds international | 1,350 | — | — | 1,350 |
| Total equity | 13,972 | — | — | 13,972 |
| Total plan assets | $ 14,645 | 12,606 | — | 27,251 |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Managed cash funds | $ 577 | — | — | 577 |
| Common collective trust | — | 12,020 | — | 12,020 |
| Total fixed income | — | 12,020 | — | 12,020 |
| Common stock | 7,800 | — | — | 7,800 |
| Foreign stock | 665 | — | — | 665 |
| Mutual funds | 4,087 | — | — | 4,087 |
| Mutual funds international | 1,522 | — | — | 1,522 |
| Total equity | 14,074 | — | — | 14,074 |
| Total plan assets | $ 14,651 | 12,020 | — | 26,671 |



(Continued)

(In thousands)

The following tables set forth by level, within the fair value hierarchy, the DB Non-Union Plan's assets at fair value as of June 30:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Managed cash funds | $ 6,472 | — | — | 6,472 |
| Corporate bonds | — | 197,108 | — | 197,108 |
| Total equity | — | 197,108 | — | 197,108 |
| Total plan assets | $ 6,472 | 197,108 | — | 203,580 |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Managed cash funds | $ 24,661 | — | — | 24,661 |
| Corporate bonds | — | 163,214 | — | 163,214 |
| Total equity | — | 163,214 | — | 163,214 |
| Total plan assets | $ 24,661 | 163,214 | — | 187,875 |

The following is a description of the valuation methodologies used for assets measured at fair value:

*Corporate bonds*: Valued at unadjusted quoted market share prices within active markets or based on external price data of comparable securities.

*Common and foreign stock and mutual funds*: Valued at unadjusted quoted market share prices within active markets.

*Mutual funds – fixed income*: Valued at the net asset value (NAV) of shares held by the plans at year-end. Shares traded in an active market.

*Common collective trust funds*: Valued at fair value based on the NAV of the fund. NAV is determined by the bank sponsoring such funds dividing the fund's net assets at fair value by its units outstanding at the valuation date. The Company is required to provide a 90-day notice to redeem any amount of investment. There are no other restrictions or gates related to this fund.

*(iv) Pension Investment Policies*

*DB Union Plan*

The primary objective of the Medical Center's pension investment program is the long-term growth of capital consistent with the asset allocations. The program utilizes several balanced managers and provides for asset allocation guidelines consistent with the Medical Center's risk exposure. The equity portion of the DB Union portfolio may range from 45% to 65% of total portfolio assets. The fixed-income and cash equivalents portion of the DB Union portfolio may range from 35% to 55% of total portfolio assets.

*DB Non-Union Plan*

Since the Plan has been frozen since June 30, 2007, the Plan's, the investment program is strutted to provide a high probability of fully funding the Plan liabilities, exceeding the liability hurdle rate and limiting the possibility of experiencing a substantial reduction in funded status. The Plan has a dynamic asset allocation policy based on the Plan's current funded status and other characteristics. The asset allocation strategy adjusts the allocation between its return-seeking portfolio and its liability-hedging portfolio as the Plan's funded status changes. Through the use of the dynamic asset allocation strategy, portfolio rebalancing occurs frequently. The rebalancing is managed by the Company's investment consultants.

The equity segment of the portfolio may include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Equity holdings in any one industry should not exceed 20% of the equity portfolio, holdings in any one economic sector should not exceed 50% of the equity portfolio, and holdings in any one company should not exceed 8% of the equity portfolio.

The fixed-income segment of the portfolio may include marketable bonds, preferred stocks, up to 20% in Securities and Exchange Commission (SEC) registered 144 A securities and cash equivalent securities. With the exception of securities issued by or guaranteed by the U.S. Treasury or U.S. government agencies and instrumentalities, the maximum position in a single issuer's securities should not exceed 3% of the portfolio at market value. The manager is expected to maintain a weighted average bond portfolio quality rating of at least "A." Exposure to below investment grade securities, that is less than "BBB," is limited to a maximum of 20% of the portfolio at market value.

*(v) Contributions*

The Company expects to contribute $2,024 to its DB Union and $0 DB Non-Union pension plans in the fiscal year ending June 30, 2021.

