



**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements and
Consolidating Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

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

Independent Auditors' Report

The Board of Directors
GBMC HealthCare, Inc.:

We have audited the accompanying consolidated financial statements of GBMC HealthCare, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GBMC HealthCare, Inc. and its subsidiaries as of June 30, 2018 and 2017, 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.



Other Matter

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

KPMG LLP

October 4, 2018

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash	\$ 34,850	33,092
Short-term investments and limited or restricted use funds	11,955	12,974
Patient accounts receivable, net of reserves of \$12,652 and \$17,927	54,001	62,401
Other receivables	15,831	15,262
Other current assets	10,809	10,164
Total current assets	127,446	133,893
Noncurrent assets:		
Investments and limited or restricted use funds	419,346	380,662
Property, plant and equipment, net	275,206	279,769
Other assets	36,070	31,196
Total noncurrent assets	730,622	691,627
Total assets	\$ 858,068	825,520
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 71,553	59,937
Insurance reserves, current	13,435	12,466
Advances from third-party payors	14,453	13,047
Current portion of long-term debt and capital lease liabilities	13,660	13,487
Other current liabilities	4,582	4,569
Total current liabilities	117,683	103,506
Noncurrent liabilities:		
Long-term debt	140,713	152,232
Capital lease liabilities	23,302	25,283
Insurance reserves	44,569	44,226
Pension liability	8,494	11,054
Other long-term liabilities	2,839	4,711
Total liabilities	337,600	341,012
Net assets:		
Unrestricted controlling interest	437,508	405,942
Unrestricted noncontrolling interest	5,142	5,150
Total unrestricted	442,650	411,092
Temporarily restricted	42,477	41,073
Permanently restricted	35,341	32,343
Total net assets	520,468	484,508
Total liabilities and net assets	\$ 858,068	825,520

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Patient service revenue:		
Patient service revenue, net of contractual allowances	\$ 561,205	542,349
Provision for uncollectible accounts	(13,799)	(17,807)
Net patient service revenue	547,406	524,542
Other operating revenue	15,023	14,442
Net assets released from restrictions	11,051	12,134
Total operating revenue	573,480	551,118
Operating expenses:		
Salaries, wages and employee benefits	350,371	345,349
Expendable supplies	92,789	86,884
Purchased services	78,833	75,366
Depreciation and amortization	40,795	35,401
Interest	6,566	6,917
Total operating expenses	569,354	549,917
Total operating income	4,126	1,201
Other income (loss):		
Contributions	2,014	3,322
Fund-raising expense	(3,144)	(3,532)
Investment income, net	27,635	34,853
Loss on extinguishment of debt	—	(8,845)
Total other income	26,505	25,798
Excess of revenues over expenses	\$ 30,631	26,999

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Excess of revenues over expenses	\$ 30,631	26,999
Changes in unrestricted net assets:		
Pension-related changes other than net periodic pension costs	1,117	17,546
Net assets released for purchase of fixed assets	1,710	925
Distribution to noncontrolling interest	(1,900)	(1,550)
Increase in unrestricted net assets	31,558	43,920
Changes in temporarily restricted net assets:		
Contributions	9,374	10,836
Investment income, net	4,791	5,846
Net assets released for operations	(11,051)	(12,134)
Net assets released for purchase of fixed assets	(1,710)	(925)
Net asset reclass	—	(336)
Increase in temporarily restricted net assets	1,404	3,287
Changes in permanently restricted net assets:		
Contributions	2,951	2,404
Net unrealized gain on investments	47	85
Net asset reclass	—	(294)
Increase in permanently restricted net assets	2,998	2,195
Increase in net assets	35,960	49,402
Net assets, beginning of year	484,508	435,106
Net assets, end of year	\$ 520,468	484,508

