KPMG

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements and
Consolidating Schedules (Hospital Format)

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the 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 the University of Maryland Medical System Corporation and its subsidiaries as of June 30, 2019 and 2018, and the results of their operations, changes in net assets 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 1(aa) to the consolidated financial statements, the Corporation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, during the year ended June 30, 2019 on a modified retrospective basis. Our opinion is not modified with respect to these matters.

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 and 2 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, 2019

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	360,318	397,243
Assets limited as to use, current portion		64,910	56,484
Accounts receivable:			
Patient accounts receivable, net		458,437	431,665
Other		91,103	88,718
Inventories		70,478	70,776
Assets held for sale		116,828	139,120
Prepaid expenses and other current assets		48,055	41,115
Total current assets		1,210,129	1,225,121
Investments		885,640	859,905
Assets limited as to use, less current portion		1,227,384	1,142,707
Property and equipment, net		2,309,086	2,165,466
Investments in joint ventures		91,942	88,063
Other assets		409,188	548,201
Total assets	$	6,133,369	6,029,463
Liabilities and Net Assets			
Current liabilities:			
Trade accounts payable	$	288,841	267,396
Accrued payroll and benefits		281,177	262,201
Advances from third-party payors		139,163	153,867
Lines of credit		161,300	99,300
Short-term financing		150,000	150,000
Other current liabilities		127,760	151,163
Liabilities held for sale		60,830	86,834
Long-term debt subject to short-term remarketing arrangements		18,895	58,054
Current portion of long-term debt		47,621	51,989
Total current liabilities		1,275,587	1,280,804
Long-term debt, less current portion and amount subject to short-term remarketing arrangements		1,484,960	1,508,334
Other long-term liabilities		439,024	395,447
Interest rate swap liabilities		196,174	149,789
Total liabilities		3,395,745	3,334,374
Net assets:			
Without donor restrictions		1,973,405	1,952,422
With donor restrictions		764,219	742,667
Total net assets		2,737,624	2,695,089
Total liabilities and net assets	$	6,133,369	6,029,463

See accompanying notes to consolidated financial statements.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Operating revenue, gains, and other support:		
Net patient service revenue	$ 4,017,054	3,877,341
State and county support	41,521	40,374
Other revenue	176,699	150,856
Total operating revenue, gains, and other support	4,235,274	4,068,571
Operating expenses:		
Salaries, wages and benefits	2,158,136	2,020,075
Expendable supplies	792,015	758,252
Purchased services	634,618	615,978
Contracted services	269,897	275,376
Depreciation and amortization	244,056	236,090
Interest expense	57,792	55,627
Total operating expenses	4,156,514	3,961,398
Income from continuing operations	78,760	107,173
Nonoperating income and expenses, net:		
Unrestricted contributions	5,607	12,377
Inherent contribution – Capital Region	—	41,772
Equity in net income of joint ventures	3,624	5,489
Investment income, net	30,632	37,465
Change in fair value of investments	24,421	23,976
Change in fair value of undesignated interest rate swaps	(47,995)	43,071
Other nonoperating losses, net	(33,045)	(27,120)
Excess of revenues over expenses from continuing operations	$ 62,004	244,203
Loss on discontinued operations	(25,847)	(27,366)
Excess of revenues over expenses	$ 36,157	216,837

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Balance at June 30, 2017	$ 1,711,329	304,535	2,015,864
Excess of revenues over expenses	216,837	—	216,837
Inherent contribution – Capital Region	—	418,243	418,243
Investment gains, net	—	2,967	2,967
State support for capital	—	3,209	3,209
Contributions, net	—	17,086	17,086
Net assets released from restrictions used for operations and nonoperating activities	—	(3,956)	(3,956)
Net assets released from restrictions used for purchase of property and equipment	3,484	(3,484)	—
Change in economic and beneficial interests in the net assets of related organizations	—	2,731	2,731
Change in ownership interest of joint ventures	—	1,301	1,301
Amortization of accumulated loss of discontinued designated interest rate swap	1,668	—	1,668
Change in funded status of defined benefit pension plans	16,287	—	16,287
Asset reclassifications at request of donor	1,145	(1,145)	—
Other	1,672	1,180	2,852
Increase in net assets	241,093	438,132	679,225
Balance at June 30, 2018	1,952,422	742,667	2,695,089
Excess of revenues over expenses	36,157	—	36,157
Investment gains, net	—	1,666	1,666
State support for capital	—	5,565	5,565
Contributions, net	—	26,782	26,782
Net assets released from restrictions used for operations and nonoperating activities	—	(4,279)	(4,279)
Net assets released from restrictions used for purchase of property and equipment	14,130	(14,130)	—
Change in economic and beneficial interests in the net assets of related organizations	—	1,982	1,982
Change in ownership interest of joint ventures	68	1,178	1,246
Amortization of accumulated loss of discontinued designated interest rate swap	1,610	—	1,610
Change in funded status of defined benefit pension plans	(26,886)	—	(26,886)
Other	(4,096)	2,788	(1,308)
Increase in net assets	20,983	21,552	42,535
Balance at June 30, 2019	$ 1,973,405	764,219	2,737,624

See accompanying notes to consolidated financial statements.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Increase in net assets from continuing operations	$	42,535	679,225
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		244,056	236,090
Amortization of bond premium and deferred financing costs		1,477	1,477
Net realized gains and change in fair value of investments		(41,626)	(53,029)
Equity in net income of joint ventures		(3,624)	(5,489)
Change in economic and beneficial interests in net assets of related organizations		(1,982)	(3,776)
Change in fair value of interest rate swaps		46,385	(44,735)
Change in funded status of defined benefit pension plans		26,886	(16,287)
Inherent contribution – Capital Region		—	(460,015)
Restricted contributions, grants and other support, net		(22,503)	(17,086)
Change in operating assets and liabilities:			
Patient accounts receivable		(26,772)	(10,470)
Other receivables, prepaid expenses, other current assets and other assets		152,963	92,974
Inventories		298	(4,778)
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities		14,617	(14,294)
Change in contingent consideration		—	(35,700)
Advances from third-party payors		(14,704)	21,926
Net cash provided by operating activities		418,006	366,033
Cash flows from investing activities:			
Purchases and sales of investments and assets limited as to use, net		(98,911)	(347,160)
Purchases of alternative investments		(66,267)	(64,375)
Sales of alternative investments		89,948	38,938
Cash acquired in contribution from Capital Region		—	46,626
Purchases of property and equipment		(394,588)	(217,153)
(Contributions to)/distributions from joint ventures, net		(1,238)	3,527
Net cash used in investing activities		(471,056)	(539,597)

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UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from financing activities:			
Proceeds from long-term debt	$	10,016	190,928
Repayment of long-term debt and capital leases		(78,394)	(44,577)
Draws (repayments) on lines of credit, net		62,000	(25,700)
Payment of debt issuance costs		—	(2,255)
Restricted contributions, grants and other support		22,503	17,086
Net cash provided by financing activities		16,125	135,482
Net decrease in cash and cash equivalents		(36,925)	(38,082)
Cash and cash equivalents, beginning of year		397,243	435,325
Cash and cash equivalents, end of year	$	360,318	397,243
Cash flows from discontinued operations:			
Operating Activities	$	2,150	10,615
Investing Activities		(3,131)	(2,710)
Financing activities		—	—
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	58,860	59,716
Amount included in accounts payable for construction in progress		35,414	28,502
Supplemental disclosures of noncash information:			
Capital leases	$	427	1,077
Contributed from Capital Region		—	*

* See footnote 1(a)(x) for detail of noncash contributions from Capital Region.

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation or UMMS) is a private, not-for-profit corporation providing comprehensive healthcare services through an integrated regional network of hospitals and related clinical enterprises. UMMS was created in 1984 when its founding hospital was privatized by the State of Maryland. Prior to that time, the founding hospital was state-owned, operated and financed as part of the University of Maryland, now a part of the University System. As part of the privatization process, the Maryland General Assembly and the University of Maryland's Board of Regents adopted legislation (the "Governance Legislation") separating the major health care delivery components from the University System to UMMS. This Governance Legislation provides for certain level of oversight by the State of Maryland to ensure UMMS' founding purposes are consistently set forth in its functions and operating practices. The Corporation monitors compliance with all requirements of the Governance Legislation.

Over its 35-year history, UMMS evolved into a multi-hospital system with academic, community and specialty service missions reaching primarily across Maryland. In continuing partnership with the University of Maryland School of Medicine, UMMS operates healthcare programs that improve the physical and mental health of thousands of people each day.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in note 4. The significant operating divisions of the Corporation are described in further detail below.

All material intercompany balances and transactions have been eliminated in consolidation.

(i) Recent Acquisitions and Divestitures

During the year ended June 30, 2019, the Corporation approved a plan to sell the assets and liabilities of University of Maryland Medical System Health Plans, Inc. The sale, which will include both the Medicaid Plan and Medicare Advantage Plan, is expected to be completed within the next 12 months. Based on the criteria in Accounting Standards Codification (ASC) Topic 205, *Discontinued Operations*, it was determined that the pending sale met the criteria for discontinued operations treatment. The carrying amount of the assets and liabilities held for sale are stated at their net realizable value as of June 30, 2019 and any gain or loss on the sale is considered to be immaterial to the consolidated financial statements of the Corporation. As of June 30, 2019 and 2018, assets held for sale were approximately $116,800 and $139,100 and liabilities held for sale were approximately $60,800 and $86,800, respectively. For the years ended June 30, 2019 and 2018, operating revenues from discontinued operations were approximately $379,630 and $357,099, respectively. For the years ended June 30, 2019 and 2018, operating expenses from discontinued operations were approximately $406,593 and $388,693, respectively.

Effective September 1, 2017, the Corporation entered into an affiliation agreement with Dimensions Healthcare System and Subsidiaries (DHS) whereby the Corporation became the sole corporate member of DHS. DHS has changed its trade name to University of Maryland Capital Region Health (Capital Region) located in Prince George's County, Maryland, and includes one acute care

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hospitals, one free standing medical facility (FMF), ambulatory and outpatient facilities, and other subsidiaries.

The transaction is described in more detail in note 1(a)(x).

(ii) University of Maryland Medical Center (Medical Center)

The Medical Center, which is a major component of UMMS, is a 767-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. As part of the privatization in 1984, only clinical faculty members of the School of Medicine may serve as medical staff of the Medical Center.

The Medical Center is comprised of two operating divisions: University Hospital, which includes the Greenebaum Cancer Center, and Shock Trauma Center. University Hospital, which generates approximately 80% of the Medical Center's admissions and patient days, is a tertiary teaching hospital providing over 70 clinical services and programs. The Greenebaum Cancer Center specializes in the treatment of cancer patients and is a site for clinical cancer research. The Shock Trauma Center, which specializes in emergency treatment of patients suffering severe trauma, generates approximately 20% of admissions and patient days.

The Medical Center's operations include UniversityCARE, LLC (UCARE), a physician hospital organization of which the Corporation owns a majority ownership interest and therefore consolidates, and 36 South Paca Street, LLC, a wholly owned subsidiary of the Corporation that operates a residential apartment building.

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2019 and 2018 was approximately $159,043 and $163,321, respectively.

(iii) University of Maryland Rehabilitation and Orthopaedic Institute (ROI)

ROI is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 137 licensed beds, which includes rehabilitation beds, chronic care beds, medical/surgical beds, and off-site physical therapy facilities.

A related corporation, The James Lawrence Kernan Endowment Fund, Inc. (Kernan Endowment), is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of ROI. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Kernan Endowment.

(iv) University of Maryland Medical Center Midtown Campus (Midtown)

Midtown is located in Baltimore city and is comprised of University of Maryland Midtown Hospital (UM Midtown), with 170 licensed beds, including 90 acute care beds and 80 chronic care beds and a wholly owned subsidiary providing primary care.

(v) University of Maryland Baltimore Washington Medical System, Inc. (Baltimore Washington)

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of University of Maryland Baltimore Washington Medical Center (UM Baltimore Washington), a 288-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

Baltimore Washington Medical Center Foundation, Inc. (BWMC Foundation) is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of UM Baltimore Washington. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the BWMC Foundation.

(vi) University of Maryland Shore Regional Health System (Shore Regional)

Shore Regional is a health system located on the Eastern Shore of Maryland. Shore Regional owns and operates University of Maryland Memorial Hospital (UM Memorial), a 140-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; University of Maryland Dorchester Hospital (UM Dorchester), a 48-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; University of Maryland Chester River Hospital Center (UM Chester River), a 26-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Shore Emergency Center at Queenstown (Shore Emergency Center), a free-standing emergency center; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Memorial; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Chester River; and several other subsidiaries providing various outpatient and home care services.