(In thousands)

***(b) Defined Contribution Plan***

Effective July 1, 2007, the Company established the GBMC, Inc. 401(a) Defined Contribution Plan (DC Non-Union) covering all employees except those covered by a collective bargaining agreement, or employees in a zero hour or registry position. The Company contributes up to 2% of all eligible employee wages (basic contribution) to the plan and the Company matches up to 3% of employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. At the discretion of the Board of Directors, the Company may contribute additional funds to the plan.

Expenses for the defined contribution plan for June 30 were as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Basic contribution | $ | 2,822 | 3,033 |
| Match contribution | | 4,990 | 4,231 |
| Total contribution | $ | 7,812 | 7,264 |

Effective July 1, 2009, the Company established the GBMC, Inc. 401(a) Defined Contribution Plan for Members of the Bargaining Union of Greater Baltimore Medical Center (DC Union) for the members covered by a collective bargaining agreement. The Company matches up to 3% of eligible employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. The Company contributed $104 and $97 for the years ended June 30, 2020 and 2019, respectively.

***(c) Nonqualified Plan***

The Company has a noncontributory, nonqualified deferred compensation plan for certain key employees. Benefits under the plan are determined based on increasing percentages (depending on years of service) of base pay. The Company recorded expense related to this plan of $814 and $751 for the years ended June 30, 2020 and 2019, respectively.

## (12) Asserted and Unasserted Insurance Claims and Contingencies

The Company maintains an off-shore captive insurance company in Bermuda to provide coverage for medical malpractice claims. Reserve balances have been discounted at the rate of 3% for the years ended June 30, 2020 and 2019. The receivable for the expected reinsurance recoverable is recorded within other assets on the consolidated balance sheets. Retention on limits in which Ruxton assumes risk of loss is based on an annual occurrence basis of $4 million per occurrence and $19 million in aggregate. Amounts in excess of these limits are insured by highly rated commercial insurance companies.

As of June 30, 2020, and 2019, the Company was partially self-insured for workers’ compensation and health insurance claims. The aggregate reserves for workers’ compensation claims were determined and discounted at the rate of 0.4% and 1.9% for 2020 and 2019, respectively. The receivable for the expected reinsurance recoverable is recorded within other current assets on the consolidated balance sheets. The Company’s excess workers’ compensation policy is based on a per claim basis in excess of $350 plus a corridor deductible of $750.



(Continued)

(In thousands)

The Company is subject to legal proceedings and claims, which arise from the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to the actions will not materially affect the consolidated financial position of the Company.

The Company recorded reserve activity for claims and claims expense as follows:

| | | 2020 | | | |
|---|---|---|---|---|---|
| | | **Malpractice** | **Workers' compensation** | **Health** | **Total** |
| Insurance reserves for self insured claims | $ | 33,713 | 5,169 | 2,837 | 41,719 |
| Reserves that are recoverable from reinsurance carrier | | 13,937 | 667 | — | 14,604 |
| Total insurance accrual | | 47,650 | 5,836 | 2,837 | 56,323 |
| Less current portion of insurance accrual | | 8,000 | 1,325 | 2,837 | 12,162 |
| Total noncurrent insurance accrual | $ | 39,650 | 4,511 | — | 44,161 |

| | | 2019 | | | |
|---|---|---|---|---|---|
| | | **Malpractice** | **Workers' compensation** | **Health** | **Total** |
| Insurance reserves for self insured claims | $ | 31,860 | 5,636 | 2,254 | 39,750 |
| Reserves that are recoverable from reinsurance carrier | | 13,237 | 738 | — | 13,975 |
| Total insurance accrual | | 45,097 | 6,374 | 2,254 | 53,725 |
| Less current portion of insurance accrual | | 8,479 | 1,962 | 2,254 | 12,695 |
| Total noncurrent insurance accrual | $ | 36,618 | 4,412 | — | 41,030 |



(Continued)

(In thousands)

### (13) Promises to Contribute

The Company has received unconditional and conditional promises to give. The pledge receivables are recorded on a discounted basis using the rate in effect at the time of the pledge. Such rates approximate 4%. The Company is the beneficiary of charitable remainder trusts whose present value as of June 30, 2020 and 2019 was $10,672 and $5,733, respectively. Current pledge receivables are included in other receivables and noncurrent pledge receivables are included in other assets in the accompanying consolidated balance sheets.