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
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Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 35,960	49,402
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,795	35,401
Loss on extinguishment of debt	—	8,845
Provision for uncollectible accounts	13,799	17,807
Realized and unrealized gains on investments	(25,756)	(35,152)
Pension-related changes other than net periodic pension costs	(1,117)	(17,546)
Restricted investment income	(923)	(717)
Restricted contributions	(12,325)	(13,240)
Unrealized gains on joint ventures	(933)	(975)
Distribution to noncontrolling interest	1,900	1,550
Changes in assets and liabilities:		
Increase in patient accounts receivable	(5,399)	(25,779)
(Increase) decrease in other receivables and other assets	(2,831)	2,077
Increase (decrease) in accounts payable and accrued expenses, advances from third parties, current and noncurrent liabilities	7,312	(8,924)
Decrease in pension liability	(1,443)	(31,898)
Net cash provided by (used in) operating activities	49,039	(19,149)
Cash flows from investing activities:		
Change in investments and limited or restricted use funds	(5,987)	21,496
Purchases of alternative investments	(4,066)	(5,207)
Additions to property and equipment	(30,909)	(32,985)
Net cash used in investing activities	(40,962)	(16,696)
Cash flows from financing activities:		
Payment on long-term debt and capital lease liabilities	(13,487)	(12,301)
Payments for deferred financing costs	—	(740)
Defeasance of bonds	—	(73,720)
Proceeds from bond issuance	—	99,445
Proceeds from restricted contributions	9,068	11,171
Distributions to noncontrolling interest	(1,900)	(1,550)
Net cash provided by (used in) financing activities	(6,319)	22,305
Increase (decrease) in cash	1,758	(13,540)
Cash, beginning of year	33,092	46,632
Cash, end of year	\$ 34,850	33,092
Cash paid during the year for interest	\$ 5,786	6,605
Capital additions accrued but not paid	7,808	2,485

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

(1) Organization and Consolidation

GBMC HealthCare, Inc. (the Company), is a holding company for nonprofit companies, which includes: Greater Baltimore Medical Center, Inc. (Medical Center), Greater Baltimore Health Alliance, Physicians, LLC, GBMC Foundation, Inc., Gilchrist Hospice Care, Inc., GBMC Land, Inc., and GBMC Agency, Inc.

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

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

**GBMC HEALTHCARE, INC.
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June 30, 2018 and 2017

(In thousands)

(b) Consolidation of Subsidiaries

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

(c) Cash

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

(d) Limited or Restricted Use Funds Held

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

(e) Inventories

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

(f) Investments and Investment Income

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

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

Investment income or loss (including realized gains and losses on investments, interest and dividends) on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the insurance captive investment are reported as other income. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) from all other unrestricted fund investments is included in excess of revenues over expenses unless restricted by donor or law. Investment income on investments of temporarily or

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(In thousands)

permanently restricted net assets is recorded as an increase in temporarily or permanently restricted net assets to the extent restricted by the donor or law.

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

(g) Property, Plant and Equipment

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

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

(h) Other Noncurrent Assets

Other assets comprise the following items:

	2018	2017
Reinsurance receivable	\$ 14,259	15,207
Goodwill	7,593	7,593
Pledges receivable	12,489	6,698
Deferred leasing costs	1,104	1,186
Equity investments	247	225
Other	378	287
	\$ 36,070	31,196

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

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In fiscal year 2012, the Company acquired an additional interest in Magnetic Imaging of Baltimore, LLC (MIB), which resulted in the Company having to consolidate MIB. The Company recorded this acquisition using the purchase accounting method and recorded goodwill of \$7,593. At June 30, 2018 and 2017, the Company assessed the goodwill for its reporting unit, GBDIP, for impairment. The Company determined that it was not more likely than not that the fair value of GBDIP was less than its carrying amount. Accordingly, the Company concluded that goodwill was not impaired as of June 30, 2018 and 2017 without having to perform the two-step impairment test.

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

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

(i) Donor-Restricted Gifts

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

(j) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

JRH is one of six named beneficiaries of a charitable trust and receives annual distributions for 50 years, which began in 2005. The distributions are to be used for the unrestricted general charitable purpose of the JRH. After the 50 years, the trust corpus will be distributed to the charities as long as JRH continues to qualify as a charitable organization under Sections 171(c) and 2055(a) of the Internal Revenue Code. The corpus must be used to create an endowment fund that is permanently restricted, and the income should be used for the organization's unrestricted general charitable purpose. The fair value of the trust is included in permanently restricted net assets.

(k) Insurance Reserves

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

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(In thousands)

(l) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Rates for the Medical Center's facility-based patient service charges are established in accordance with the regulations and rate methodologies of Maryland's rate-setting authority, the Health Services Cost Review Commission (HSCRC), an independent agency of the Maryland state government. With the exception of relatively small contractual allowances, the HSCRC allows a discount of 6.0% to Medicare and Medicaid as well as a 2.25% prompt pay discount for other participating payors. HSCRC regulations stipulate that all payors must reimburse the Medical Center on the basis of the charges approved by the HSCRC and billed by the Medical Center.