Dorchester General Hospital Foundation, Inc. (Dorchester Foundation) is governed by a separate, independent board of directors to raise funds on behalf of UM Dorchester. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation, and accordingly, the accompanying consolidated financial statements reflect a beneficial interest in the net assets of the Dorchester Foundation.

(vii) University of Maryland Charles Regional Health System, Inc. (Charles Regional)

Charles Regional owns and operates University of Maryland Charles Regional Medical Center (UM Charles Regional), which is comprised of a 109-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

(viii) University of Maryland St. Joseph Health System, LLC (St. Joseph)

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UM St. Joseph), a 224-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

(ix) University of Maryland Upper Chesapeake Health System (Upper Chesapeake)

Upper Chesapeake is a health system located in Harford County, Maryland. Upper Chesapeake's healthcare delivery system includes two acute care hospitals, University of Maryland Upper Chesapeake Medical Center (UM Upper Chesapeake), a 171-bed acute care hospital and University of Maryland Harford Memorial Hospital (UM Harford Memorial), an 86-bed acute care hospital; a physician practice; a captive insurance company; a land holding company; and Upper Chesapeake Health Foundation.

(x) University of Maryland Capital Region Health (Capital Region)

Capital Region is a health system located in Prince George's County. Capital Region owns and operates UM Prince George's Hospital Center (UM Prince George's), a 230-bed acute care teaching hospital providing an array of services including emergency medicine, behavioral health, cardiac surgery and a Level II Trauma Center; and UM Laurel Regional Health (UM Laurel), a 61-bed acute care hospital providing cardiopulmonary care, critical care, infusion and inpatient and outpatient surgery among other services.

Effective September 1, 2017, UMMS became the sole corporate member of Capital Region after several years of collaboration with Prince George's County and the state of Maryland. This affiliation represents the culmination of those discussions and includes plans to build a new state-of-the-art medical center in Largo, Maryland. In accordance with the agreement, Prince George's County and the state of Maryland have each approved funding through legislation of $208,000 towards the construction of the new medical facility. The combined $416,000 of county and state capital funding commitments was recorded as a receivable within other assets of the accompanying consolidated balance sheets and net assets with donor restrictions as of the affiliation date.

The affiliation was accounted for under the guidance of ASC Topic 805, *Business Combinations*, and the financial position and results of operations of Capital Region were consolidated by the Corporation beginning on September 1, 2017.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at September 1, 2017:

Assets:		
Cash	$	46,626
Current assets		63,472
Investments		15,256
Limited use funds		54,370
Property and equipment		96,089
Other long-term assets		393,747
Total assets	$	669,560

Liabilities:	
Current liabilities	$ 87,002
Long-term liabilities	122,543
Total liabilities	209,545
Net assets:	
Without donor restrictions	41,772
With donor restrictions	418,243
Total net assets	460,015
Total liabilities and net assets	$ 669,560

The following table summarizes the Corporation's unaudited pro forma consolidated results as though the acquisition date occurred at the beginning of fiscal year:

	2018
Operating revenues:	
The Corporation	$ 4,118,985
Capital Region	413,142
	$ 4,532,127
Net nonoperating income:	
The Corporation	$ 148,107
Capital Region	3,315
	$ 151,422
Excess of revenues over expenses from continuing operations:	
The Corporation	$ 207,117
Capital Region	10,520
	$ 217,637
Changes in net assets:	
Without donor restrictions	
The Corporation	$ 228,935
Capital Region	12,158
	$ 241,093

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		2018
With donor restrictions		
The Corporation	$	416,225
Capital Region		21,907
	$	438,132
Total changes in net assets:		
The Corporation	$	645,160
Capital Region		34,065
	$	679,225

(xi) University of Maryland Medical System Foundation, Inc. (UMMS Foundation)

The UMMS Foundation, a not-for-profit foundation, was established for the purpose of soliciting contributions on behalf of the Corporation.

(xii) University of Maryland Community Medical Group, LLC (CMG)

CMG is a physician network that employs more than 300 primary care physicians, specialists and advanced practice providers. CMG is a wholly owned subsidiary of UMMS and has over 75 locations across the state of Maryland. Effective July 1, 2018, CMG was decentralized, moving the primary care physicians back to their respective health systems.

(xiii) University of Maryland Quality Care Network (QCN)

QCN, a wholly owned subsidiary of UMMS, is a network comprised of UMMS employed physicians and independent physician practices in the UMMS service area. The participants bear shared responsibility for the care of a defined population of patients and can contract as one entity with payors.

(xiv) University of Maryland Health Ventures, LLC. (UM Health Ventures)

UM Health Ventures, a wholly owned subsidiary of UMMS, is the parent company of University of Maryland Medical System Health Plans, Inc. (UM Health Plans), a managed care healthcare company based in Baltimore, Maryland. UM Health Plans is the parent company of University of Maryland Health Partners (UMHP), which provides managed care health coverage to approximately 45,000 Medicaid recipients throughout Maryland; University of Maryland Health Advantage, Inc. (UMHA), which provides Medicare Advantage Plans to approximately 10,000 members; Riverside Health of Delaware Inc. (RHDE) and Riverside Health DC, Inc. See note 1(a)(i) for discussion on proposed sale.

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(c) Cash and Cash Equivalents

Cash and cash equivalents, excluding amounts shown within investments and assets limited as to use, consist of cash and interest bearing deposits with maturities of three months or less from the date of purchase. Cash and cash equivalent balances may exceed amounts insured by federal agencies and, therefore, bear a risk of loss. The Corporation has not experienced such losses on these funds.

(d) Investments and Assets Limited as to Use

The Corporation's investment portfolios are classified as trading and are reported in the consolidated balance sheets, as long-term assets, at their fair value based on quoted market prices at June 30, 2019 and 2018. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Assets limited as to use include investments set aside at the discretion of the board of directors for the replacement or acquisition of property and equipment, investments held by trustees under bond indenture agreements and self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Changes in fair values of donor-restricted investments are recorded in net assets with donor restrictions unless otherwise required by the donor or state law.

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations (note 12).

Alternative investments, which the Corporation defines to include multi-strategy commingled funds, hedge funds, hedge fund-of-funds, and private equity 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.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from the amounts reported in the accompanying consolidated financial statements.

(e) Inventories

Inventories, consisting primarily of drugs and medical/surgical supplies, are carried at the lower of cost or market, on a first-in, first-out basis.

(f) Economic Interests in Financially Interrelated Organizations

The Corporation recognizes its rights to assets held by recipient organizations, which accept cash or other financial assets from a donor and agree to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in these financially interrelated organizations are recognized in the consolidated statements of changes in net assets.

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets using the half-year convention. The estimated useful lives of the assets are as follows:

Buildings	20 to 40 years
Building and leasehold improvements	5 to 15 years
Equipment	3 to 15 years

Interest costs incurred on borrowed funds less interest income earned on the unexpended bond proceeds during the period of construction are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment are reported as unrestricted support 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) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt, which are included in long-term debt, are deferred and are amortized over the life of the related debt agreements or the related letter-of-credit agreements using the effective-interest method.

(i) Goodwill and Intangible Assets

Intangible assets include amounts recognized in connection with acquisitions. Intangible assets are initially valued at fair market value using generally accepted valuation methods. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets with definite and indefinite lives are reviewed for impairment if indicators of impairment arise.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Corporation adopted Accounting Standards Update (ASU) No. 2017-04, *Simplifying the Test for Goodwill Impairment*, for the year ended June 30, 2018. Goodwill is evaluated for impairment at least annually on June 30, in accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, using a qualitative assessment (Step 0) to determine whether there are events or circumstances that indicate it is more likely than not that the fair value of the reporting unit is less than its carrying value, which determines whether a quantitative (Step 1) goodwill impairment test is necessary. Under the quantitative assessment, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, goodwill impairment exists for the reporting unit and the entity must record an impairment loss.

The Corporation has two reporting units, one of which includes all health care delivery assets and the other that includes UM Health Plan assets. Based on the Corporation's qualitative assessment, it was determined that it was more likely than not that the fair values of each reporting unit exceeded their respective carrying value for the year ended June 30, 2019. Based on the Corporation's qualitative assessment, it was determined that the fair value of the health care delivery reporting unit was more likely than not greater than its carrying value for the year ended June 30, 2018. The Health Plans reporting unit experienced increasing losses in the fiscal year ended June 30, 2018 primarily related to medical claims expenses in excess of premium revenues for its Medicare Advantage Plan, and as a result, the Corporation engaged a third party to perform the Step 1 impairment test using the income approach. The income approach provides an estimation of the fair value of an asset based on market participant expectations about the cash flows that asset would generate over its remaining useful life. The cash flow models were developed using projected revenues and expenses based on historical data, industry projections as well as management expectations.

Based on the results of the impairment test, the Corporation recognized a loss on impairment of $12,794 related to goodwill and $33,000 related to an intangible asset (Medicaid Contract) for the year ended June 30, 2018, and these were recorded in loss on discontinued operations in the consolidated financial statements. There was no impairment loss recognized for the year ended June 30, 2019.

The changes in the carrying amount of goodwill are as follows:

	Health Care Delivery	Health Plans
Goodwill at June 30, 2017	$ 48,810	42,019
Acquisitions	—	—
Write-downs	—	(12,794)
Goodwill at June 30, 2018	48,810	29,225
Acquisitions	—	—
Write-downs	—	—
Goodwill at June 30, 2019	$ 48,810	29,225

(j) Contingent Consideration for Business Acquisitions

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. Contingent consideration is required to be recognized at fair value as of the acquisition date. The fair value of these liabilities is estimated based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market, which are defined as Level 3 inputs pursuant to fair value measurement accounting. At each reporting date, the contingent consideration obligation is revalued to estimated fair value and changes in fair value subsequent to the acquisition are reflected in operating income in the consolidated statements of operations and changes in net assets. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates, and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. The Corporation recorded a contingent liability of $35,700 related to an earn-out clause in connection with the August 15, 2015 acquisition of UM Health Plans. This earn-out could result in an undiscounted payment ranging from $0 to $106,500 depending on the performance and membership of both plans. The final computation of the earn-out is not to be determined until March 31, 2020. Based on the earn-out calculation, the Corporation determined that the fair value of the contingent liability was $0 at both June 30, 2019 and 2018. As such, the Corporation recognized a gain of $0 and $35,700 related to the change in fair value of the contingent consideration during the fiscal year ended June 30, 2019 and 2018, respectively. The gain is included in the loss on discontinued operations in the 2018 consolidated statement of operations and changes in net assets.

(k) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

No impairment losses were recorded for the years ended June 30, 2019 or 2018.

(l) Investments in Joint Ventures

When the Corporation does not have a controlling interest in an entity, but exerts a significant influence over the entity, the Corporation applies the equity method of accounting.

(Continued)

(m) Self-Insurance

Under the Corporation's self-insurance programs (general and professional liability, workers' compensation, and employee health and long-term disability benefits), claims are reflected as a present-value liability based upon actuarial estimates and reported and incurred but not reported claims analysis, taking into consideration the severity of incidents and the expected timing of claim payments.

(n) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects, and funding of specific hospital operations and community outreach programs.

(o) Net Patient Service Revenue and Patient Accounts Receivable

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient services revenue, is recorded at the transaction price estimated by the Corporation to reflect the total consideration due from patients and third-party payors (including commercial payers and government programs) and others. Revenue is recognized over time as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The services provided to a patient during an inpatient stay or outpatient visit represent a bundle of goods and services that are distinct and accounted for as a single performance obligation.

The Corporation's estimate of the transaction price includes the Corporation's standard charges for the goods and services provided with a reduction recorded related to price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts. The price concessions are determined using the 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 collections experience for similar payors and patients, current market conditions, and other relevant factors. The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. Based on historical experience, a significant portion of the self pay population will be unable or unwilling to pay for services which is estimated in the transaction price. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of 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 year ended June 30, 2019 was not significant to the consolidated financial statements.

(Continued)

The standard charges for goods and services for the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, Upper Chesapeake, and Capital Region reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered. See note 18 for further discussion on the HSCRC and regulated rates.