| | | 2020 | 2019 |
|---|---|---|---|
| Due within 1 year | $ | 7,295 | 6,835 |
| Due 1–5 years | | 13,331 | 11,235 |
| Due over 5 years | | 10,672 | 5,733 |
| Gross pledge receivables | | 31,298 | 23,803 |
| Less discount and allowance | | (2,091) | (1,930) |
| Net pledge receivables | $ | 29,207 | 21,873 |

### (14) Controlling and Non-controlling Interest

The following table presents a reconciliation of the changes in consolidated net assets without restriction attributable to the Company's controlling interest and non-controlling interest:

| | | Net assets without donor restriction – controlling interest | Net assets without donor restriction – non-controlling interest | Total net assets without donor restrictions |
|---|---|---|---|---|
| Balance as of June 30, 2018 | $ | 437,508 | 5,142 | 442,650 |
| Excess of revenues over expenses | | 38,024 | 2,211 | 40,235 |
| Pension related changes other than net periodic pension costs | | 3,277 | — | 3,277 |
| Distributions to non-controlling interest owners | | — | (500) | (500) |



(Continued)

(In thousands)

| | Net assets without donor restriction – controlling interest | Net assets without donor restriction – non-controlling interest | Total net assets without donor restrictions |
|---|---|---|---|
| Net assets released for purchase of fixed assets | $ 4,733 | — | 4,733 |
| Increase in net assets without donor restriction | 46,034 | 1,711 | 47,745 |
| Balance as of June 30, 2019 | 483,542 | 6,853 | 490,395 |
| Excess of revenues over expenses | 7,909 | 1,914 | 9,823 |
| Pension related changes other than net periodic pension costs | (1,165) | — | (1,165) |
| Distributions to non-controlling interest owners | — | (1,750) | (1,750) |
| Net assets released for purchase of fixed assets | 844 | — | 844 |
| Increase in net assets without donor restriction | 7,588 | 164 | 7,752 |
| Balance as of June 30, 2020 | $ 491,130 | 7,017 | 498,147 |

The non-controlling interest is comprised of:

- 50% interest in Greater Baltimore Diagnostic Imaging Partnership that provides medical imaging services on the campus of the Company.

## (15) Subsequent Events

In July 2020, the Company received $7.5M of additional PHSS Emergency Fund payments under the CARES Act. The amount will be considered for recognition in fiscal year 2021.

Effective September 3, 2020, the Board resolved to terminate the frozen Non-Union Pension Plan. Refer to Note 11 for further details.



(Continued)

On September 19, 2020, HHS released post payment notice of reporting requirements as it relates to general and targeted distributions received through the PHSSEF. These reporting requirements were determined to be a Type II subsequent event and will be evaluated by management in subsequent periods.

The Company has evaluated all other events and transactions through October 28, 2020, the date the consolidated financial statements were issued, and determined there are no other items to be recognized or disclosed this period.

# CONSOLIDATING INFORMATION

Schedule 1

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidating Balance Sheet

June 30, 2020

(In thousands)