During the years ended June 30, 2018 and 2017, the Medical Center participated in the HSCRC Global Budget Revenue (GBR) methodology, which provides a revenue target and maximum amount of facility-based revenue for the Medical Center during a fiscal year, and is not intended to fluctuate during the fiscal year with respect to changes in volume. The GBR model is consistent with the Medical Center's mission of controlling utilization of acute-care services by managing a patient's total spectrum of medical care. The GBR agreement allows the Medical Center to adjust unit rates, within certain limits, to achieve the overall revenue base for the Medical Center at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. While the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix, market share and uncompensated care. The HSCRC also may impose various other revenue adjustments that could be significant in the future.

Physician charges are not regulated by the HSCRC, and are primarily reimbursed by third-party payors at rates that are contractually agreed upon.

Hospice's net revenue is reported at the estimated net realizable amounts from third-party payors who pay on a per-diem basis.

Adjustments to patient service revenue for HSCRC related assessments, contractual allowances, discounts, denials, and financial assistance were \$170,447 and \$159,168 for the years ended June 30, 2018 and 2017, respectively.

(m) Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by allowances for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Company analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The Company analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without existing insurance coverage for a portion of the bill, the Company records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

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(In thousands)

The Company's allowance for doubtful accounts were 16% and 19% of gross accounts receivable as of June 30, 2018 and 2017, respectively. During 2018, the Company experienced increased collections as a result of the stabilization of the new electronic medical record and billing system, which decreased the allowance for doubtful account at June 30, 2018.

The activity in the allowance for bad debts is summarized as follows for the years ended June 30:

	2018	2017
Beginning balance	\$ 17,927	10,685
Provision for uncollectible accounts	13,799	17,807
Less write-offs	(19,074)	(10,565)
Ending balance	\$ 12,652	17,927

(n) Excess of Revenue over Expenses

The consolidated statements of operations include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice include pension changes other than net periodic pension costs, contributions and distributions to noncontrolling investors, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

(o) Financial Assistance and Community Benefits

As part of the Company's mission, it provides medical care without discrimination, including the ability of a patient to pay for services. Under the Company's Financial Assistance Policy, patients who meet certain financial based criteria can qualify for free care on all or a portion of the total patient bill. The Company recorded \$3,339 and \$2,121 of financial assistance during the years ended June 30, 2018 and 2017, respectively. The total direct and indirect cost of providing financial assistance was approximately \$2,403 and \$1,458 during the years ended June 30, 2018 and 2017, respectively.

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

(p) Rental Income

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

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(In thousands)

(q) Income Taxes

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

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

The Financial Accounting Standards Board's (FASB) guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This standard also provides guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. The Company has adopted this guidance, and there were no amounts recorded in the consolidated financial statements as of and during the years ended June 30, 2018 and 2017 for uncertain tax positions.

GBMC Agency, Inc. and its subsidiaries are taxable entities. An operating loss carry forward of approximately \$125,644 is available to offset future taxable income through the year 2038. Effective for tax years after December 31, 2017, the net operating loss carry forward is indefinite. As of June 30, 2018 and 2017, deferred tax assets of \$38,156 and \$54,370, respectively, consisting primarily of net operating loss carry forwards, were offset by a related valuation allowance.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Company has reviewed these provisions and the potential impact and concluded the enactment of H.R.1 will not have a material effect on the operations of the organization.

(r) Going Concern

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

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

(s) Use of Estimates

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

(t) New Accounting Pronouncements

The FASB issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which serves to supersede most existing revenue guidance, including guidance specific to the healthcare industry. This ASU establishes principles for reporting useful information to users of financial statements including increased disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, 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 Company will adopt ASU No. 2014-09 on July 1, 2018 and as a result, substantially all amounts that were previously presented as provision for doubtful accounts in the Company's consolidated statements of operations will now be considered an implicit price concession resulting in a reduction in patient service revenue net of contractual allowances. The Company is currently finalizing its assessment of the impact of the adoption of ASU No. 2014-09.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities (NFP)*, and requires a NFP to:

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

The adoption of ASU No. 2016-14 is effective in fiscal year 2019, and is applied retrospectively in the year of adoption. The Company is currently finalizing its assessment of the impact of the adoption of ASU No. 2016-14.

The FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost

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component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). ASU No. 2017-07 is effective for fiscal year 2020. This ASU requires retrospective application to all prior periods presented. The Company is currently assessing the impact of the adoption of ASU No. 2017-07.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize most leases on-balance sheet, which will increase their reported assets and liabilities. The adoption of ASU No. 2016-02 is effective in fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-02, which is expected to increase the Company's assets and liabilities but not have a significant impact on the results of operations.

(3) Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables and patient service revenue from patients and third parties as of June 30, 2018 and 2017 was as follows:

	Accounts receivable		Revenue	
	2018	2017	2018	2017
Medicare	35%	37%	43%	42%
Medicaid	6	5	4	3
Blue cross	12	12	12	14
HMO	21	21	21	23
Other third party payors	23	21	19	17
Self-pay	3	4	1	1
Total	100%	100%	100%	100%

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

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

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

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

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

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

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2018 or 2017 consolidated financial statements.

(4) Investments and Limited or Restricted Use Funds

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

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

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

The tables below present the balances of assets measured at fair value by levels excluding alternative investments in the amount of \$13,313 and \$8,086, which are accounted for under the equity method, as of June 30, 2018 and 2017, respectively:

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

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Assets	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Managed cash funds	\$ 22,745	—	—	22,745
Common stock	148,623	4,246	728	153,597
Foreign stock	10,687	—	—	10,687
Mutual funds	53,221	—	—	53,221
Mutual funds international	638	—	—	638
Total equity	213,169	4,246	728	218,143
Corporate debt securities	—	26,999	—	26,999
Bonds – treasury	13,474	—	—	13,474
Bonds – federal-agency-backed	—	7,167	—	7,167
Bonds – mortgage-backed	—	2,038	—	2,038
Bonds – fixed income	—	445	—	445
Mutual funds – fixed income	—	93,734	—	93,734
Municipal bonds	—	805	—	805
Total fixed income	13,474	131,188	—	144,662
Total investment and limited or restricted use funds	249,388	135,434	728	385,550
Current portion	12,974	—	—	12,974
Total noncurrent investment and limited or restricted use funds	\$ 236,414	135,434	728	372,576

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As of June 30, 2018 and 2017, the alternative investments consisted of subscription partnership agreements with capital commitments of approximately \$26.1 million and \$21.0 million, respectively, which are subject to periodic distributions. These alternative investments are valued at fair value using net asset value (NAV) or its equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. All assets are unable to be fully distributed to the limited partners until the dissolution of the partnership, which may not be until a point in the future. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

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

As of June 30, 2018 and 2017, the Level 3 investments consist of holdings of donated stock in a closely held company of \$828 and \$728, respectively. The value of the donated stock is based on independent appraisals obtained by the closely held company. There were no significant transfers between levels during the years ended June 30, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Funds for debt service	\$ 4,334	4,254
Insurance settlements	58,004	56,692
Donor restricted	58,609	57,464
Alternative investments	13,313	8,086
Unrestricted	<u>297,041</u>	<u>267,140</u>
	<u>\$ 431,301</u>	<u>393,636</u>

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

	2018	2017
Unrestricted income:		
Dividends and interest, net	\$ 5,794	4,915
Realized gains on sales of investments	16,170	7,730
Unrealized gains on investments	5,671	22,208
Total unrestricted income	27,635	34,853
Temporarily restricted income:		
Dividends and interest, net	923	717
Realized gains on sales of investments	2,613	1,465
Unrealized gains on investments	1,255	3,664
Total temporarily restricted income	4,791	5,846
Permanently restricted income:		
Unrealized gains on investments	47	85
	47	85
Total investment income, net	\$ 32,473	40,784

(5) Property, Plant and Equipment

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

	2018	2017
Land and land improvements	\$ 23,301	23,273
Buildings and building service equipment	406,929	387,295
Movable equipment	298,236	288,131
Capital leases	40,605	40,605
Construction in progress	9,157	4,821
	778,228	744,125
Less accumulated depreciation and amortization	(503,022)	(464,356)
Total property, plant and equipment, net	\$ 275,206	279,769

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	2018	2017
Depreciation expense	\$ 40,459	34,956
Amortization expense	336	445
Total depreciation and amortization expense	\$ 40,795	35,401