Patient accounts are recorded at the net realizable value based on certain assumptions determined by each payor. For third-party payors, including Medicare, Medicaid, and commercial insurance, the net realizable value is based on the estimated contractual adjustments, which is based on approved discounts on charges as permitted by the HSCRC. For self-pay accounts, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. Net patient accounts receivable shown on the consolidated balance sheet for June 30, 2018 is net of allowance for doubtful accounts of $219,769. Net patient service revenue shown on the consolidated statement of operations and changes in net assets for June 30, 2018 are net of provision for bad debts of $174,137. With the adoption of ASC Topic 606, all revenue and related accounts receivable are recorded at the net expected transaction price, therefore, there is no material allowance for doubtful accounts or provision for bad debts for the year ended June 30, 2019.

The Corporation has elected to apply the optional exemption in ASC Paragraph 606-10-50-14a as all performance obligations relate to contracts with duration of less than one year. Under this exemption, the Corporation was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

Net patient service revenue by line of business are as follows for the years ended June 30:

		2019	2018
Hospital inpatient and outpatient services	$	3,734,201	3,616,917
Physician services		245,150	225,555
Non-hospital outpatient services		32,247	30,325
Other		5,456	4,544
Net patient service revenue	$	4,017,054	3,877,341

(p) Premium Revenue and Medical Claims Expense

Premium revenue consists of amounts received from the state of Maryland and the Centers for Medicare and Medicaid Services (CMS) by the Corporation’s managed care organization for providing medical services to subscribing participants, regardless of services actually performed, and is accounted for under ASC Topic 944, *Financial Services – Insurance*. The managed care organization provides services primarily to enrolled Medicaid and Medicare beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but unreported and are included in medical claims expense on the consolidated statements of operations and changes in net assets. These accounts are included within loss on discontinued operations. See note 1(a)(i).

(q) Charity Care

The Corporation is committed to providing quality healthcare to all, regardless of one's ability to pay. Patients who meet the criteria of its charity care policy receive services without charge or at amounts less than its established rates. The criteria for charity care consider the household income in relation to the federal poverty guidelines. The Corporation provides services at no charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For uninsured patients with adjusted gross income greater than 200% of the federal poverty guidelines, a sliding scale discount is applied. Income and asset information obtained from patient credit reporting data are used to determine patients' ability to pay. The Corporation maintains records to identify and monitor the level of charity care it furnished under its charity care policy. The charity care policies of the new affiliates are generally consistent with that of the Corporation's policy.

Due to the complexity of the eligibility process, the Corporation provides eligibility services to patients free of charge to assist in the qualification process. These eligibility services include, but are not limited to, the following:

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are published on the Corporation's website and included on the statements provided to patients.
- The Corporation offers assistance to patients in completing the applications for Medicaid or other government payment assistance programs, or applying for care under the Corporation's charity care policy, if applicable. The Corporation also employs an external firm to assist in the eligibility process.
- Any patient, whether covered by insurance or not, may meet with a UMMS representative and receive financial counseling from UMMS' dedicated financial assistance unit.

The Corporation recognizes that a large number of uninsured and insured patients meet the charity care guidelines but do not respond to the Corporation's attempts to obtain necessary financial information. In these instances, the Corporation uses credit reporting data to properly classify these unpaid balances as charity care as opposed to bad debt expense. Utilization of income and asset information and credit reporting data indicate the vast majority of amounts reported as provision for bad debts represent amounts due from patients that would otherwise qualify for charity benefits but do not respond to the Corporation's attempts to obtain the necessary financial information. In these cases, reasonable collection efforts are pursued, but yield few collections. Amounts determined to meet the criteria under the charity care policy are not reported as net patient service revenue.

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The Corporation estimates the total direct and indirect costs to provide charity care were $48,821 and $48,479 for the years ended June 30, 2019 and 2018, respectively.

(r) Nonoperating Income and Expenses, Net

Other activities that are only indirectly related to the Corporation's primary business of delivering healthcare services are recorded as nonoperating income and expenses and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, inherent contributions, changes in fair value of investments, changes in fair value of undesignated interest rate swaps, and settlement payments on interest rate swaps that do not qualify for hedge accounting treatment. Settlement payments on interest rate swaps were approximately $15,124 and $19,227 for the years ended June 30, 2019 and 2018, respectively, and are reported within other nonoperating losses, net.

(s) Derivative Financial Instruments

The Corporation records derivative and hedging activities on the consolidated balance sheets at their respective fair values.

The Corporation utilizes derivative financial instruments to manage its interest rate risks associated with long-term tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes.

The Corporation's specific goals are to (a) manage interest rate sensitivity by modifying the reprising or maturity characteristics of some of its tax-exempt debt and (b) lower unrealized appreciation or depreciation in the market value of the Corporation's fixed-rate tax-exempt debt when that market value is compared with the cost of the borrowed funds. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by the income or loss on the derivative instruments that are linked to the debt.

The Corporation formally documents all hedge relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. On the date the derivative contract is entered into, the Corporation may designate the derivative as either a hedge of the fair value of a recognized or forecasted liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized liability (cash flow hedge), provided the derivative instrument meets certain criteria related to its effectiveness. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the consolidated balance sheets. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

All derivative instruments are reported as other assets or interest rate swap liabilities in the consolidated balance sheets and measured at fair value. Derivatives not designated as hedges or not meeting effectiveness criteria are carried at fair value with changes in the fair value recognized in other nonoperating income and expenses. For the years ended June 30, 2019 and 2018, none of the Corporation's derivatives qualify for hedge accounting.

Changes in the fair value of derivative instruments are included in or excluded from the excess of revenues over expenses depending on the use of the derivative and whether it qualifies for hedge accounting treatment. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged item related to the risk being hedged, are included in the excess of revenues over expenses. Changes in the fair value of a derivative that is designated as a cash flow hedge are excluded from the excess of revenues over expenses to the extent that the hedge is effective until the excess of revenues over expenses is affected by the variability of cash flows in the hedged transaction. Changes in the fair value that relate to ineffectiveness are included in the excess of revenues over expenses as interest expense.

(t) Excess of Revenue over Expenses from continuing operations

The consolidated statements of operations and changes in net assets includes a performance indicator, excess of revenues over expenses from continuing operations. Changes in net assets without donor restrictions that are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets), changes in the funded status of defined benefit pension plans, amortization of accumulated loss of discontinued designated interest rate swaps, loss on discontinued operations, and other items that are required by generally accepted accounting principles to be reported separately.

(u) Income Taxes

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements.

The Corporation had net operating loss carryforwards on for-profit and unrelated business activities of approximately $103,627 and $89,890 as of June 30, 2019 and June 30, 2018, respectively, which expire at various dates through 2032. The Corporation’s deferred tax assets, which consist primarily of the net operating loss carryforwards, are approximately $25,598 at June 30, 2019, and $22,345 at June 30, 2018, were fully reserved as they are not expected to be utilized. The Corporation had a deferred tax liability in the amount of $3,027 and $3,027 related to indefinite-lived intangibles at June 30, 2019 and 2018, respectively, which is included in liabilities held for sale on the accompanying consolidated balance sheets.

The Corporation follows a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management does not believe that there are any unrecognized tax liabilities or benefits that should be recognized.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Jobs Act, as such the Corporation’s effective tax rate was reduced from 35% to 21% during the fiscal year 2018. 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 has concluded the enactment of H.R.1 did not have a material effect on the operations of the organization.

(Continued)

(v) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions 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 is satisfied, 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. Such amounts are classified as other revenue or transfers and additions to property and equipment.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

The Corporation follows accounting guidance for classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA).

(w) Fair Value Measurements

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts receivable, assets limited as to use, investments, trade accounts payable, accrued payroll and benefits, other accrued expenses, and advances from third-party payors – The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

Pension plan assets – The Corporation applies ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, to its pension plan assets. The guidance permits, as a practical expedient, fair value of investments within its scope to be estimated using the net asset value (NAV) or its equivalent. The alternative investments classified within the fair value hierarchy have been recorded using the NAV.

The Corporation discloses its financial assets, financial liabilities, and fair value measurements of nonfinancial items according to the fair value hierarchy required by generally accepted accounting principles that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and the income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of June 30, 2019 and 2018, the Level 2 assets and liabilities listed in the fair value hierarchy tables presented in notes 2 and 10 utilize the following valuation techniques and inputs:

(i) Cash Equivalents

The fair value of investments in cash equivalent securities, with maturities within three months of the date of purchase, is determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades and observable broker-dealer quotes.

(ii) U.S. Government and Agency Securities

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

(iii) Corporate Bonds

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds and foreign government bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

(iv) Collateralized Corporate Obligations

The fair value of collateralized corporate obligations is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

(v) Derivative Liabilities

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, treasury yields, volatilities, credit spreads, maturity, and recovery rates.

(x) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(y) Going Concern

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

(z) Use of Estimates

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

(aa) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. The ASU requires that an entity recognizes 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. The ASU was adopted on July 1, 2018 using the modified retrospective method for those contracts that were not substantially completed as of July 1, 2018. Results for reporting periods beginning on or after July 1, 2018 are presented under Topic 606, while prior period amounts have been revised to conform to the net presentation of a single net patient service revenue total. The adoption of the ASU primarily changes the Corporation’s presentation of revenue and the provision and allowance for bad debts. The ASU requires revenue to be recognized based on the Corporation’s estimate of the transaction price the Corporation expects to collects as a result of satisfying its performance obligations. Accordingly, for performance obligations satisfied after July 1, 2018, the Corporation no longer separately presents a provision for bad debts on the consolidated statement of operations and changes in net assets or the related allowance for bad debts on the consolidated balance sheets and these are included as price concessions and a reduction to net patient service revenue and net accounts receivable, respectively. Net patient accounts receivable shown on the consolidated balance sheet for June 30, 2018 are net of allowance for doubtful accounts of $219,769. Net patient service revenue shown on the consolidated statement of operations and changes in net assets for June 30, 2018 is net of provision for bad debts of $174,137. Changes to the allowance for bad debts, other than the write-offs of uncollectible accounts, are recorded through the provision for bad debts on the consolidated statements of operations and changes in net assets in accordance with Topic 605. The adoption of Topic 606 did not have significant impact on the recognition of net patient service revenues for any periods prior to adoption. The adoption of Topic 606 did not have a significant impact on any financial statement line items when compared to Topic 605.

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update requires not-for-profit entities to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions), requires the presentation of expenses in both natural and functional classification, and other quantitative information regarding the entity's liquidity. UMMS adopted ASU No. 2016-14 with a retrospective approach as of July 1, 2018. There were no material changes to the consolidated balance sheets, statements of operations and changes in net assets or cash flows because of the adoption. Periods prior to adoption, which previously presented temporarily restricted of $698,458 and permanently restricted net assets of $44,209, have been revised to conform to the new presentation of a single classification of net assets with donor restrictions.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize most leases on the balance sheet, increasing their reported assets and liabilities. This update was developed to provide financial statement users with more information about an entity's leasing activities and will require changes in processes and internal controls. The Corporation will adopt Topic 842 effective July 1, 2019, applying the modified retrospective approach in which the Corporation will not adjust comparable prior period information and disclosures. The Corporation expects to utilize the practical expedients being made available, including the package of practical expedients to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. The Corporation estimates the amount of right-of-use assets and obligations resulting from the adoption of ASU No. 2016-02 to be within a range of $75,000 to $125,000.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Corporation as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Corporation has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on the Corporation's consolidated financial position, results of operations, or cash flows.

