KPMG

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and
Consolidating Information

June 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(t) to the consolidated financial statements, GBMC HealthCare, Inc. and its subsidiaries adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-19, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-14, *Not-for-Profit Entities (Topic 958):*

Presentation of Financial Statements of Not-for-Profit Entities during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

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

October 3, 2019

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		2019	2018
Current assets:			
Cash	$	10,318	34,850
Short-term investments and limited or restricted use funds		12,075	11,955
Patient accounts receivable, net of reserves of $12,652 in 2018		66,974	54,001
Other receivables		19,653	15,831
Other current assets		10,484	10,809
Total current assets		119,504	127,446
Noncurrent assets:			
Investments and limited or restricted use funds		466,457	419,346
Property, plant and equipment, net		266,805	275,206
Other assets		45,936	36,070
Total noncurrent assets		779,198	730,622
Total assets	$	898,702	858,068
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	71,340	71,553
Insurance reserves, current		12,695	13,435
Advances from third-party payors		13,556	14,453
Current portion of long-term debt and capital lease liabilities		14,967	13,660
Other current liabilities		5,150	4,582
Total current liabilities		117,708	117,683
Noncurrent liabilities:			
Long-term debt		128,804	140,713
Capital lease liabilities		25,666	23,302
Insurance reserves		41,030	44,569
Pension liability		12,592	8,494
Other long-term liabilities		1,412	2,839
Total liabilities		327,212	337,600
Net assets:			
Controlling interest		483,542	437,508
Noncontrolling interest		6,853	5,142
Total net assets without donor restrictions		490,395	442,650
Net assets with donor restrictions		81,095	77,818
Total net assets		571,490	520,468
Total liabilities and net assets	$	898,702	858,068

See accompanying notes to consolidated financial statements.

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Patient service revenue:			
Patient service revenue, net of contractual allowances	$	575,446	561,205
Provision for uncollectible accounts		—	(13,799)
Net patient service revenue (see footnote 2(l))		575,446	547,406
Other operating revenue		16,184	15,023
Net assets released from restrictions		11,114	11,051
Total operating revenue		602,744	573,480
Operating expenses:			
Salaries, wages and employee benefits		364,577	352,180
Expendable supplies		100,313	92,789
Purchased services		80,941	78,833
Depreciation and amortization		41,618	40,795
Interest		6,484	6,566
Total operating expenses		593,933	571,163
Total operating income		8,811	2,317
Other income:			
Contributions		1,995	2,014
Fundraising expense		(3,541)	(3,144)
Investment income, net		36,537	27,635
Other components of net periodic pension (cost) income		(3,567)	1,809
Total other income		31,424	28,314
Excess of revenues over expenses	$	40,235	30,631

See accompanying notes to consolidated financial statements.

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Excess of revenues over expenses	$	40,235	30,631
Changes in net assets without donor restrictions:			
Pension related changes other than net periodic pension costs		3,277	1,117
Net assets released for purchase of fixed assets		4,733	1,710
Distribution to noncontrolling interest		(500)	(1,900)
Increase in net assets without donor restriction		47,745	31,558
Changes in net assets with donor restrictions:			
Contributions		13,739	12,325
Investment income, net		5,385	4,838
Net assets released for operations		(11,114)	(11,051)
Net assets released for purchase of fixed assets		(4,733)	(1,710)
Increase in net assets with donor restriction		3,277	4,402
Increase in net assets		51,022	35,960
Net assets, beginning of year		520,468	484,508
Net assets, end of year	$	571,490	520,468

See accompanying notes to consolidated financial statements.