(6) Long-Term Debt

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

	2018	2017
MHHEFA project and refunding revenue bonds:		
2017 Capital One Bank term note – 3.8%	\$ 25,725	25,725
Series 2017 bonds:		
2.66% term bonds	72,910	73,720
2015 PNC Bank term note – 2.3%	27,813	34,821
Series 2012 bonds:		
3.25% – 5.00% term bonds	3,475	3,475
Series 2011 bonds:		
2.50% – 5.75% term bonds	19,425	22,620
Series 1995 bonds:		
Variable rate serial bonds	4,115	4,540
Unamortized deferred financing costs	(1,071)	(1,230)
	152,392	163,671
Less current portion of long-term debt	(11,679)	(11,439)
	\$ 140,713	152,232

On March 8, 2017, Maryland Health and Higher Education Facilities Authority (MHHEFA) issued \$73,720 of tax-exempt Revenue Bonds, Series 2017, on behalf of the Company. The bond proceeds were used to refund a portion of the Series 2012 Revenue Bonds (\$32,205) and a portion of the Series 2011 Revenue Bonds (\$32,480) resulting in a \$8,845 loss on extinguishment of debt. The Series 2017 bonds are due on July 1 in annual installments ranging from \$810 in 2018 to \$7,280 in 2034.

On March 8, 2017, the Company obtained a \$25,725 taxable term note from Capital One, N.A. to fund the Company's nonunion defined benefit pension plan. The 2017 note is due in annual installments ranging from \$2,445 in 2024 to \$3,735 in 2032.

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On March 1, 2015, the Company obtained a \$50,000 taxable term note from PNC Bank, National Association to finance components of the system-wide integrated health record conversion and other capital projects. The 2015 note is due in monthly installments of \$647, expiring on March 1, 2022.

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

On April 20, 2011, MHHEFA issued \$67,945 of tax-exempt Revenue Bonds, Series 2011, on behalf of the Company. The bond proceeds and limited use funds were used to finance construction and renovation to the hospital and to refund, a) the Series 2009 Revenue Bonds (\$45,000); b) a portion of Series 2001 Revenue Bonds (\$12,565); and c) the Series 1993 Revenue Bonds (\$11,975). Bond proceeds from the Series 2017 revenue bonds were used to refund a portion of the Series 2011 Revenue Bonds (\$32,480). The Series 2011 bonds are due on July 1 in annual installments ranging from \$3,195 in 2018 to \$3,660, with a final installment of \$1,930 in 2025.

On October 4, 1995, MHHEFA issued \$10,000 of tax-exempt Revenue Bonds, Series 1995, on behalf of the Company. The Series 1995 bonds are due on July 1 in annual installments ranging from \$405 in 2017 to \$590 in 2025. The bonds bear interest at a variable rate, which is determined on a weekly basis by the remarketing agent of the issue. The rate was 1.74% and 1.12% as of June 30, 2018 and 2017, respectively. The Series 1995 Bonds are supported by a Standby Bond Purchase Agreement issued by M&T Bank, covering the remaining portion of the obligation, effective through October 1, 2019.

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

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The aggregate future maturities of long-term debt as of June 30, 2018 are as follows:

	Long-term debt
2019	\$ 11,679
2020	12,046
2021	12,421
2022	10,868
2023	5,135
Thereafter	101,314
	153,463
Unamortized deferred financing costs	(1,071)
	\$ 152,392

The fair value of the Company's long-term debt, which is estimated, based on quotes from underwriters, was approximately \$151,624 and \$167,341 as of June 30, 2018 and 2017, respectively.

Deferred financing costs related to long-term borrowings, are amortized on a straight-line basis, which approximates the effective interest rate method, over the life of the borrowings, which ranges from 2 to 30 years. The Company has incurred deferred financing costs related to the issuance of MHHEFA Series 2017, Series 2012, Series 2011, Series 1995 Revenue Bonds and 2017 Capital One and 2015 PNC Bank term note payables that have been capitalized. Accumulated amortization at June 30, 2018 and 2017 amounted to \$1,405 and \$1,260, respectively.

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

In 2018, the Company reinstated a \$20,000 line of credit expiring December 31, 2018, which bears interest at the LIBOR Daily Floating Rate. No amounts were drawn on this line during the year ended June 30, 2018.