(2) Investments and Assets Limited as to Use

The carrying values of assets limited as to use were as follows at June 30:

	2019	2018
Investments held for collateral	$ 113,586	84,590
Debt service and reserve funds	86,157	82,820
Construction funds – held by trustee	279,205	266,822
Construction funds – held by the Corporation	183,917	145,052
Board designated funds	140,689	123,729
Self-insurance trust funds	212,384	230,589
Funds restricted by donors	78,255	69,470
Economic and beneficial interests in the net assets of related organizations (note 12)	198,101	196,119
Total assets limited as to use	1,292,294	1,199,191
Less amounts available for current liabilities	(64,910)	(56,484)
Total assets limited as to use, less current portion	$ 1,227,384	1,142,707

The carrying values of assets limited as to use were as follows at June 30, 2019:

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	$ 31,394	25,070	265,160	19,216	8,473	13,924	—	363,237
Corporate bonds	—	—	—	27,003	5,959	13,152	—	46,114
Collateralized corporate obligations	—	—	—	132	—	347	—	479
U.S. government and agency securities	82,192	61,087	197,962	153	11,151	402	—	352,947
Common stocks, including mutual funds	—	—	—	48,283	7,046	23,074	—	78,403
Alternative investments	—	—	—	45,902	—	27,356	—	73,258
Assets held by other organizations	—	—	—	—	179,755	—	198,101	377,856
Total assets limited as to use	$ 113,586	86,157	463,122	140,689	212,384	78,255	198,101	1,292,294

The carrying values of assets limited as to use were as follows at June 30, 2018:

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	$ 2,466	32,819	250,784	5,992	16,619	10,058	—	318,738
Corporate bonds	—	—	—	19,579	19,603	8,595	—	47,777
Collateralized corporate obligations	—	—	—	155	—	390	—	545
U.S. government and agency securities	82,124	50,001	161,090	170	13,016	427	—	306,828
Common stocks, including mutual funds	—	—	—	50,886	6,840	22,529	—	80,255
Alternative investments	—	—	—	46,947	—	27,471	—	74,418
Assets held by other organizations	—	—	—	—	174,511	—	196,119	370,630
Total assets limited as to use	$ 84,590	82,820	411,874	123,729	230,589	69,470	196,119	1,199,191

Self-insurance trust funds include amounts held by the Maryland Medicine Comprehensive Insurance Program (MMCIP) for payment of malpractice claims. These assets consist primarily of stocks, fixed-income corporate obligations, and alternative investments. MMCIP is a funding mechanism for the Corporation’s malpractice insurance program. As MMCIP is not an insurance provider, transactions with MMCIP are recorded under the deposit method of accounting. Accordingly, the Corporation accounts for its participation in MMCIP by carrying limited-use assets representing the amount of funds contributed to MMCIP and recording a liability for claims, which is included in other current and other long-term liabilities in the accompanying consolidated balance sheets.

The carrying values of investments were as follows at June 30:

	2019	2018
Cash and cash equivalents	$ 61,004	85,188
Corporate bonds	118,738	57,820
Collateralized corporate obligations	20,107	22,656
U.S. government and agency securities	23,304	24,771
Common stocks	213,139	191,994
Alternative investments:		
Hedge funds/private equity	137,693	139,388
Commingled funds	311,655	338,088
	$ 885,640	859,905

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2019, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately $140,600 of the alternative investments were subject to 31–60 day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately $72,000, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately $15,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately $5,700 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had $6,679 of unfunded commitments in alternative investments as of June 30, 2019.

As of June 30, 2018, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately $56,300 of the alternative investment were subject to 31-60 day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately $72,400, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately $14,600 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately $6,900 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had $8,170 of unfunded commitments in alternative investments as of June 30, 2018.

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of $449,348 and $73,258, respectively, which are accounted for under the equity method at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash and cash equivalents	$ 61,004	—	—	61,004
Corporate bonds	83,822	34,916	—	118,738
Collateralized corporate obligations	—	20,107	—	20,107
U.S. government and agency securities	15,581	7,723	—	23,304
Common and preferred stocks, including mutual funds	213,139	—	—	213,139
	373,546	62,746	—	436,292

	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash and cash equivalents	$ 278,625	84,612	—	363,237
Corporate bonds	43,559	3,846	—	47,405
Collateralized corporate obligations	—	479	—	479
U.S. government and agency securities	93,581	259,366	—	352,947
Common and preferred stocks, including mutual funds	77,112	—	—	77,112
Investments held by other organizations	—	377,856	—	377,856
	492,877	726,159	—	1,219,036
	$ 866,423	788,905	—	1,655,328

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of $477,476 and $74,418, respectively, which are accounted for under the equity method at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash and cash equivalents	$ 85,188	—	—	85,188
Corporate bonds	35,122	22,698	—	57,820
Collateralized corporate obligations	—	22,656	—	22,656
U.S. government and agency securities	15,576	9,195	—	24,771
Common and preferred stocks, including mutual funds	191,994	—	—	191,994
	327,880	54,549	—	382,429

		Level 1	Level 2	Level 3	Total
Assets limited as to use:					
Cash and cash equivalents	$	191,914	126,824	—	318,738
Corporate bonds		44,415	3,362	—	47,777
Collateralized corporate obligations		—	545	—	545
U.S. government and agency securities		95,240	211,588	—	306,828
Common and preferred stocks, including mutual funds		80,255	—	—	80,255
Investments held by other organizations		—	370,630	—	370,630
		411,824	712,949	—	1,124,773
	$	739,704	767,498	—	1,507,202

Changes to Level 1 and Level 2 securities between June 30, 2019 and 2018 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

The Corporation's total return on its investments and assets limited as to use was as follows for the years ended June 30:

		2019	2018
Dividends and interest, net of fees	$	18,059	11,379
Net realized gains		14,276	27,002
Change in fair value of trading securities		24,384	26,027
Total investment return	$	56,719	64,408

Total investment return is classified in the consolidated statements of operations and changes in net assets as follows for the years ended June 30 (in thousands):

		2019	2018
Nonoperating investment income, net	$	30,632	37,465
Change in fair value of unrestricted investments		24,421	23,976
Investment gains on net assets with donor restrictions		1,666	2,967
Total investment return	$	56,719	64,408

Investment return does not include the returns on the economic interests in the net assets of related organizations, the returns on the self-insurance trust funds, returns on undesignated interest rates swaps, or the returns on certain construction funds where amounts have been capitalized.

(3) Property and Equipment

The following is a summary of property and equipment at June 30:

		2019	2018
Land	$	196,004	188,071
Buildings		1,496,177	1,488,714
Building and leasehold improvements		1,048,608	973,084
Equipment		1,814,503	1,677,047
Construction in progress		321,660	164,674
		4,876,952	4,491,590
Less accumulated depreciation and amortization		(2,567,866)	(2,326,124)
	$	2,309,086	2,165,466

Interest cost capitalized was $0 and $1,152,000 for years ended June 30, 2019 and 2018, respectively.

Remaining contractual commitments on construction projects were approximately $210,397 at June 30, 2019, of which approximately $159,295 relates to Capital Region.

Construction in progress includes building and renovation costs for assets that have not yet been placed into service. These costs relate to major construction projects as well as routine renovations under way at the Corporation's facilities.

(4) Investments in Joint Ventures

The Corporation has investments of $91,942 and $88,063 at June 30, 2019 and 2018, respectively, in the following unconsolidated joint ventures:

		Ownership percentage	
Joint venture	**Business purpose**	**FY 2019**	**FY 2018**
Shipley's Imaging Center, LLC	Freestanding imaging center	50%	50%
Innovative Health Services, LLC	Third-party insurance claims processor	50	50
Terrapin Insurance Company (Terrapin)	Healthcare professional liability insurance company	50	50

Joint venture	Business purpose	Ownership percentage FY 2019	Ownership percentage FY 2018
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare services	50%	50%
Central Maryland Radiation Oncology Center LLC	Healthcare services	50	50
University of Maryland Medicine ASC, LLC	Ambulatory surgical services	50	50
Chesapeake-Potomac Healthcare Alliance	Healthcare services	33	33
Ruxton SurgiCenter	Ambulatory surgical services	20	—
Civista Ambulatory Surgery Center, Inc.	Ambulatory surgical services	50	50
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC	Medical rehabilitative and therapy services	**	15
UM SJMC Choice One Urgent Care Centers	Urgent care centers	25/49 *	25/49 *
UM UCHS Choice One Urgent Care Centers	Urgent care centers	49	49
UM SRH Choice One Urgent Care Centers	Urgent care centers	49	49
UM BWMC Choice One Urgent Care Centers	Urgent care centers	**	49
Maryland eCare, LLC	Remote monitoring technology	14	14
MRI at St. Joseph Medical Center, LLC	Healthcare services	51	51
Advanced/Upper Chesapeake Health Center, LLC	Imaging center	10	10
Madison Manor	Nursing Home	25	25

* In each of the fiscal years 2019 and 2018, a new UM SJMC Choice One Urgent Care center was started at an ownership percentage of 49%. The remaining centers have an ownership percentage of 25%.

** These ventures ceased operations during fiscal year 2019.

The Corporation recorded equity in net income of $3,624 and $5,489 related to these joint ventures for the years ended June 30, 2019 and 2018, respectively.

The following is a summary of the Corporation's joint ventures' combined unaudited condensed financial information as of and for the years ended June 30:

	2019				
	Mt. Washington	**Terrapin**	**Choice One***	**Others**	**Total**
Current assets	$ 31,609	52,058	4,571	30,471	118,709
Noncurrent assets	104,354	242,783	13,772	36,307	397,216
Total assets	$ 135,963	294,841	18,343	66,778	515,925
Current liabilities	$ 14,565	4,878	7,777	11,073	38,293
Noncurrent liabilities	6,452	288,013	2,625	8,901	305,991
Net assets	114,946	1,950	7,941	46,804	171,641
Total liabilities and net assets	$ 135,963	294,841	18,343	66,778	515,925
Total operating revenue	$ 64,668	44,898	10,419	95,367	215,352
Total operating expenses	(61,835)	(49,435)	(11,450)	(84,621)	(207,341)
Total nonoperating gains/(losses), net	2,157	4,536	—	1,446	8,139
Contributions from (to) owners	2,986	—	—	(9,525)	(6,539)
Other changes in net assets, net	—	—	(266)	2,735	2,469
Increase (decrease) in net assets	$ 7,976	(1)	(1,297)	5,402	12,080

* Choice One is the combination of UM SJMC, UM UCHS, UM SRH, and UM BWMC Choice One Urgent Care Cen

	2018				
	Mt. Washington	**Terrapin**	**Choice One***	**Others**	**Total**
Current assets	$ 30,302	22,272	5,321	25,620	83,515
Noncurrent assets	97,468	229,838	6,369	23,902	357,577
Total assets	$ 127,770	252,110	11,690	49,522	441,092
Current liabilities	$ 13,718	3,631	2,016	7,836	27,201
Noncurrent liabilities	7,082	246,529	436	865	254,912
Net assets	106,970	1,950	9,238	40,821	158,979
Total liabilities and net assets	$ 127,770	252,110	11,690	49,522	441,092

	2018				
	Mt. Washington	**Terrapin**	**Choice One***	**Others**	**Total**
Total operating revenue	$ 62,491	29,728	8,643	83,616	184,478
Total operating expenses	(58,384)	(34,535)	(9,961)	(72,188)	(175,068)
Total nonoperating gains/(losses), net	3,281	4,806	—	(360)	7,727
Contributions from (to) owners	—	—	1,313	(11,710)	(10,397)
Other changes in net assets, net	2,602	1	(238)	8	2,373
Increase (decrease) in net assets	$ 9,990	—	(243)	(634)	9,113

* Choice One is the combination of UM SJMC, UM UCHS, UM SRH, and UM BWMC Choice One Urgent Care Centers.

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2019 and 2018 was approximately $35,912 and $31,731, respectively.

Future noncancelable minimum lease payments under operating leases are as follows for the years ending June 30:

2020	$ 9,464
2021	7,076
2022	6,768
2023	6,522
2024	6,158
Thereafter	13,791
	$ 49,779

The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of $3,770 and $29,230 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of not less than $37,000 but not more than $45,000, as determined by appraisals. Management exercised the option on October 21, 2019 to purchase the property for $40,000. As of June 30, 2019 and 2018, amounts of $38,093 and $37,649, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2019, amounts of $2,260 and $12,174 representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

The following is a summary of all property and equipment under capital leases at June 30:

		2019	2018
Land	$	3,770	3,770
Buildings		29,230	29,230
Equipment		28,571	28,843
		61,571	61,843
Less accumulated amortization		(26,261)	(23,941)
	$	35,310	37,902

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2019:

2020	$	42,811
2021		1,862
2022		1,145
2023		891
2024		891
Thereafter		12,083
Total minimum lease payments		59,683
Less amounts representing interest		(7,156)
Present value of net minimum lease payments	$	52,527

(6) Line of Credit

For the fiscal years ended June 30, 2019 and 2018, the Corporation had a $250,000 revolving line of credit outstanding with a syndicate of banking partners. The line of credit is annually renewing and the current expiration date is August 26, 2020. Interest is calculated based on an optional base rate or percentage of 1-month LIBOR plus a credit spread. As of June 30, 2019 and 2018, the amount outstanding on the line of credit was $161,300 and $99,300, respectively. The calculated interest rates as of June 30, 2019 was a range from 3.14% to 5.5% and as of June 30, 2018 was 5.0%.