| **Assets** | **(Obligated group) Greater Baltimore Medical Center, Inc.** | **Ruxton Insurance** | **GBMC Agency Inc. and Subsidiaries** | **Gilchrist Hospice Care Inc.** | **GBHA Inc.** | **GBMC Land Inc.** | **GBMC Healthcare Inc. (Parent)** | **Eliminating entries** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Current assets: | | | | | | | | | |
| Cash | $ 58,649 | 127 | 14 | 37,965 | — | — | — | — | 96,755 |
| Short-term investments and current limited use funds | 12,257 | 11,047 | — | 2,691 | — | — | — | — | 25,995 |
| Patient accounts receivable, net | 49,684 | — | 1,375 | 7,812 | — | — | — | — | 58,871 |
| Other receivables | 7,057 | 626 | 5,677 | 4,373 | — | 659 | — | — | 18,392 |
| Advances to affiliates | 23,354 | — | — | 10 | — | — | — | (23,364) | — |
| Other current assets | 13,745 | 234 | 38 | 453 | — | — | — | — | 14,470 |
| Total current assets | 164,746 | 12,034 | 7,104 | 53,304 | — | 659 | — | (23,364) | 214,483 |
| Investments and limited use funds | 272,802 | 68,525 | 7,014 | 150,035 | — | — | — | — | 498,376 |
| Interest in net assets of affiliate | — | — | — | — | — | — | 598,398 | (598,398) | — |
| Long-term receivables from affiliates | 26,369 | — | — | — | — | — | — | (26,369) | — |
| Property and equipment, net | 224,148 | — | 12,989 | 10,623 | 181 | 3,198 | — | — | 251,139 |
| Other noncurrent assets | 19,215 | 13,936 | 10,229 | 5,325 | — | 1,811 | — | (1,029) | 49,487 |
| Total assets | $ 707,280 | 94,495 | 37,336 | 219,287 | 181 | 5,668 | 598,398 | (649,160) | 1,013,485 |
| **Liabilities and Net Assets** | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Accounts payable and accrued expenses | $ 61,261 | 16 | 340 | 9,540 | 173 | 388 | — | — | 71,718 |
| Insurance reserves current | 3,314 | 8,550 | — | 298 | — | — | — | — | 12,162 |
| Payable to affiliates | — | 12,382 | — | 10,982 | — | — | — | (23,364) | — |
| Advances from third party payors | 91,367 | — | — | 15,784 | — | — | — | — | 107,151 |
| Current portion of long-term debt and capital and lease liability | 15,581 | — | — | — | — | — | — | — | 15,581 |
| Other current liabilities | 4,874 | — | 269 | 671 | — | — | — | — | 5,814 |
| Total current liabilities | 176,397 | 20,948 | 609 | 37,275 | 173 | 388 | — | (23,364) | 212,426 |
| Long-term debt | 116,521 | — | — | — | — | — | — | — | 116,521 |
| Capital lease liabilities | 23,774 | — | — | — | — | — | — | — | 23,774 |
| Insurance reserves | 4,143 | 39,650 | — | 368 | — | — | — | — | 44,161 |
| Long-term payable to affiliate | — | — | 26,369 | — | — | — | — | (26,369) | — |
| Pension liability | 16,095 | — | — | — | — | — | — | — | 16,095 |
| Other long-term liabilities | 935 | — | 560 | 615 | — | — | — | — | 2,110 |
| Total liabilities | 337,865 | 60,598 | 27,538 | 38,258 | 173 | 388 | — | (49,733) | 415,087 |
| Net assets: | | | | | | | | | |
| Controlling | 300,883 | 33,897 | 2,781 | 149,060 | 8 | 5,280 | 491,130 | (491,909) | 491,130 |
| Non-controlling | — | — | 7,017 | — | — | — | 7,017 | (7,017) | 7,017 |
| Net assets without donor restrictions | 300,883 | 33,897 | 9,798 | 149,060 | 8 | 5,280 | 498,147 | (498,926) | 498,147 |
| Net assets with donor restrictions | 68,532 | — | — | 31,969 | — | — | 100,251 | (100,501) | 100,251 |
| Total net assets | 369,415 | 33,897 | 9,798 | 181,029 | 8 | 5,280 | 598,398 | (599,427) | 598,398 |
| Total liabilities and net assets | $ 707,280 | 94,495 | 37,336 | 219,287 | 181 | 5,668 | 598,398 | (649,160) | 1,013,485 |

See accompanying independent auditors' report.

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidating Statement of Operations

June 30, 2020

(In thousands)