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(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were released and are available for the following purposes as of and for the year ended June 30:

	Available balance		Released	
	2018	2017	2018	2017
Departmental needs	\$ 17,772	18,301	8,544	9,436
Education	6,516	6,203	964	912
Uncompensated care	4,476	3,888	922	902
Research	2,308	2,353	620	777
Time restriction	2,207	949	1	107
Total temporarily restricted net assets	33,279	31,694	11,051	12,134
Purchase of equipment/construction	9,198	9,379	1,710	925
	<u>\$ 42,477</u>	<u>41,073</u>	<u>12,761</u>	<u>13,059</u>

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	2018	2017
Departmental needs	\$ 17,821	15,020
Uncompensated care	11,604	11,495
Education	2,878	2,792
Research	2,526	2,526
General support	512	510
Total permanently restricted net assets	<u>\$ 35,341</u>	<u>32,343</u>

The Company's endowment fund consists of a \$14 million endowment for Hospice as well as other donations from individual donors. The Company has no internal board-designated endowment funds recorded in unrestricted net assets. The net assets associated with the endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

	<u>Unrestricted</u>	<u>Temporary restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 1,598	13,266	30,148	45,012
Investment return:				
Investment income, net	37	694	—	731
Net depreciation (realized and unrealized)	260	4,877	85	5,222
Total investment return	297	5,571	85	5,953
Contributions	—	—	2,404	2,404
Net assets reclass	—	(336)	(294)	(630)
Appropriation of endowment assets for expenditure	(148)	(2,308)	—	(2,456)
Endowment net assets, June 30, 2017	1,747	16,193	32,343	50,283

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	<u>Unrestricted</u>	<u>Temporary restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:				
Investment income, net	\$ 42	817	—	859
Net appreciation (realized and unrealized)	<u>184</u>	<u>3,595</u>	<u>47</u>	<u>3,826</u>
Total investment return	226	4,412	47	4,685
Contributions	—	—	2,951	2,951
Appropriation of endowment assets for expenditure	<u>(158)</u>	<u>(2,551)</u>	<u>—</u>	<u>(2,709)</u>
Endowment net assets, June 30, 2018	<u>\$ 1,815</u>	<u>18,054</u>	<u>35,341</u>	<u>55,210</u>

(a) Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2018 and 2017, there were no endowments with deficits.

(b) Return Objectives and Risk Parameters

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

(c) Strategies Employed for Achieving Investment Objectives

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

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

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

(8) Functional Expenses

The Company provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended June 30 were as follows:

	2018	2017
Health care services	\$ 506,375	479,155
General and administrative	62,979	70,762
Total operating expenses	\$ 569,354	549,917

(9) Leases

(a) Capital Leases

The Company is obligated under a long-term lease expiring in 2030 for the use of a medical office building. Payments increase at varying rates from \$2,483 to \$3,004 per year over the remaining life. Interest rates approximated 5.76% as of June 30, 2018 and 2017, respectively.

The Company leases medical equipment with annual payments ranging from \$243 to \$1,032 and the last lease expires in fiscal year 2020.

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

	Payment	Principal
2019	\$ 3,353	1,981
2020	3,094	1,817
2021	2,975	1,790
2022	2,731	1,640
2023	2,731	1,737
Thereafter	19,804	16,318
	34,688	25,283
Less amount representing interest	(9,405)	—
	\$ 25,283	25,283

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(b) Operating Leases

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

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

	<u>Equipment</u>	<u>Facility</u>	<u>Total</u>
2019	\$ 1,168	2,081	3,249
2020	1,168	2,027	3,195
2021	1,168	1,558	2,726
2022	1,168	1,424	2,592
2023	—	997	997
Thereafter	—	773	773
	<u>\$ 4,672</u>	<u>8,860</u>	<u>13,532</u>

Most of the Company's leases contain renewal options and provisions for pass-through of operating expenses and real estate taxes. These provisions are not included in the minimum future rental expense unless exercised. Rental expense, including pass-through, associated with the facility leases amounted to \$3,284 and \$2,750 for the years ended June 30, 2018 and 2017, respectively.

(10) Retirement Plans

(a) Defined Benefit Plan

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

Effective June 30, 2007, the DB Non Union plan was frozen. As a result, no future benefits may be earned; however, employees are eligible to vest under the terms of the plan.