(7) Long-Term Debt and Other Borrowings

Long-term debt consists of the following at June 30:

	Interest rate	Payable in fiscal year(s)	2019	2018
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2017D/E bonds	4.00%–4.17%	2045–2049	$ 189,965	189,965
Series 2017B/C bonds	2.23%–5.00%	2018–2040	260,835	267,055
Series 2017A bonds	Variable rate	2017–2043[1]	44,010	45,135
Series 2016A-F bonds	Variable rate	2017–2042[1]	314,270	318,475
Series 2015 bonds	3.63%–5.00%	2016–2042	75,060	76,420
Series 2013 bonds	4.00%–5.00%	2014–2044	339,465	343,250
Series 2010 bonds	4.75%–5.25%	2011–2032	50,210	56,635
Series 2008D/E bonds	Variable rate	2025–2042	105,000	105,000
Series 2008F bonds	4.50%–5.25%	2009–2024	27,555	34,125
Series 2007A bonds	Variable rate	2008–2035	79,440	82,330
MHHEFA Pooled Loan Program	Variable rate	2017–2035	17,099	8,034
Other long-term debt:				
UCHS term loan	Variable rate	2020	150,000	150,000
Term loans	1.86%–4.44%	2009–2022	9,377	48,736
Other loans, mortgages and notes payable	3.25%–6.73%	Monthly, 1991–2025	17,893	20,468
Total debt			1,680,179	1,745,628
Less current portion of long-term debt			47,621	51,989
Less short-term financing			150,000	150,000
Less long-term debt subject to short-term remarketing agreements			18,895	58,054
			1,463,663	1,485,585
Plus unamortized premiums and discounts, net			30,762	32,853
Plus unamortized deferred financing costs			(9,465)	(10,104)
			$ 1,484,960	1,508,334

[1] Mandatory purchase options are due in the following (fiscal years), unless the bondholding bank and the Obligated Group agree to an extension: Series 2016A (2024), 2016B (2022), 2016C&D (2024), 2016E&F (2027), and 2017A (2022).

Pursuant to an Amended and Restated Master Loan Agreement dated December 1, 2017 (UMMS Master Loan Agreement), the Corporation and several of its subsidiaries have issued debt through Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority). As security for the performance of the bond obligation under the UMMS Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The UMMS Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

The Obligated Group under the UMMS Master Loan Agreement includes the Medical Center, ROI, UM Midtown, UM Baltimore Washington, Shore Health (UM Memorial and UM Dorchester), UM Chester River, UM Charles Regional, UM St. Joseph, UM Upper Chesapeake, UM Harford Memorial, UM Laurel, UM Prince George’s, Bowie Health Center (Bowie), and the UMMS Foundation. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the UMMS Master Loan Agreement.

Under the terms of the UMMS Master Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the master trustee to provide for repayment of the obligations of the Obligated Group (note 2).

The Corporation has a term loan in the amount of $150,000 related to the acquisition of Upper Chesapeake, which expires on March 1, 2020. The Corporation intends to refinance this obligation prior to its maturity date and has classified this obligation as a short-term financing at June 30, 2019 and 2018, in the consolidated balance sheets.

In December 2018, MHHEFA issued $145,265 of tax-exempt revenue bonds, Series 2017D, and $44,700 taxable revenue bonds, Series 2017E. These proceeds are to be used for the purpose of financing a portion of the costs of acquisition, construction and equipping of certain capital projects related to Capital Region, including (a) construction of a new regional medical center and an adjacent new ambulatory care center and (b) construction of a new freestanding medical facility.

The aggregate annual future maturities of long-term debt according to the original terms of the UMMS Master Loan Agreement and all other loan agreements are as follows for the years ending June 30:

2020	$	197,621
2021		40,322
2022		48,572
2023		45,266
2024		47,655
Thereafter		1,300,743
	$	1,680,179

The Corporation’s Series 2007A and 2008D-E bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter-of-credit agreements with three banking institutions. These agreements have terms that expire in 2021 through 2022. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter-of-credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2019.

The following table reflects the mandatory redemptions and required repayment terms for the years ended June 30 of the Corporation’s debt obligations in the event that the put options associated with variable rate demand bonds subject to short-term remarketing agreements were exercised, but not successfully remarketed, and mandatory purchase options are not extended:

2020	$	216,516
2021		88,113
2022		235,733
2023		62,214
2024		173,505
Thereafter		904,098
	$	1,680,179

The approximate interest rates on outstanding debt bearing interest at variable rates were as follows at June 30:

	2019	2018
Series 2008D bonds	1.92 %	1.54 %
Series 2008E bonds	1.85	1.49
Series 2007A bonds	1.85	1.55
Series 2016A bonds	2.74	2.51
Series 2016B bonds	2.62	2.34
Series 2016C bonds	2.54	2.36
Series 2016D bonds	2.63	2.66
Series 2016E bonds	2.66	2.50
Series 2016F bonds	2.63	2.47
Series 2017A bonds	2.46	2.26
Series 1985 pooled Loan Program (MHHEFA)	2.40	2.25
UCHS term loan	3.10	2.84

Term loans outstanding are as follows at June 30:

	Interest rate	Interest rate as of June 30, 2019	Payable in fiscal year(s)		2019	2018
Term loan 1: Payable monthly, beginning March 2012	Fixed rate	3.95 %	2012–2022	$	6,000	6,800
Term loan 2: Payable monthly, beginning February 2010	1-month LIBOR + 2.00%	4.44	2010–2023		2,381	2,609
Term loan 3: Payable monthly, beginning November 2015	1-month LIBOR + 1.95%	—	2016–2021		—	36,667
Term loan 4: Payable monthly, beginning May 2016	Fixed rate	—	2016–2019		—	383
Term loan 5: Payable monthly, beginning February 2017	Fixed rate	2.47	2017–2020		419	976
Term loan 6: Payable monthly, beginning July 2017	Fixed rate	2.66	2018–2020		577	1,301
Total term loans (included in long-term debt)				$	9,377	48,736

(8) Interest Rate Risk Management

The Corporation uses a combination of fixed and variable rate debt to finance capital needs. The Corporation maintains an interest rate risk-management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations that may arise from volatility in interest rates.

At June 30, 2019 and 2018, the Corporation's notional values of outstanding interest rate swaps were $746,348 and $758,901, respectively, the details of which were as follows:

	Notional amount	Pay rate	Receive rate	Maturity date	Mark to market
As of June 30, 2019:					
Swap #1	$ 80,998	3.59 %	70% 1-month LIBOR	7/1/2031	$ (11,813)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(31,398)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(8,869)
Swap #4	33,200	3.99	67% 1-month LIBOR	7/1/2034	(7,048)
Swap #5	25,160	3.54	70% 1-month LIBOR	7/1/2031	(3,589)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(73,275)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(20,698)
Swap #8	77,450	4.00	67% 1-month LIBOR	7/1/2034	(16,496)
Swap #9	2,850	3.63	67% 1-month LIBOR	7/1/2032	(269)
Swap #10	98,425	3.92	67% 1-month LIBOR	1/1/2043	(27,914)
Swap #11	78,265	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	2,299
					(199,070)
				Valuation adjustments	2,896
Total	$ 746,348				$ (196,174)

	Notional amount	Pay rate	Receive rate	Maturity date	Mark to market
As of June 30, 2018:					
Swap #1	$ 83,446	3.59 %	70% 1-month LIBOR	7/1/2031	$ (8,996)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(23,745)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(6,905)
Swap #4	34,325	3.99	67% 1-month LIBOR	7/1/2034	(5,685)
Swap #5	25,930	3.54	70% 1-month LIBOR	7/1/2031	(2,704)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(55,421)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(16,117)
Swap #8	80,075	4.00	67% 1-month LIBOR	7/1/2034	(13,321)
Swap #9	3,230	3.63	67% 1-month LIBOR	7/1/2032	(233)
Swap #10	101,275	3.92	67% 1-month LIBOR	1/1/2043	(21,731)
Swap #11	80,620	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	1,086
					(153,772)
				Valuation adjustments	3,983
Total	$ 758,901				$ (149,789)

The mark-to-market values of the Corporation’s interest rate swaps include a valuation adjustment representing the creditworthiness of the counterparties to the swaps.

On January 1, 2013, in accordance with ASC Topic 815, *Derivatives and Hedging*, the Corporation elected to discontinue the cash flow hedging relationship for Swap #8. As of that date, the accumulated losses included in net assets without donor restrictions will be reclassified into earnings over the life of the Series 2007 bonds. For the years ended June 30, 2019 and 2018, $1,610 and $1,668, respectively, was reclassified from other changes in net assets into change in fair value of undesignated interest rate swaps. The accumulated losses included in net assets without donor restrictions were $14,656 and $16,266 at June 30, 2019 and 2018, respectively.

The Corporation recorded a net nonoperating (loss)/gain on changes in the fair value of nonqualifying interest rate swaps of ($47,995) and $43,071 for the years ended June 30, 2019 and 2018, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of $196,174 and $149,789 as of June 30, 2019 and 2018, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

The Corporation is subject to a collateral posting requirement with two of its swap counterparties. Collateral posting requirements are based on the Corporation’s long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was $109,934 and $80,480 at June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the Corporation met its collateral posting requirement through the use of collateralized investments, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily and is accounted for as a component of the Corporation’s assets limited as to use on the accompanying consolidated balance sheets as of that date. Any excess investment value is considered a component of the Corporation’s unrestricted investment portfolio and is included in investments on the accompanying consolidated balance sheets as of that date.

(9) Other Liabilities

Other liabilities consist of the following at June 30:

	2019	2018
Professional and general malpractice liabilities	$ 313,136	290,306
Capital lease obligations	52,528	53,784
Accrued pension obligations	108,533	91,210
Accrued interest payable	21,922	23,809
Unearned revenue	3,736	2,812
Other miscellaneous	66,929	84,689
Total other liabilities	566,784	546,610
Less current portion	(127,760)	(151,163)
Other long-term liabilities	$ 439,024	395,447

Other miscellaneous liabilities consists of patient credit balances and other current and long-term liabilities.

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, Upper Chesapeake, and Capital Region. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation. The following is a brief description of each of the retirement plans in which employees of the Corporation participate:

(a) Defined Benefit Plans

University of Maryland Medical Center Midtown Campus Retirement Plan for Non-Union Employees (Midtown Plan) – A noncontributory defined benefit plan covering substantially all nonunion employees. The benefits are based on years of service and compensation. Contributions to this plan are made to satisfy the minimum funding requirements of ERISA. In 2006, Midtown froze the defined benefit pension plan.

Baltimore Washington Medical Center Pension Plan (Baltimore Washington Plan) – A noncontributory defined benefit pension plan covering full-time employees who have been employed for at least one year and have reached 21 years of age. In 2018, Baltimore Washington closed the defined benefit pension plan to new hires.

Baltimore Washington Medical Center Supplemental Executive Retirement Plan – A noncontributory defined benefit pension plan for senior management level employees. In 2018, Baltimore Washington terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets was completed on December 29, 2017.

On June 30, 2015, the Corporation amended the Baltimore Washington Medical Center Pension Plan to provide for the merger of the Midtown Plan and the Charles Regional Plan into the Baltimore Washington Plan and to change the name of the newly consolidated plan to the University of Maryland Medical System Corporate Pension Plan (the Corporate Plan). All provisions of the respective previous plans shall continue to apply to the respective applicable participants. All of the assets of the three formerly separate plans are now available to pay benefits for all participants under the Corporate Plan.

Chester River Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all CRHC employees as well as employees of a subsidiary. The benefits are paid to retirees based upon age at retirement, years of service, and average compensation. Chester River's funding policy is to satisfy the minimum funding requirements of ERISA. Effective June 30, 2008, Chester River froze the defined-benefit pension plan. On March 31, 2018, Chester River terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets was completed as of June 30, 2019.

Civista Health Inc. Retirement Plan and Trust (Charles Regional Plan) – A noncontributory defined benefit pension plan covering employees that have worked at least 1,000 hours per year during three or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. Charles Regional makes annual contributions to the plan based upon amounts required to be funded under provisions of ERISA.

Upper Chesapeake Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all employees of the various affiliates of Upper Chesapeake who have completed six months of employment and attained the age of 20.5 years. Upper Chesapeake makes annual contributions to the plan equal to the minimum funding requirements pursuant to ERISA regulations. On December 31, 2005, Upper Chesapeake froze the defined benefit pension plan. On June 30, 2015, Upper Chesapeake terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets was completed by September 30, 2017.