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	51,022	35,960
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		41,618	40,795
Provision for uncollectible accounts		—	13,799
Realized and unrealized gains on investments		(33,400)	(25,756)
Pension related changes other than net periodic pension costs		(3,277)	(1,117)
Restricted investment income		(1,199)	(923)
Restricted contributions		(13,739)	(12,325)
Unrealized gains on joint ventures		(1,121)	(933)
Distribution to noncontrolling interest		500	1,900
Changes in assets and liabilities:			
Increase in patient accounts receivable		(12,973)	(5,399)
Increase in other receivables and other assets		(5,466)	(2,831)
Increase (decrease) in accounts payable and accrued expenses, advances from third parties, current and non current liabilities		(1,722)	7,312
Increase (decrease) in pension liability and asset		2,142	(1,443)
Net cash provided by operating activities		22,385	49,039
Cash flows from investing activities:			
Increase in investments and limited or restricted use funds		(4,064)	(5,987)
Purchases of alternative investments		(7,447)	(4,066)
Additions to property and equipment		(36,540)	(30,909)
Net cash used in investing activities		(48,051)	(40,962)
Cash flows from financing activities:			
Payment on long-term debt and capital lease liabilities		(14,248)	(13,487)
Proceeds from financing arrangement		4,807	—
Proceeds from restricted contributions		11,075	9,068
Distributions to noncontrolling interest		(500)	(1,900)
Net cash provided by (used in) financing activities		1,134	(6,319)
(Decrease) increase in cash		(24,532)	1,758
Cash, beginning of year		34,850	33,092
Cash, end of year	$	10,318	34,850
Cash paid during the year for interest	$	5,524	5,786
Capital additions accrued but not paid		3,419	7,808

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.

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.

(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. 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

(Continued)

(In thousands)

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.

(h) Other Noncurrent Assets

Other assets comprise the following items:

		2019	2018
Reinsurance receivable	$	13,976	14,259
Goodwill		7,593	7,593
Pledges receivable		15,389	12,489
Deferred leasing costs		1,015	1,104
Equity investments		630	247
Pension asset		5,233	—
Other		2,100	378
	$	45,936	36,070

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 –*

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Goodwill and Other. The more likely than not threshold is defined as having a likelihood of more than 50%.

At June 30, 2019 and 2018, 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, 2019 and 2018 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 adopted Accounting Standards Codification (ASC) 606, Revenue Recognition, effective July 1, 2018 using the modified retrospective transition method. ASC 606 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. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue in the consolidated statements of operations is treated as a price concession that reduces the transaction price, which is reported as a reduction to net patient service revenue. Other than these changes in presentation, the impact of adopting ASC 606 was not material to consolidated operating revenues, excess of revenues over expenses or total net assets.

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, 2019 and 2018 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 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

(Continued)

(In thousands)

payor mix, market share and uncompensated care. The HSCRC also may impose various other revenue adjustments that could be significant in the future.

Hospice and skilled nursing facility 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. CMS reimburses physician services based on fee schedule updated annually. Other third-party payors are primarily reimburse 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.

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

		2019	**2018**
Hospital services	$	432,096	411,322
Physician services		67,044	65,585
Hospice services		63,291	58,280
Radiology services – GBDIP joint venture		13,015	12,219
Total revenues from contracts with customers		575,446	547,406
Other nonpatient care		27,298	26,074
Total operating revenues	$	602,744	573,480

(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 noncontrolling 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 $3,391 and $3,339 of financial assistance as a reduction of revenue during the years ended June 30, 2019 and 2018, respectively. The total direct and indirect cost of providing financial assistance was approximately $2,577 and $2,403 during the years ended June 30, 2019 and 2018, 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, 2019 and 2018 for uncertain tax positions.

GBMC Agency, Inc. and Subsidiaries are taxable entities. An operating loss carry forward of approximately $121,494 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, 2019 and 2018, deferred tax assets of $37,725 and $38,156 respectively, consisting primarily of net operating loss carry forwards, were offset by a related valuation allowance.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Jobs Act. The new law includes 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.

(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

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* in 2019, which serves to supersede most existing revenue guidance, including guidance specific to the healthcare industry. Refer to additional disclosures and discussion in footnote 2*(l)* and 2(*m*).

ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*, was adopted by the Company in 2019. This standard amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities (NFP), and requires a NFP to:

- Reduce the number of net asset classes presented from three to two, with donor restrictions and without donor restrictions, as presented in the consolidated balance sheets and statement of changes in net assets and footnote 8;
- Require all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements, as presented in footnote 9;
- Require NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date, as presented in footnote 5;

ASU No. 2016-14 was applied by the Company, retrospectively, in fiscal year 2019. The adoption of ASU 2016-14 had no impact to results of operations or total net assets.

ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* was also adopted by the Company in 2019. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60–35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). This ASU required retrospective application to all prior periods presented. The impact of the adoption of this ASU is presented in footnote 11.

(In thousands)

The FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which clarifies guidance about whether a transfer of assets is a contribution or an exchange transaction. The amendments require an entity to determine whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU was adopted in 2019 and is did not have a material impact on the results of operations.

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 effective in fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. 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 adopted this option as of July 1, 2019. Adoption of this standard will result in the addition of approximately $17,000 in assets and liabilities to the consolidated balance sheet. The company will include new disclosures in 2020 in accordance with Topic 842.

(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, 2019 and 2018 was as follows:

	Accounts receivable		Revenue	
	2019	**2018**	**2019**	**2018**
Medicare	34 %	35 %	42 %	43 %
Medicaid	5	6	3	4
Blue cross	11	12	12	12
HMO	23	21	22	21
Other third party payors	24	23	19	19
Self pay	3	3	2	1
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.

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 2019 or 2018 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 $21,360 and $13,313, which are accounted for under the equity method, as of June 30, 2019 and 2018, respectively:

	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

(Continued)

(In thousands)

Assets		June 30, 2018 Level 1	Level 2	Level 3	Total
Managed cash funds	$	29,411	—	—	29,411
Common stock		160,785	5,367	828	166,980
Foreign stock		14,680	—	—	14,680
Mutual funds		53,191	—	—	53,191
Mutual funds international		555	—	—	555
Total equity		229,211	5,367	828	235,406
Corporate debt securities		—	28,159	—	28,159
Bonds – treasury		13,792	—	—	13,792
Bonds – federal agency backed		—	5,173	—	5,173
Bonds – mortgage-backed		—	1,523	—	1,523
Bonds – fixed income		—	510	—	510
Mutual funds – fixed income		—	103,506	—	103,506
Municipal bonds		—	508	—	508
Total fixed income		13,792	139,379	—	153,171
Total investment and limited or restricted use funds		272,414	144,746	828	417,988
Current portion		11,955	—	—	11,955
Total noncurrent investment and limited or restricted use funds	$	260,459	144,746	828	406,033

As of June 30, 2019 and 2018, the alternative investments consisted of subscription partnership agreements with capital commitments of approximately $44,400 and $26,100, 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, 2019 and 2018, the Level 3 investments consist of holdings of donated stock in a closely held company of $822 and $828, 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, 2019 and 2018.

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

		2019	2018
Limited use for debt service	$	4,436	4,334
Insurance settlements		53,725	58,004
Alternative investments		21,360	13,313
Investments with donor restrictions		59,222	58,609
Investments without donor restrictions – board-designated		21,185	21,692
Investments without donor restrictions		318,604	275,349
	$	478,532	431,301

(Continued)

(In thousands)

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

	Without donor restrictions	
	2019	2018
Income from investments:		
Dividends and interest, net	$ 7,323	5,794
Realized gains on sales of investments	13,014	16,170
Unrealized gains on investments	16,200	5,671
Total income from investments without donor restrictions	36,537	27,635
	With donor restrictions	
Income from investments:		
Dividends and interest, net	1,199	923
Realized gains on sales of investments	2,223	2,613
Unrealized gains on investments	1,963	1,302
Total income from investments with donor restrictions	5,385	4,838
Total investment income, net	$ 41,922	32,473

(5) Liquidity and Availability

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

	2019
Financial assets:	
Cash	$ 10,318
Short-term investments	3,143
Patient accounts receivable	66,974
Other receivables	9,967
Long-term investments	315,461
Total financial assets available within one year	405,863
Liquidity resource:	
Bank line of credit	10,000
Total financial assets and liquidity resources available within one year	$ 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, with no outstanding borrowing as of June 30, 2019, available to meet unanticipated liquidity needs.