| | (Obligated group) Greater Baltimore Medical Center, Inc. | Ruxton Insurance | GBMC Agency Inc. and Subsidiaries | Gilchrist Hospice Care Inc. | GBHA Inc. | GBMC Land Inc. | GBMC Healthcare Inc. (Parent) | Eliminating entries | Total |
|---|---|---|---|---|---|---|---|---|---|
| Patient service revenue, net | $ 479,668 | — | 12,362 | 70,494 | — | — | — | — | 562,524 |
| Other operating revenue | 23,381 | 2,614 | 6,146 | 2,545 | 2,182 | 3,172 | — | (7,765) | 32,275 |
| Net assets released from restrictions | 7,242 | — | — | 3,223 | — | — | — | — | 10,465 |
| Total operating revenue | 510,291 | 2,614 | 18,508 | 76,262 | 2,182 | 3,172 | — | (7,765) | 605,264 |
| Operating expenses: | | | | | | | | | |
| Salaries, wages and employee benefits | 322,573 | — | 3,358 | 53,850 | 3,145 | 403 | — | (235) | 383,094 |
| Expendable supplies | 91,119 | — | 1,310 | 5,165 | 6 | 28 | — | — | 97,628 |
| Purchased services | 60,481 | 8,242 | 6,414 | 12,275 | (462) | 3,102 | 12 | (7,401) | 82,663 |
| Depreciation and amortization | 36,000 | — | 2,019 | 1,919 | 14 | 478 | — | — | 40,430 |
| Interest | 6,076 | — | — | — | — | — | — | — | 6,076 |
| Overhead | (2,243) | 250 | 409 | 1,020 | — | 51 | 266 | 247 | — |
| Total operating expenses | 514,006 | 8,492 | 13,510 | 74,229 | 2,703 | 4,062 | 278 | (7,389) | 609,891 |
| Operating (loss) income | (3,715) | (5,878) | 4,998 | 2,033 | (521) | (890) | (278) | (376) | (4,627) |
| Other income: | | | | | | | | | |
| Contributions | 1,060 | — | — | 567 | — | — | 50 | (50) | 1,627 |
| Fund-raising expense | (2,564) | — | — | (1,107) | — | — | — | 250 | (3,421) |
| Investment income, net | 11,449 | 1,696 | (564) | 8,869 | — | — | — | — | 21,450 |
| Other components of net periodic pension cost | (5,206) | — | — | — | — | — | — | — | (5,206) |
| Interests in net assets of affiliate | — | — | — | — | — | — | 7,176 | (7,176) | — |
| Excess of revenues over expenses | $ 1,024 | (4,182) | 4,434 | 10,362 | (521) | (890) | 6,948 | (7,352) | 9,823 |

See accompanying independent auditors' report.

Schedule 3

**GBMC HEALTHCARE, INC.**
**AND SUBSIDIARIES**

Consolidating Statement of Changes in Net Assets

June 30, 2020

(In thousands)

| | (Obligated group) Greater Baltimore Medical Center, Inc. | Ruxton Insurance | GBMC Agency Inc. and Subsidiaries | Gilchrist Hospice Care Inc. | GBHA Inc. | GBMC Land Inc. | GBMC Healthcare Inc. (Parent) | Eliminating entries | Total |
|---|---|---|---|---|---|---|---|---|---|
| Changes in net assets without donor restrictions: | | | | | | | | | |
| Excess of revenues over expenses | $ 1,024 | (4,182) | 4,434 | 10,362 | (521) | (890) | 6,948 | (7,352) | 9,823 |
| Pension related changes other than net periodic pension costs | (1,165) | — | — | — | — | — | — | — | (1,165) |
| Transfers between affiliates | (14,435) | | 351 | | 8,292 | 4,988 | 804 | — | — |
| Net assets released for purchase of fixed assets | 844 | — | — | — | — | — | — | — | 844 |
| Distribution to non-controlling interest | — | — | (1,750) | — | — | — | — | — | (1,750) |
| Increase (decrease) in net assets without donor restrictions | (13,732) | (4,182) | 3,035 | 10,362 | 7,771 | 4,098 | 7,752 | (7,352) | 7,752 |
| Changes in net assets with donor restrictions: | | | | | | | | | |
| Contributions | 21,761 | — | — | 5,729 | — | — | — | — | 27,490 |
| Investment income, net | 1,962 | — | — | 1,013 | — | — | — | — | 2,975 |
| Interest in net assets of affiliate | — | — | — | — | — | — | 19,156 | (19,156) | — |
| Net assets released for purchase of fixed assets | (844) | — | — | — | — | — | — | — | (844) |
| Net assets released for operations | (7,242) | — | — | (3,223) | — | — | — | — | (10,465) |
| Increase (decrease) in net assets with donor restrictions | 15,637 | — | — | 3,519 | — | — | 19,156 | (19,156) | 19,156 |
| Increase (decrease) in net assets | 1,905 | (4,182) | 3,035 | 13,881 | 7,771 | 4,098 | 26,908 | (26,508) | 26,908 |
| Net assets, beginning of year | 367,510 | 38,079 | 6,763 | 167,148 | (7,763) | 1,182 | 571,489 | (572,918) | 571,490 |
| Net assets, end of year | $ 369,415 | 33,897 | 9,798 | 181,029 | 8 | 5,280 | 598,397 | (599,426) | 598,398 |

See accompanying independent auditors’ report.