Dimensions Health Corporation Pension Plan (Capital Region Pension Plan) – A noncontributory defined benefit pension plan covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East – Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average final compensation. On December 31, 2007, the Capital Region Pension Plan was frozen. No further benefit accruals will be made to the plan. The plan freeze substantially reduces annual funding obligations beginning with plan year 2008. The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the plan participants and to meet the funding requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

Dimensions Health Corporation Post Retirement Benefit Plans (Capital Region Post Retirement Benefit Plans) – A postretirement health care plan is provided to both salaried and nonsalaried employees who have retired and certain other employees who were eligible to retire prior to July 1, 1995. The plan is contributory for those who retired prior to July 1, 1995, with retiree contributions adjusted annually. Employees who retired on July 1, 1995 and later are eligible to participate in the plan by paying 100% of the premiums without corporate contributions. The Corporation's policy has been to fund this plan on an as needed basis.

A defined postretirement life insurance plan is a noncontributory plan for all eligible retirees prior to July 1, 2001. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union, the plan was no longer offered to new retirees as of July 1, 1999. Effective July 1, 2001, the plan was modified to become contributory for the nonunion employees and employees represented by the 1199 SEIU Health Care Workers East – Health Care Workers union who retired prior to July 1, 2001 and for the employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union who retired prior to July 1, 1999. The Corporation's policy has been to fund its share of these benefits as they are incurred.

The Corporation recognizes the funded status (i.e., the difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheets. The Corporation recognizes changes in the funded status in the year in which the changes occur as changes in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

The following tables set forth the combined benefit obligations and assets of the defined benefit plans at June 30:

	2019	2018
Change in projected benefit obligations:		
Benefit obligations at beginning of year	$ 431,340	182,024
Benefit obligations, Capital Region	—	278,165
Settlements	(37,686)	(11,747)
Curtailments and plan amendments	—	(2,206)
Service cost	3,093	3,093
Interest cost	17,812	17,120
Actuarial loss	30,783	(13,064)
Benefit payments	(19,633)	(22,045)
Projected benefit obligations at end of year	$ 425,709	431,340

		2019	2018
Change in plan assets:			
Fair value of plan assets at beginning of year	$	340,130	155,602
Fair value of plan assets, Capital Region		—	187,164
Actual return on plan assets		16,354	16,182
Settlements		(38,544)	(11,747)
Employer contributions		18,869	14,974
Benefit payments		(19,633)	(22,045)
Fair value of plan assets at end of year	$	317,176	340,130

The funded status of the plans and amounts recognized as accrued payroll and benefits and other long-term liabilities in the consolidated balance sheets at June 30 are as follows:

		2019	2018
Funded status, end of period:			
Fair value of plan assets	$	317,176	340,130
Projected benefit obligations		425,709	431,340
Net funded status	$	(108,533)	(91,210)
Accumulated benefit obligation at end of year	$	423,017	428,509
Amounts recognized in consolidated balance sheets at June 30:			
Accrued payroll and benefits	$	—	—
Accrued pension obligation		(108,533)	(91,210)
	$	(108,533)	(91,210)
Amounts recognized in net assets without donor restrictions at June 30:			
Net actuarial gain (loss)	$	(71,177)	44,165
Prior service cost		(159)	284
	$	(71,336)	44,449

The estimated amounts that will be amortized from net assets without donor restrictions into net periodic pension cost in fiscal year 2020 are as follows:

Net actuarial loss	$	3,974
Prior service cost		72
	$	4,046

The components of net periodic pension cost for the years ended June 30 are as follows:

		2019	2018
Service cost	$	3,093	3,093
Interest cost		17,812	17,120
Expected return on plan assets		(19,849)	(22,636)
Prior service cost recognized		76	464
Recognized gains or losses		8,173	8,990
Net periodic pension cost	$	9,305	7,031

Components of net benefit cost other than the service cost of $3,093 were recorded in other nonoperating losses, net in the consolidated statements of operations and changes in net assets for the years ended June 30, 2019 and 2018. Service cost is included as a component of fringe benefits, which is recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations and changes in net assets.

The following table presents the weighted average assumptions used to determine benefit obligations for the plans at June 30:

	2019	2018
Discount rate	3.25%–3.70%	4.22%–4.44%
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

The following table presents the weighted average assumptions used to determine net periodic benefit cost for the plans for the years ended June 30:

	2019	2018
Discount rate	4.22%–4.69%	3.20%–4.10%
Expected long-term return on plan assets	6.25-6.50	6.50
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

The investment policies of the Corporation's pension plans incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Corporation uses investment managers specializing in each asset category and regularly monitors performance and compliance with investment guidelines. In developing the expected long-term rate of return on assets assumption, the Corporation considers the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2019 and 2018, by asset category, are as follows:

		Percentage of plan assets as of June 30	
Asset category	**Target allocation**	**2019**	**2018**
Cash and cash equivalents	0%–10%	4 %	2 %
Fixed income securities	20%–40%	28	30
Equity securities	30%–50%	41	39
Global asset allocation	10%–20%	17	17
Hedge funds	5%–15%	10	12
		100 %	100 %

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with each fund's respective investment holdings.

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2019, aggregated by the fair value hierarchy as described in note 1(w):

	Level 1	Level 2	Level 3	Investments reported at NAV*	Total
Cash and cash equivalents	$ 7,324	4,589	—	—	11,913
Corporate bonds	19,531	—	—	—	19,531
Government and agency bonds	16,509	—	—	—	16,509
Fixed income mutual funds	12,430	—	—	—	12,430
Common and preferred stocks	21,840	—	—	—	21,840
Equity mutual funds	45,633	15,096	—	—	60,729
Other mutual funds	26,582	—	—	—	26,582
Alternative investments	7,575	30,295	—	109,772	147,642
	$ 157,424	49,980	—	109,772	317,176

* Fund investments reported at NAV as practical expedient

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2018, aggregated by the fair value hierarchy as described in note 1(w):

	Level 1	Level 2	Level 3	Investments reported at NAV*	Total
Cash and cash equivalents	$ 5,107	3,010	—	—	8,117
Corporate bonds	25,285	—	—	—	25,285
Government and agency bonds	10,315	—	—	—	10,315
Fixed income mutual funds	21,556	—	—	—	21,556
Common and preferred stocks	10,084	—	—	—	10,084
Equity mutual funds	100,309	12,091	—	—	112,400
Other mutual funds	30,968	—	—	—	30,968
Alternative investments	26,961	27,153	—	67,291	121,405
	$ 230,585	42,254	—	67,291	340,130

* Fund investments reported at NAV as practical expedient

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2019 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling $33,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling $14,500 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling $2,100 is subject to a lock-up restriction of three years. In addition, one fund totaling $13 is subject to lockup restrictions and is not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had no unfunded commitments as of June 30, 2019.

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2018 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling $14,400, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling $13,400 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling $1,200 is subject to a lock-up restriction of three years. In addition, one fund totaling $800 is subject to lockup restrictions and is not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had no unfunded commitments as of June 30, 2018.

The Corporation expects to contribute $17,590 to its defined benefit pension plans for the fiscal year ending June 30, 2020.

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from plan assets in the following years ending June 30:

2020	$	23,317
2021		24,170
2022		24,376
2023		25,105
2024		25,785
2025–2029		125,949

The expected benefits to be paid are based on the same assumptions used to measure the Corporation’s benefit obligation at June 30, 2019.

(b) *Defined Contribution Plans*

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a five-year gradual vesting schedule. Effective January 1, 2017, this plan was opened for new participants.

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the ROI Plan or the Midtown Plan described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees’ base compensation. Effective January 1, 2017, this plan was frozen to new participants.

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan. Effective July 29, 2016, the Baltimore Washington retirement plan was merged into this plan. Effective January 1, 2017, this plan was frozen to new participants.

Midtown 401(k) Profit Sharing Plan for Union Employees – A defined contribution plan for substantially all union employees of Midtown. Employer contributions to this plan are determined based on years of service and hours worked. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

Baltimore Washington Retirement Plans – There are defined contribution plans covering all employees of Baltimore Washington Medical Center and certain related entities. Effective July 29, 2016, these plans merged into the UMMS Voluntary 403(b) plan.

Shore Health System Retirement Plan – A contributory benefit plan covering substantially all employees of Shore Health. Employees are eligible for matching contributions after one year of service.

Chester River Retirement Plan – A contributory benefit plan covering substantially all employees of Chester River who have met the eligibility requirements. Employees are eligible for matching contributions after one year of service.

Charles Regional Retirement Savings Plan – A contributory benefit plan covering substantially all full-time employees of Charles Regional. Employees are eligible for matching contributions after three years of service as defined in the plan.

Upper Chesapeake Retirement Plan – A contributory benefit plan covering substantially all employees of Upper Chesapeake. Employees are eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a five-year gradual vesting schedule.

Dimensions Health Retirement Plan (Capital Region Retirement Plan) – A contributory benefit plan covering substantially all employees of Capital Region. This plan replaced the frozen defined benefit plan effective January 1, 2008. Employees are eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a three year “cliff” vesting schedule. Nonrepresented employees who, as of January 1, 2008, are both 55 years or older, who have at least one year of vesting service, and work in positions budged for at least 40 hours per pay period receive an additional contribution.

In accordance with the collective bargaining agreement with 1199 SEIU Health Care Workers East – Registered Nurses Chapter, represented employees with 15 years of service also receive a matching $25 for each pay period in which they defer $25 or more paid quarterly. These employees who are both 55 years or older, and who have 15 years of vesting service, and work in positions budged for at least 40 hours per pay period receive an additional contribution.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were $48,972 and $45,918 for the years ended June 30, 2019 and 2018, respectively. Such amounts are included in salaries, wages, and benefits in the accompanying consolidated statements of operations and changes in net assets.

(11) Net Assets with Donor Restrictions

Net assets are restricted primarily for the following purposes at June 30:

		2019	2018
Facility construction and renovations, research, education, and other:			
Capital region	$	424,034	424,034
All others		142,084	122,514
Economic and beneficial interests in the net assets of related organizations		198,101	196,119
	$	764,219	742,667

Net assets were released from donor restrictions during the years ended June 30, 2019 and 2018 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

		2019	2018
Purchases of equipment and construction costs	$	14,130	3,484
Research, education, uncompensated care, and other		4,279	3,956
	$	18,409	7,440

The Corporation’s endowments consist of donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund are classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of the Corporation

(7) The investment policies of the Corporation.

Endowment net assets are as follows:

		June 30, 2019		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	39	65,433	65,472

		June 30, 2018		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	38	60,333	60,371

Donor restricted endowment funds within net assets with donor restrictions whose use is restricted in perpetuity were $48,826 and $44,209 as of June 30, 2019 and 2018, respectively.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Corporation to retain as a fund of perpetual duration. The Corporation does not have any donor-restricted endowment funds that are below the level that the donor or MUPMIFA requires.

(c) Investment Strategies

The Corporation has adopted policies for corporate investments, including endowment assets that seek to maximize risk-adjusted returns with preservation of principal. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s).The endowment assets are invested in a manner that is intended to hold a mix of investment assets designed to meet the objectives of the account. The Corporation expects its endowment funds, over time, to provide an average rate of return that generates earnings to achieve the endowment purpose.

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation employs a diversified asset allocation structure to achieve its long-term return objectives within prudent risk constraints.

The Corporation monitors the endowment funds' returns and appropriates average returns for use. In establishing this practice, the Corporation considered the long-term expected return on its endowment. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

(12) Economic and Beneficial Interests in the Net Assets of Related Organizations

The Corporation is supported by several related organizations that were formed to raise funds on behalf of the Corporation and certain of its subsidiaries. These interests are accounted for as either economic or beneficial interests in the net assets of such organizations.

The following is a summary of economic and beneficial interests in the net assets of financially interrelated organizations as of June 30:

		2019	2018
Economic interests in:			
UCH Legacy Funding Corporation	$	150,000	150,000
The James Lawrence Kernan Hospital Endowment Fund, Incorporated		33,099	31,804
Baltimore Washington Medical Center Foundation, Inc.		10,337	9,862
Total economic interests		193,436	191,666
Beneficial interest in the net assets of:			
Dorchester General Hospital Foundation, Inc.		3,709	3,711
Prince George's Hospital Center Foundation, Inc.		894	496
Laurel Regional Hospital Auxiliary, Inc.		62	170
Laurel Regional Hospital Foundation, Inc.		—	76
	$	198,101	196,119

The UCH Legacy Funding Corporation was formed in December 2013 to hold funds restricted for the benefit of Upper Chesapeake.

At the discretion of its board of trustees, the Kernan Endowment Fund may pledge securities to satisfy various collateral requirements on behalf of ROI and may provide funding to ROI to support various clinical programs or capital needs.

BWMC Foundation was formed in July 2000 and supports the activities of UM Baltimore Washington by soliciting charitable contributions on its behalf.