(6) Property, Plant and Equipment

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

		2019	2018
Land and land improvements	$	23,301	23,301
Buildings and building service equipment		415,169	406,929
Movable equipment		225,090	298,236
Capital leases		40,177	40,605
Construction in progress		7,317	9,157
		711,054	778,228
Less accumulated depreciation and amortization		(444,249)	(503,022)
Total property, plant and equipment, net	$	266,805	275,206

		2019	2018
Depreciation expense	$	41,220	40,459
Amortization expense		398	336
Total depreciation and amortization expense	$	41,618	40,795

(In thousands)

(7) Long-Term Debt

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

		2019	2018
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		72,195	72,910
2015 PNC Bank term note – 2.3%		20,639	27,813
Series 2012 bonds:			
3.25% – 5.00% term bonds		3,475	3,475
Series 2011 bonds:			
2.50%-5.75% term bonds		16,080	19,425
Series 1995 bonds:			
Variable rate serial bonds		3,670	4,115
Unamortized deferred financing costs		(934)	(1,071)
		140,850	152,392
Less current portion of long-term debt		(12,046)	(11,679)
	$	128,804	140,713

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 $810 in 2018 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 $647, 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 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 Series 2011 bonds are due on July 1 in annual installments ranging from $3,195 in 2018 to $3,660, 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 $425 in 2018 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 2.10% and 1.74% as of June 30, 2019 and 2018, 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 October 1, 2020.

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 note 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, 2019 are as follows:

		Long-term debt
2020	$	12,046
2021		12,421
2022		10,868
2023		5,135
2024		5,329
Thereafter		95,985
		141,784
Unamortized deferred financing costs		(934)
	$	140,850

The fair value of the Company’s long-term debt, which is estimated, based on quotes from underwriters, was approximately $142,828 and $151,624 as of June 30, 2019 and 2018, respectively.

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

(In thousands)

Bank term note payables that have been capitalized. Accumulated amortization at June 30, 2019 and 2018 amounted to $1,542 and $1,405, 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, 2019 and 2018.

(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:

		2019	2018
Subject to expenditure for specified purpose:			
Departmental needs	$	21,798	17,772
Education		7,228	6,516
Buildings and equipment		6,074	9,198
Uncompensated care		4,686	4,476
Research		1,906	2,308
Total expenditure for specified purpose		41,692	40,270
Net assets perpetual in nature subject to spending policy:			
Departmental needs		18,598	17,821
Education		3,113	2,878
Uncompensated care		12,447	11,604
Research		2,536	2,526
General support		512	512
Total subject to endowment spending policy		37,206	35,341
Subject to passage of time:			
Pledges		2,197	2,207
Total net assets with donor restrictions	$	81,095	77,818

(Continued)

(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:

		2019	2018
Departmental needs	$	8,658	8,545
Education		397	964
Uncompensated care		1,161	922
Research		898	620
Buildings and equipment		4,733	1,710
Total net assets released from donor restrictions	$	15,847	12,761

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, 2017	$	1,747	48,536	50,283
Investment return:				
Investment income, net		42	817	859
Net appreciation (realized and unrealized)		184	3,642	3,826
Total investment return		226	4,459	4,685
Contributions		—	2,951	2,951
Net assets reclass		—	—	—
Appropriation of endowment assets for expenditure		(158)	(2,551)	(2,709)
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
Other increases (decreases)		—	—	—
Appropriation of endowment as sets for expenditure		(163)	(3,268)	(3,431)
Endowment net assets, June 30, 2019	$	2,481	57,644	60,125

(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, 2019 and 2018, there were no endowments with deficits.

(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

(Continued)

(In thousands)

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, 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

(In thousands)

	June 30, 2018						
	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	$ 170,796	84,957	29,704	10,583	296,040	56,140	352,180
Expendable supplies	79,610	6,033	3,572	916	90,131	2,658	92,789
Purchased services	33,632	26,206	6,444	2,856	69,138	9,695	78,833
Depreciation and amortization	24,536	6,910	564	4,702	36,712	4,083	40,795
Interest	3,894	132	—	1,339	5,365	1,201	6,566
Total operating expenses	$ 312,468	124,238	40,284	20,396	497,386	73,777	571,163

(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 $2,483 and $3,004 per year over the remaining life. Interest rates approximated 5.76% as of June 30, 2019 and 2018, respectively.

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

	Payment	Principal
2020	$ 4,360	2,921
2021	4,202	2,894
2022	3,975	2,799
2023	3,993	2,955
2024	3,438	2,540
Thereafter	17,071	14,478
	37,039	28,587
Less amount representing interest	(8,452)	—
	$ 28,587	28,587

(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
2020	$	1,116	2,398	3,514
2021		1,116	2,346	3,462
2022		1,116	1,839	2,955
2023		1,116	1,284	2,400
2024		1,116	1,077	2,193
Thereafter		—	5,886	5,886
	$	5,580	14,830	20,410

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 $2,488 and $2,122 for the years ended June 30, 2019 and 2018, 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.

(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, 2019 and 2018. The change in benefit obligation, plan assets, and funded status of the pension plans is as follows:

		DB Union	
		2019	**2018**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	35,334	37,365
Service cost		898	1,042
Interest cost		1,469	1,414
Actuarial loss		3,141	(2,928)
Benefits paid		(1,579)	(1,559)
Benefit obligation at end of year		39,263	35,334
Change in plan assets:			
Fair value of plan assets at beginning of year		24,472	24,247
Actual return on plan assets		1,455	1,109
Employer contribution		2,323	675
Benefits paid		(1,579)	(1,559)
Fair value of plan assets at end of year		26,671	24,472
Funded status at end of year	$	(12,592)	(10,862)

		DB Nonunion	
		2019	**2018**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	171,749	183,303
Service cost		—	—
Interest cost		7,163	7,044
Actuarial loss		12,095	(9,201)
Benefits paid		(8,366)	(9,397)
Benefit obligation at end of year		182,641	171,749

(Continued)

(In thousands)

		DB Nonunion	
		2019	2018
Change in plan assets:			
Fair value of plan assets at beginning of year	$	174,118	185,368
Actual return on plan assets		22,123	(1,853)
Employer contribution		—	—
Benefits paid		(8,366)	(9,397)
Fair value of plan assets at end of year		187,875	174,118
Funded status at end of year	$	5,234	2,369

Amounts recognized in unrestricted net assets as of June 30, 2019 and 2018 are as follows:

		DB Union	
		2019	2018
Net prior service cost	$	—	—
Net actuarial loss		9,890	7,014
	$	9,890	7,014

		DB Nonunion	
		2019	2018
Net prior service cost	$	—	(361)
Net actuarial loss		51,534	58,047
	$	51,534	57,686

As described in note 2(t) the Company adopted ASU No. 2017-07. As a result of the adoption of this ASU, the components of net benefit costs other than the service cost of $898 were recorded in other income in the consolidated statements of operations for the year ended June 30, 2019. 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. The Company elected to use the practical expedient as of July 1, 2017 for purposes of applying the retrospective presentation requirements. This election resulted in an increase in operating expenses and a decrease in other income of $1,809 in the consolidated statements of operations for the year ended June 30, 2018.

(In thousands)

Components of net periodic benefit cost for the years ended June 30, 2019 and 2018 are as follows:

	DB Union	
	2019	2018
Service cost	$ 898	1,042
Interest cost	1,469	1,414
Expected return on plan assets	(1,716)	(1,776)
Amortization of prior service cost	—	—
Amortization of loss deferral	526	966
Net periodic pension benefit cost (income)	$ 1,177	1,646

	DB Nonunion	
	2019	2018
Service cost	$ —	—
Interest cost	7,163	7,044
Expected return on plan assets	(8,479)	(13,577)
Amortization of prior service cost	(361)	(372)
Amortization of loss deferral	4,965	4,492
Net periodic pension benefit cost (income)	$ 3,288	(2,413)

Amounts in net assets without donor restrictions expected to be recognized as a component of net periodic pension benefit cost in fiscal year 2020:

	DB Union	DB Nonunion	Total
Prior service cost	$ —	—	—
Net actuarial loss	1,117	4,326	5,443
	$ 1,117	4,326	5,443

(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 Nonunion	
	2019	2018	2019	2018
Discount rate	3.65 %	4.33 %	3.65 %	4.33 %
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 Nonunion	
	2019	2018	2019	2018
Discount rate	4.33 %	3.97 %	4.33 %	3.97 %
Expected return on plan assets	7.00 %	7.50 %	5.00 %	7.50 %
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 $219,442 and $204,872 as of June 30, 2019 and 2018, respectively. In 2018, GBMC utilized the new RP-2014 Mortality Table with generational improvements using projection scale MP-2017. In 2019, GBMC utilized the RP-2014 Mortality Table with generational improvements using projection scale MP-2018.