Shore Regional maintains a beneficial interest in the net assets of Dorchester Foundation, a nonprofit corporation organized to raise funds on behalf of Dorchester Hospital. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation.

The Prince George’s Hospital Center Foundation, Inc.; the Laurel Regional Hospital Auxiliary, Inc.; and the Laurel Regional Hospital Foundation, Inc. were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated Capital Region hospitals. Capital Region does not have control over the policies or decisions of these entities. In the current year, the Prince George’s Hospital Center Foundation, Inc. changed its name to University of Maryland Capital Region Health Foundation, Inc., and the Laurel Regional Hospital Foundation, Inc. was closed and its assets were transferred into the new University of Maryland Capital Region Health Foundation, Inc.

A summary of the combined unaudited condensed financial information of the financially interrelated organizations in which the Corporation holds an economic or beneficial interest as of June 30 is as follows:

		2019	2018
Current assets	$	4,447	3,355
Noncurrent assets		193,658	192,857
Total assets	$	198,105	196,212
Current liabilities	$	102	109
Noncurrent liabilities		(97)	(16)
Net assets		198,101	196,119
Total liabilities and net assets	$	198,106	196,212
Total operating revenue	$	4,481	3,897
Total operating expense		(2,505)	(1,474)
Other changes in net assets		5	1,353
Total increase in net assets	$	1,981	3,776

(13) State and County Support

The Corporation received $3,300 and $3,200 in support for the Shock Trauma Center operations from the state of Maryland for the years ended June 30, 2019 and 2018, respectively.

In support of Capital Region operations, the Corporation received the following for the years ended June 30:

		2019	2018
State of Maryland	$	27,000	28,000
Prince George's County government		10,178	8,305
Magruder Memorial Hospital Trust		1,042	869
	$	38,220	37,174

The State of Maryland appropriates funds for construction costs incurred, equipment purchases made, and other capital support. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded $5,565 and $3,209 during the years ended June 30, 2019 and 2018, respectively.

As described in note 1(a)(x), Prince George's County and the State of Maryland have each approved funding through legislation of $208,000 towards the construction of the new medical facility.

(14) Functional Expenses

The Corporation provides healthcare services to residents within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30:

	Year ended June 30, 2019							
	Healthcare service							
	Hospital & Ambulatory	Retail Pharmacy	Physician Practices	Risk Taking	Corporate Services	Other	Eliminations	Total
Operating expenses:								
Salaries, wages and benefits	$ 1,646,025	5,177	268,023	3,886	190,219	46,915	(2,109)	2,158,136
Expendable supplies	678,620	71,514	34,480	42	2,924	4,435	—	792,015
Purchased services:								
Purchased services	471,657	9,150	65,400	4,480	148,689	69,516	(134,274)	634,618
Purchased service recoveries	355,031	—	—	—	(355,031)	—	—	—
Contracted services:								
Contracted services	274,221	—	30,169	—	—	270	—	304,660
Contracted service recoveries	—	—	—	—	—	—	(34,763)	(34,763)
Depreciation and amortization	232,436	—	2,484	—	419	8,717	—	244,056
Interest expense	54,698	—	—	1,492	355	1,247	—	57,792
Total operating expenses	$ 3,712,688	85,841	400,556	9,900	(12,425)	131,100	(171,146)	4,156,514

	Year ended June 30, 2018							
	Healthcare service							
	Hospital & Ambulatory	Retail Pharmacy	Physician Practices	Risk Taking	Corporate Services	Other	Eliminations	Total
Operating expenses:								
Salaries, wages and benefits	$ 1,584,288	4,708	243,256	4,279	161,743	21,801	—	2,020,075
Expendable supplies	659,829	63,394	27,649	90	3,988	3,302	—	758,252
Purchased services:								
Purchased services	422,885	5,592	57,001	7,857	136,758	22,174	(36,289)	615,978
Purchased service recoveries	303,255	—	—	—	(303,255)	—	—	—
Contracted services:								
Contracted services	266,364	—	29,054	—	—	60	—	295,478
Contracted service recoveries	—	—	—	—	—	—	(20,102)	(20,102)
Depreciation and amortization	227,240	—	2,482	—	695	5,673	—	236,090
Interest expense	52,661	—	—	1,369	321	1,276	—	55,627
Total operating expenses	$ 3,516,522	73,694	359,442	13,595	250	54,286	(56,391)	3,961,398

Corporate services are allocated primarily using percentage of net patient service revenue.

(15) Liquidity and Availability of Resources

The Corporation had financial assets available to management for general expenditure within one year of the financial reporting date, or June 30, 2019 and 2018, as follows:

	2019	2018
Cash and cash equivalents	$ 360,318	397,243
Receivables, net	549,540	520,383
Current investments and assets whose use is limited	64,910	56,484
Long-term investments and assets whose use is limited	2,113,024	2,002,612
Total financial assets available within one year	3,087,792	2,976,722
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	78,255	69,470
Restricted for swap collateral	113,586	84,590
Debt service and reserve funds	86,157	82,820
Self insurance trust funds	212,384	230,589
Construction funds - held by trustee	279,205	266,822
Alternative investments subject to lockup restrictions	20,700	15,070
Total amounts unavailable for general expenditures within one year	790,287	749,361
Total financial assets available to management for general expenditure within one year	$ 2,297,505	2,227,361

(16) Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2019 and 2018 were as follows:

		2019	2018
Professional and general malpractice liabilities	$	313,136	290,306
Employee health		33,556	35,799
Employee long-term disability		5,577	6,369
Workers' compensation		20,977	19,869
Total self-insured liabilities		373,246	352,343
Less current portion		(70,368)	(73,226)
	$	302,878	279,117

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include $202,779 and $168,452 as of June 30, 2019 and 2018, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of $1,000 on individual claims and $3,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to Terrapin, an unconsolidated joint venture. Terrapin provides insurance for claims in excess of $1,000 individually and $3,000 in the aggregate, up to $150,000 individually and $150,000 in the aggregate, under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

As discussed in note 4, Terrapin is a joint venture corporation in which a 50% equity interest is owned by the Corporation and a 50% equity interest is owned by Faculty Physicians, Inc.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2019 and 2018 was approximately $60,654 and $52,652, respectively.

(17) Business and Credit Concentrations

The Corporation provides healthcare services through its inpatient and outpatient care facilities located in the State of Maryland. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, workers' compensation, health maintenance organizations (HMOs), and commercial insurance policies).

The Corporation maintains cash accounts with highly rated financial institutions, which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits, and as such, management does not believe the Corporation is subject to any significant credit risks related to this practice.

The Corporation had receivables from patients and third-party payors as follows at June 30:

	2019	2018
Medicare	23 %	23 %
Medicaid	21	23
Commercial insurance and HMOs	17	18
Blue Cross	10	10
Self-pay and others	29	26
	100 %	100 %

The Corporation recorded revenues from patients and third-party payors for the years ended June 30 as follows:

	2019	2018
Medicare	37 %	38 %
Medicaid	24	24
Commercial insurance and HMOs	24	22
Blue Cross	10	11
Self-pay and others	5	5
	100 %	100 %

(18) Certain Significant Risks and Uncertainties

The Corporation provides general acute healthcare services in the state of Maryland. The Corporation and other healthcare providers in Maryland 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 and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the Corporation’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 Corporation’s revenues, and the Corporation’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 Corporation.

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

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Corporation’s compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, are expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation’s financial position.

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

(19) Maryland Health Services Cost Review Commission

Effective July 1, 2013, the Health System and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology for the following hospitals: Medical Center, ROI, UM Midtown, UM Baltimore Washington, UM Charles Regional, UM St. Joseph, UM Memorial, UM Dorchester, UM Chester River, Shore Emergency Center, UM Upper Chesapeake, UM Harford Memorial, UM Prince George’s, and UM Laurel. The agreements will continue each year and on July 1 of each year thereafter; the agreements will renew for a one-year period unless it is canceled by the HSCRC or by the Corporation. The agreements were in place for the years ended June 30, 2019 and 2018. The GBR model is a revenue constraint and quality improvement system designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Corporation’s mission to provide the highest value of care possible to its patients and the communities it serves.

The GBR agreements establish a prospective, fixed revenue base “GBR cap” for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, a hospital’s revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap is prospectively subtracted from the subsequent year’s GBR cap. Although the GBR cap is fixed each year, it does not adjust for changes in volume or service mix. The GBR cap is also adjusted annually for inflation, and for changes in payor mix and uncompensated care. The Corporation will receive an annual adjustment to its cap for the change in population in the Corporation’s service areas. GBR is designed to encourage hospitals to operate efficiently by reducing excess utilization and managing patients in the appropriate care delivery setting. The HSCRC also may impose various other revenue adjustments, which could be significant in the future.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2019 and 2018, the Corporation recognized a net distribution from the pool of approximately $23,974 and $14,015, respectively, which is recorded as net patient service revenue.

(20) Subsequent Events

The Corporation evaluated all events and transactions that occurred after June 30, 2019 and through October 28, 2019, the date the consolidated financial statements were issued. Other than described in note 5, the Corporation did not have any material recognizable subsequent events during the period.

Schedule 1

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet Information – Hospital Format

June 30, 2019

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center
Current assets:								
Cash and cash equivalents	$ 47,596	5,261	9,537	5,958	(14,169)	35,738	9,066	194
Assets limited as to use, current portion	3,085	—	497	1,484	907	113	529	1,281
Accounts receivable:								
Patient accounts receivable, net	194,391	7,352	13,447	41,211	34,554	4,104	18,405	36,083
Other	214,732	889	2,835	21,332	14,741	263	17,425	2,205
Inventories	35,186	1,159	2,279	6,019	3,346	728	1,675	5,230
Assets held for sale	—	—	—	—	—	—	—	—
Prepaid expenses and other current assets	2,225	136	428	1,445	1,744	19	639	1,012
Total current assets	497,215	14,797	29,023	77,449	41,123	40,965	47,739	46,005
Investments	292,107	39,599	17,269	154,416	77,659	(4,168)	21,775	—
Assets limited as to use, less current portion:								
Investments held for collateral	—	1,115	1,721	8,929	4,091	222	2,722	—
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	59,522	19,573	1,931	19,023	25,987	4,110	13,434	4,389
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—
Self-insurance trust funds	76,676	—	11,214	26,009	27,749	8,267	9,400	8,280
Funds restricted by donor	—	—	1,093	—	4,975	105	—	—
Economic interests in the net assets of related organizations	65,768	36,950	531	10,337	79,326	6,662	5,346	9,503
	201,966	57,638	16,490	64,298	167,128	24,366	30,902	22,172
Property and equipment, net	739,746	43,324	102,547	230,961	123,617	17,684	73,948	213,412
Investments in joint ventures and other assets	186,857	15,600	8,178	25,662	10,616	2,104	10,839	40,448
Total assets	$ 1,917,891	170,958	173,507	552,786	420,143	80,951	185,203	322,037

(Continued)

Schedule 1

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidating Balance Sheet Information – Hospital Format

June 30, 2019

(In thousands)

	Upper Chesapeake Hospitals			Capital Region Hospitals							
Assets	**Upper Chesapeake Medical Center**	**Harford Memorial Hospital**	**Subtotal**	**Prince George's Hospital Center**	**Laurel Regional Hospital**	**Bowie Health Center**	**Gladys Spellman Specialty Care**	**Subtotal**	**All Other Entities**	**Eliminations**	**Consolidated Total**
Current assets:											
Cash and cash equivalents	$ 13,655	9,522	23,177	—	—	1	—	1	237,959	—	360,318
Assets limited as to use, current portion	—	—	—	—	—	—	—	—	57,014	—	64,910
Accounts receivable:											
Patient accounts receivable, net	28,097	5,935	34,032	28,557	12,052	4,750	3,404	48,763	26,095	—	458,437
Other	33,903	—	33,903	159,420	897	8,740	17,926	186,983	147,987	(552,192)	91,103
Inventories	5,305	2,922	8,227	3,922	1,533	382	—	5,837	792	—	70,478
Assets held for sale	—	—	—	—	—	—	—	—	116,828	—	116,828
Prepaid expenses and other current assets	2,705	2,559	5,264	177	32	14	—	223	34,920	—	48,055
Total current assets	83,665	20,938	104,603	192,076	14,514	13,887	21,330	241,807	621,595	(552,192)	1,210,129
Investments	169,188	95,813	265,001	—	—	—	—	—	21,982	—	885,640
Assets limited as to use, less current portion:											
Investments held for collateral	—	—	—	—	—	—	—	—	94,786	—	113,586
Debt service funds	—	—	—	—	—	—	—	—	29,550	—	29,550
Construction funds	—	—	—	—	—	—	—	—	315,153	—	463,122
Board designated and escrow funds	15,113	—	15,113	—	—	—	—	—	95,576	—	140,689
Self-insurance trust funds	—	—	—	—	—	—	—	—	36,486	—	204,081
Funds restricted by donor	—	—	—	—	—	—	—	—	72,082	—	78,255
Economic interests in the net assets of related organizations	—	—	—	894	61	—	—	955	154,835	(172,112)	198,101
	15,113	—	15,113	894	61	—	—	955	798,468	(172,112)	1,227,384
Property and equipment, net	207,759	33,569	241,328	13,561	29,669	7,015	33	50,278	472,241	—	2,309,086
Investments in joint ventures and other assets	254,247	—	254,247	2,039	942	—	—	2,981	1,277,520	(1,333,922)	501,130
Total assets	$ 729,972	150,320	880,292	208,570	45,186	20,902	21,363	296,021	3,191,806	(2,058,226)	6,133,369