(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.

(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 Nonunion	DB Union	Total
2020	$	9,334	1,630	10,964
2021		9,631	1,649	11,280
2022		9,974	1,693	11,667
2023		10,093	1,755	11,848
2024		10,262	1,818	12,080
2025–2029		53,539	9,702	63,241
Total	$	102,833	18,247	121,080

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

	DB Union	
	2019	2018
Equity securities	52 %	56 %
Debt securities	46	41
Cash and cash equivalents	2	3
	100 %	100 %

	DB Nonunion	
	2019	2018
Equity securities	— %	14 %
Debt securities	87	83
Cash and cash equivalents	13	3
	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, 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
Corporate bonds	—	—	—	—
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

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Managed cash funds	$ 698	—	—	698
Mutual funds-fixed income	—	—	—	—
Common collective trust	—	9,925	—	9,925
Total fixed income	—	9,925	—	9,925
Common stock	7,453	—	—	7,453
Corporate bonds	—	—	—	—
Foreign stock	667	—	—	667
Mutual funds	4,203	—	—	4,203
Mutual funds international	1,526	—	—	1,526
Total equity	13,849	—	—	13,849
Total plan assets	$ 14,547	9,925	—	24,472

(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, 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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Managed cash funds	$ 5,706	—	—	5,706
Corporate bonds	—	144,851	—	144,851
Mutual funds	16,264	—	—	16,264
Mutual funds international	7,297	—	—	7,297
Total equity	23,561	144,851	—	168,412
Total plan assets	$ 29,267	144,851	—	174,118

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 in order 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. The distribution of the DB Union plan as of June 20, 2019 was 52% equities, fixed income 46%, and cash 2%. At June 30, 2019 the funded ratio of the plan was 67.9%.

DB Non Union Plan

Since the Plan has been frozen since June 30, 2007, the Plan's, the investment program is structured 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. At June 30, 2019 the funded ratio of the plan was 102.9%. The distribution of the DB Non Union portfolio as of June 30, 2019 was fixed income 87%, and cash 13%.

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 $1,400 to its DB Union and $0 DB Non Union pension plans in the fiscal year ending June 30, 2020.

(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:

		2019	2018
Basic contribution	$	3,033	2,923
Match contribution		4,231	4,252
Total contribution	$	7,264	7,175

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 $97 and $96 for the years ended June 30, 2019 and 2018, 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 $751 and $780 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018, 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 1.9% and 2.3% for 2019 and 2018, respectively. The receivable for the expected reinsurance recoverable is recorded within other current assets on the consolidated balance sheets. The

(Continued)

(In thousands)

Company's excess workers' compensation policy is based on a per claim basis in excess of $350 plus a corridor deductible of $750.

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:

	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

	2018			
	Malpractice	Workers' compensation	Health	Total
Insurance reserves for self insured claims	$ 34,126	6,260	2,676	43,062
Reserves that are recoverable from reinsurance carrier	14,259	683	—	14,942
Total insurance accrual	48,385	6,943	2,676	58,004
Less current portion of insurance accrual	7,434	3,325	2,676	13,435
Total noncurrent insurance accrual	$ 40,951	3,618	—	44,569

(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, 2019 and 2018 was $5,733 and $5,041, respectively. Current pledge receivables are included in other receivables and noncurrent pledge receivables are included in other assets in the accompanying consolidated balance sheets.

		2019	2018
Due within 1 year	$	6,835	6,933
Due 1–5 years		11,235	8,370
Due over 5 years		5,733	5,041
Gross pledge receivables		23,803	20,344
Less discount and allowance		(1,930)	(1,135)
Net pledge receivables	$	21,873	19,209

(14) Controlling and Noncontrolling Interest

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

		Net assets without donor restriction – controlling interest	Net assets without donor restriction – noncontrolling interest	Total net assets without donor restrictions
Balance as of June 30, 2017	$	405,942	5,150	411,092
Excess of revenues over expenses		28,739	1,892	30,631
Pension related changes other than net periodic pension costs		1,117	—	1,117
Distributions to noncontrolling interest owners		—	(1,900)	(1,900)
Net assets released for purchase of fixed assets		1,710	—	1,710
Increase (decrease) in net assets without donor restriction		31,566	(8)	31,558
Balance as of June 30, 2018		437,508	5,142	442,650

(In thousands)

		Net assets without donor restriction – controlling interest	Net assets without donor restriction – noncontrolling interest	Total net assets without donor restrictions
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 noncontrolling interest owners		—	(500)	(500)
Net assets released for purchase of fixed assets		4,733	—	4,733
Increase (decrease) in net assets without donor restriction		46,034	1,711	47,745
Balance as of June 30, 2019	$	483,542	6,853	490,395

The noncontrolling 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

The Company has evaluated all events and transactions from the consolidated balance sheet date through October 3, 2019, the date the consolidated financial statements were issued, and determined there are no other items to be recognized or disclosed this period.

CONSOLIDATING INFORMATION

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet

June 30, 2019

(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	$ 5,884	1,766	16	2,652	—	—	—	—	10,318
Short-term investments and current limited use funds	7,608	3,143	—	1,324	—	—	—	—	12,075
Patient accounts receivable, net	57,515	—	1,499	7,960	—	—	—	—	66,974
Other receivables	7,326	4,825	4,281	2,794	—	427	—	—	19,653
Advances to affiliates	4,968	—	(57)	6,288	—	—	—	(11,199)	—
Other current assets	10,098	221	36	129	—	—	—	—	10,484
Total current assets	93,399	9,955	5,775	21,147	—	427	—	(11,199)	119,504
Investments and limited use funds	255,509	64,837	7,116	138,995	—	—	—	—	466,457
Interest in net assets of affiliate	—	—	—	—	—	—	572,064	(572,064)	—
Long-term receivables from affiliates	41,175	—	—	—	—	—	—	(41,175)	—
Property and equipment, net	236,600	—	15,384	11,077	195	3,549	—	—	266,805
Other noncurrent assets	18,178	13,237	8,928	4,697	—	1,750	—	(854)	45,936
Total assets	$ 644,861	88,029	37,203	175,916	195	5,726	572,064	(625,292)	898,702
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	$ 63,589	102	309	7,046	—	294	—	—	71,340
Insurance reserves current	3,587	8,949	—	159	—	—	—	—	12,695
Payable to affiliates	6,288	4,277	59	—	—	—	575	(11,199)	—
Advances from third party payors	13,556	—	—	—	—	—	—	—	13,556
Current portion of long-term debt and capital and lease liability	14,765	—	202	—	—	—	—	—	14,967
Other current liabilities	4,497	—	—	653	—	—	—	—	5,150
Total current liabilities	106,282	13,328	570	7,858	—	294	575	(11,199)	117,708
Long-term debt	128,804	—	—	—	—	—	—	—	128,804
Capital lease liabilities	24,952	—	714	—	—	—	—	—	25,666
Insurance reserves	4,117	36,618	—	295	—	—	—	—	41,030
Long-term payable to affiliate	—	4	28,963	—	7,958	4,250	—	(41,175)	—
Pension liability	12,592	—	—	—	—	—	—	—	12,592
Other long-term liabilities	604	—	193	615	—	—	—	—	1,412
Total liabilities	277,351	49,950	30,440	8,768	7,958	4,544	575	(52,374)	327,212
Net assets:									
Controlling	314,615	38,079	(90)	138,698	(7,763)	1,182	483,543	(484,722)	483,542
Noncontrolling	—	—	6,853	—	—	—	6,853	(6,853)	6,853
Net assets without donor restrictions	314,615	38,079	6,763	138,698	(7,763)	1,182	490,396	(491,575)	490,395
Net assets with donor restrictions	52,895	—	—	28,450	—	—	81,093	(81,343)	81,095
Total net assets	367,510	38,079	6,763	167,148	(7,763)	1,182	571,489	(572,918)	571,490
Total liabilities and net assets	$ 644,861	88,029	37,203	175,916	195	5,726	572,064	(625,292)	898,702

See accompanying independent auditors' report.