(Continued)

Schedule 1

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidating Balance Sheet Information – Hospital Format

June 30, 2019

(In thousands)

Liabilities and Net Assets		University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center
Current liabilities:									
Trade accounts payable	$	93,050	15,839	15,755	18,577	15,499	4,904	6,216	20,956
Accrued payroll and benefits		74,702	4,991	9,177	18,566	11,299	1,990	4,030	16,837
Advances from third-party payors		73,408	5,544	6,180	11,672	5,562	655	3,729	11,252
Short-term financing		—	—	—	—	—	—	—	—
Lines of credit		—	—	—	—	—	—	—	—
Other current liabilities		69,658	2,025	4,285	26,127	29,463	3,068	5,475	18,167
Liabilities held for sale		—	—	—	—	—	—	—	—
Long-term debt subject to short-term remarketing arrangements		—	—	—	—	—	—	—	—
Current portion of long-term debt		13,774	551	852	4,417	2,824	108	2,465	6,821
Total current liabilities		324,592	28,950	36,249	79,359	64,647	10,725	21,915	74,033
Long-term debt, less current portion		549,416	18,726	28,771	149,910	73,851	3,670	46,605	210,299
Other long-term liabilities		150,587	103	21,450	43,905	18,159	7,093	16,761	111,226
Interest rate swap liabilities		—	—	—	—	—	—	—	—
Total liabilities		1,024,595	47,779	86,470	273,174	156,657	21,488	85,281	395,558
Net assets:									
Without donor restrictions		827,528	86,096	85,413	269,275	228,037	55,038	99,922	(73,522)
With donor restrictions		65,768	37,083	1,624	10,337	35,449	4,425	—	1
Total net assets		893,296	123,179	87,037	279,612	263,486	59,463	99,922	(73,521)
Total liabilities and net assets	$	1,917,891	170,958	173,507	552,786	420,143	80,951	185,203	322,037

(Continued)

Schedule 1

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidating Balance Sheet Information – Hospital Format

June 30, 2019

(In thousands)

	Upper Chesapeake Hospitals			Capital Region Hospitals							
Liabilities and Net Assets	**Upper Chesapeake Medical Center**	**Harford Memorial Hospital**	**Subtotal**	**Prince George's Hospital Center**	**Laurel Regional Hospital**	**Bowie Health Center**	**Gladys Spellman Specialty Care**	**Subtotal**	**All Other Entities**	**Eliminations**	**Consolidated Total**
Current liabilities:											
Trade accounts payable	$ 9,319	6,977	16,296	10,773	2,251	41	75	13,140	68,609	—	288,841
Accrued payroll and benefits	21,990	5,595	27,585	8,226	3,137	440	231	12,034	99,966	—	281,177
Advances from third-party payors	6,569	1,671	8,240	10,202	2,307	91	321	12,921	—	—	139,163
Short-term financing	—	—	—	—	—	—	—	—	161,300	—	161,300
Lines of credit	—	—	—	—	—	—	—	—	150,000	—	150,000
Other current liabilities	19,269	13,503	32,772	15,221	51,257	1,494	200	68,172	420,740	(552,192)	127,760
Liabilities held for sale	—	—	—	—	—	—	—	—	60,830	—	60,830
Long-term debt subject to short-term remarketing arrangements	—	—	—	—	—	—	—	—	18,895	—	18,895
Current portion of long-term debt	5,418	—	5,418	—	—	—	—	—	10,391	—	47,621
Total current liabilities	62,565	27,746	90,311	44,422	58,952	2,066	827	106,267	990,731	(552,192)	1,275,587
Long-term debt, less current portion	162,344	23,576	185,920	—	—	—	—	—	217,792	—	1,484,960
Other long-term liabilities	35,475	1,162	36,637	206	—	—	—	206	122,943	(90,046)	439,024
Interest rate swap liabilities	—	—	—	—	—	—	—	—	196,174	—	196,174
Total liabilities	260,384	52,484	312,868	44,628	58,952	2,066	827	106,473	1,527,640	(642,238)	3,395,745
Net assets:											
Without donor restrictions	294,611	97,836	392,447	161,835	(17,080)	18,777	20,536	184,068	950,353	(1,131,250)	1,973,405
With donor restrictions	174,977	—	174,977	2,107	3,314	59	—	5,480	713,813	(284,738)	764,219
Total net assets	469,588	97,836	567,424	163,942	(13,766)	18,836	20,536	189,548	1,664,166	(1,415,988)	2,737,624
Total liabilities and net assets	$ 729,972	150,320	880,292	208,570	45,186	20,902	21,363	296,021	3,191,806	(2,058,226)	6,133,369

See accompanying notes to consolidated financial statements.

Schedule 2

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidating Statements of Operations – Hospital Format

Year ended June 30, 2019

(In thousands)

	University of Maryland Medical Center						Shore Regional Health System				
	University Hospital	Shock Trauma Center	Subtotal	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Memorial Hospital	Dorchester General	QAEC	Chester River Hospital Center	Subtotal
Operating revenue, gains and other support:											
Net patient service revenue	$ 1,363,125	193,185	1,556,310	109,644	203,649	389,018	213,292	38,777	5,140	42,677	299,886
State support	—	3,300	3,300	—	—	—	—			—	—
Premium Revenue	—	—	—	—	—	—	—	—	—	—	—
Other revenue	113,638	300	113,938	2,013	19,457	4,641	8,153	894	113	1,187	10,347
Total operating revenue, gains and other support	1,476,763	196,785	1,673,548	111,657	223,106	393,659	221,445	39,671	5,253	43,864	310,233
Operating expenses:											
Salaries, wages, and benefits	565,236	65,806	631,042	54,783	101,953	180,416	90,164	21,095	3,457	15,508	130,224
Expendable supplies	392,332	28,650	420,982	13,811	35,027	59,048	34,581	2,389	542	3,807	41,319
Purchased services	284,588	44,491	329,079	23,536	49,358	72,493	37,114	6,839	940	21,222	66,115
Contracted services	119,269	12,293	131,562	9,392	27,590	40,563	31,016	6,921	1,247	6,414	45,598
Depreciation and amortization	88,512	11,915	100,427	6,879	13,161	26,830	15,362	2,689	422	4,192	22,665
Interest expense	26,304	—	26,304	676	1,041	5,394	2,390	258	103	132	2,883
Total operating expenses	1,476,241	163,155	1,639,396	109,077	228,130	384,744	210,627	40,191	6,711	51,275	308,804
Income (loss) from continuning operations	522	33,630	34,152	2,580	(5,024)	8,915	10,818	(520)	(1,458)	(7,411)	1,429
Nonoperating income and expenses, net:											
Contributions	—	—	—	—	—	—	8	—	—	—	8
Equity in net income of joint ventures	(3,036)	—	(3,036)	—	—	(518)	257	—	—	—	257
Investment income	11,120	—	11,120	942	235	3,708	3,129	—	—	416	3,545
Change in fair value of investments	9,747	—	9,747	889	1,435	3,458	(862)	—	—	(109)	(971)
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	(8,339)	—	(8,339)	277	(1,192)	(2,170)	(681)	—	—	(4,594)	(5,275)
Total nonoperating income and expenses	9,492	—	9,492	2,108	478	4,478	1,851	—	—	(4,287)	(2,436)
Excess (deficiency) of revenues over expenses from continuing operations	$ 10,014	33,630	43,644	4,688	(4,546)	13,393	12,669	(520)	(1,458)	(11,698)	(1,007)
Loss on discontinued operations	—	—	—	—	—	—	—	—	—	—	—
Excess (deficiency) of revenues over expenses	$ 10,014	33,630	43,644	4,688	(4,546)	13,393	12,669	(520)	(1,458)	(11,698)	(1,007)

(Continued)

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidating Statements of Operations – Hospital Format

Year ended June 30, 2019

(In thousands)

			Upper Chesapeake Hospitals			Capital Region Hospitals							
	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Medical Center	Harford Memorial Hospital	Subtotal	Prince George's Hospital Center	Laurel Regional Hospital	Bowie Health Center	Gladys Spellman Specialty Care	Subtotal	All Other Entities	Eliminations	Consolidated Total
Operating revenue, gains and other support:													
Net patient service revenue	$ 132,932	341,266	276,845	91,868	368,713	271,904	57,853	19,545	4,061	353,363	269,926	(7,653)	4,017,054
State support	—	—	—	—	—	28,594	9,246	—	—	37,840	27,381	(27,000)	41,521
Premium Revenue	—	—	—	—	—	—	—	—	—	—	181,570	(181,570)	—
Other revenue	541	4,032	4,813	1,347	6,160	6,572	310	32	—	6,914	267,947	(259,545)	176,445
Total operating revenue, gains and other support	133,473	345,298	281,658	93,215	374,873	307,070	67,409	19,577	4,061	398,117	746,824	(475,768)	4,235,020
Operating expenses:													
Salaries, wages, and benefits	58,291	139,503	127,890	53,798	181,688	129,745	24,219	9,092	2,454	165,510	698,405	(183,679)	2,158,136
Expendable supplies	17,735	62,174	44,360	7,229	51,589	36,969	7,865	3,033	347	48,214	42,116	—	792,015
Purchased services	30,335	65,195	42,159	19,345	61,504	105,358	21,814	7,437	1,576	136,185	(37,908)	(161,274)	634,618
Contracted services	9,969	36,460	21,807	7,825	29,632	29,282	7,707	799	255	38,043	30,439	(129,605)	269,643
Depreciation and amortization	6,151	23,198	17,806	3,381	21,187	6,682	3,319	1,401	26	11,428	12,130	—	244,056
Interest expense	1,737	8,894	6,824	942	7,766	—	3	—	—	3	3,094	—	57,792
Total operating expenses	124,218	335,424	260,846	92,520	353,366	308,036	64,927	21,762	4,658	399,383	748,276	(474,558)	4,156,260
Income (loss) from continuning operations	9,255	9,874	20,812	695	21,507	(966)	2,482	(2,185)	(597)	(1,266)	(1,452)	(1,210)	78,760
Nonoperating income and expenses, net:													
Contributions	—	—	—	—	—	—	—	—	—	—	5,599	—	5,607
Equity in net income of joint ventures	305	1,236	—	—	—	—	—	—	—	—	5,380	—	3,624
Investment income	900	—	3,101	2,075	5,176	—	—	—	—	—	5,006	—	30,632
Change in fair value of investments	243	—	3,563	2,128	5,691	—	—	—	—	—	3,929	—	24,421
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—	(47,995)	—	(47,995)
Other nonoperating gains and losses	(532)	(2,562)	(2,263)	—	(2,263)	(459)	(207)	(12)	(28)	(706)	(10,283)	—	(33,045)
Total nonoperating income and expenses	916	(1,326)	4,401	4,203	8,604	(459)	(207)	(12)	(28)	(706)	(38,364)	—	(16,756)
Excess (deficiency) of revenues over expenses from continuing operations	$ 10,171	8,548	25,213	4,898	30,111	(1,425)	2,275	(2,197)	(625)	(1,972)	(39,816)	(1,210)	62,004
Loss on discontinued operations	—	—	—	—	—	—	—	—	—	—	(25,847)	—	(25,847)
Excess (deficiency) of revenues over expenses	$ 10,171	8,548	25,213	4,898	30,111	(1,425)	2,275	(2,197)	(625)	(1,972)	(65,663)	(1,210)	36,157

See accompanying notes to consolidated financial statements.