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations

June 30, 2019

(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
Operating revenues:									
Patient service revenue net of contractual allowances	$ 499,140	—	13,015	63,291	—	—	—	—	575,446
Provision for uncollectible accounts	—	—	—	—	—	—	—	—	—
Net patient service revenue	499,140	—	13,015	63,291	—	—	—	—	575,446
Other operating revenue	11,796	14,223	5,710	155	697	3,366	—	(19,763)	16,184
Net assets released from restrictions	7,529	—	—	4,092	—	—	—	(507)	11,114
Total operating revenue	518,465	14,223	18,725	67,538	697	3,366	—	(20,270)	602,744
Operating expenses:									
Salaries, wages and employee benefits	319,475	—	2,549	42,397	921	373	8	(1,146)	364,577
Expendable supplies	94,789	—	916	4,575	5	28	—	—	100,313
Purchased services	67,949	11,119	6,685	10,956	117	3,094	48	(19,027)	80,941
Depreciation and amortization	37,275	—	2,009	1,889	46	399	—	—	41,618
Interest	6,484	—	3	—	—	—	—	(3)	6,484
Overhead	(1,900)	250	400	690	—	50	260	250	—
Total operating expenses	524,072	11,369	12,562	60,507	1,089	3,944	316	(19,926)	593,933
Operating (loss) income	(5,607)	2,854	6,163	7,031	(392)	(578)	(316)	(344)	8,811
Other income:									
Contributions	1,064	—	—	935	—	—	50	(54)	1,995
Fund-raising expense	(2,868)	—	—	(923)	—	—	—	250	(3,541)
Investment income, net	22,255	2,182	178	11,925	—	—	—	(3)	36,537
Other components of net periodic pension cost	(3,567)	—	—	—	—	—	—	—	(3,567)
Interests in net assets of affiliate	—	—	—	—	—	—	48,012	(48,012)	—
Excess of revenues over expenses	$ 11,277	5,036	6,341	18,968	(392)	(578)	47,746	(48,163)	40,235

See accompanying independent auditors' report.

GBMC HEALTHCARE, INC.
AND SUBSIDIARIES

Consolidating Statements of Changes in Net Assets

June 30, 2019

(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	$ 11,277	5,036	6,341	18,968	(392)	(578)	47,746	(48,163)	40,235
Pension related changes other than net periodic pension costs	3,277	—	—	—	—	—	—	—	3,277
Net assets released for purchase of fixed assets	4,693	—	—	40	—	—	—	—	4,733
Distribution to noncontrolling interest	—	—	(500)	—	—	—	—	—	(500)
Increase (decrease) in net assets without donor restrictions	19,247	5,036	5,841	19,008	(392)	(578)	47,746	(48,163)	47,745
Changes in net assets with donor restrictions:									
Contributions	9,410	—	—	4,836	—	—	—	(507)	13,739
Investment income, net	3,289	—	—	2,096	—	—	—	—	5,385
Interest in net assets of affiliate	—	—	—	—	—	—	3,275	(3,275)	—
Net assets released for purchase of fixed assets	(4,693)	—	—	(40)	—	—	—	—	(4,733)
Net assets released for operations	(7,529)	—	—	(4,092)	—	—	—	507	(11,114)
Increase (decrease) in net assets with donor restrictions	477	—	—	2,800	—	—	3,275	(3,275)	3,277
Increase (decrease) in net assets	19,724	5,036	5,841	21,808	(392)	(578)	51,021	(51,438)	51,022
Net assets, beginning of year	347,786	33,043	922	145,340	(7,371)	1,760	520,468	(521,480)	520,468
Net assets, end of year	$ 367,510	38,079	6,763	167,148	(7,763)	1,182	571,489	(572,918)	571,490

See accompanying independent auditors' report.