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The following tables set forth the plans' funded status and amounts recognized in the Company's consolidated financial statements as of June 30, 2018 and 2017. The change in benefit obligation, plan assets, and funded status of the pension plans is as follows:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 220,669	227,064
Service cost	1,042	1,161
Interest cost	8,458	8,435
Actuarial loss	(12,129)	(7,066)
Benefits paid	<u>(10,956)</u>	<u>(8,925)</u>
Benefit obligation at end of year	<u>\$ 207,084</u>	<u>220,669</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 209,615	166,566
Actual return on plan assets	(744)	16,401
Employer contribution	675	35,573
Benefits paid	<u>(10,956)</u>	<u>(8,925)</u>
Fair value of plan assets at end of year	<u>\$ 198,590</u>	<u>209,615</u>
Funded status at end of year	\$ (8,494)	(11,054)

Amounts recognized in unrestricted net assets as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net prior service cost	\$ (361)	(734)
Net actuarial loss	<u>65,061</u>	<u>66,551</u>
	<u>\$ 64,700</u>	<u>65,817</u>

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Components of net periodic benefit cost for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 1,042	1,161
Interest cost	8,458	8,435
Expected return on plan assets	(15,353)	(13,138)
Amortization of prior service cost	(372)	(372)
Amortization of loss deferral	<u>5,458</u>	<u>7,589</u>
Net periodic pension benefit (income) cost	\$ <u>(767)</u>	<u>3,675</u>

Amounts in unrestricted net assets expected to be recognized as a component of net periodic pension benefit cost in fiscal year 2019 are as follows:

Prior service cost	\$ (361)
Net actuarial loss	<u>5,842</u>
	\$ <u>5,481</u>

(i) *Assumptions*

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

	<u>Union</u>		<u>Non Union</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Discount rate	4.33%	3.97%	4.33%	3.97%
Rate of compensation increase	4.00	4.00	—	—

**GBMC HEALTHCARE, INC.
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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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

	Union		Non Union	
	2018	2017	2018	2017
Discount rate	3.97%	3.87%	3.97%	3.87%
Expected return on plan assets	7.50	7.50	7.50	7.50
Rate of compensation increase	4.00	4.00	—	—

The accumulated benefit obligation for the pension plans, which differs from the estimated actuarial present value of the projected benefit obligation because it is based on current rather than future compensation levels, was \$204,872 and \$217,676 as of June 30, 2018 and 2017, respectively. In 2017, GBMC adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2016. In 2018, GBMC utilized the RP-2014 Mortality Table with generational improvements using projection scale MP-2017.

(ii) Expected Long-Term Rate of Return

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

(iii) Estimated Future Benefit Payments

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

	Non union	Union	Total
2019	\$ 8,950	1,585	10,535
2020	9,250	1,617	10,867
2021	9,576	1,651	11,227
2022	9,916	1,718	11,634
2023	10,072	1,810	11,882
2024–2028	53,084	10,338	63,422
Total	\$ <u>100,848</u>	<u>18,719</u>	<u>119,567</u>

**GBMC HEALTHCARE, INC.
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Notes to Consolidated Financial Statements

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(In thousands)

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

	<u>2018</u>	<u>2017</u>
Equity securities	19%	20%
Debt securities	78	78
Cash and cash equivalents	3	2
	<u>100%</u>	<u>100%</u>

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

June 30, 2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Managed cash funds	\$ 6,405	—	—	6,405
Common collective trust	—	9,925	—	9,925
Total fixed income	—	9,925	—	9,925
Common stock	7,453	—	—	7,453
Corporate bonds	—	144,851	—	144,851
Foreign stock	667	—	—	667
Mutual funds	20,467	—	—	20,467
Mutual funds international	8,822	—	—	8,822
Total equity	37,409	144,851	—	182,260
Total plan assets	\$ <u>43,814</u>	<u>154,776</u>	<u>—</u>	<u>198,590</u>

**GBMC HEALTHCARE, INC.
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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Managed cash funds	\$ 3,706	—	—	3,706
Mutual funds – fixed income	—	142,734	—	142,734
Common collective trust	—	21,861	—	21,861
Total fixed income	—	164,595	—	164,595
Common stock	19,210	—	—	19,210
Foreign stock	1,529	—	—	1,529
Mutual funds	10,392	—	—	10,392
Mutual funds international	10,184	—	—	10,184
Total equity	41,315	—	—	41,315
Total plan assets	\$ 45,021	164,595	—	209,616

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

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

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

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

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

(iv) *Pension Investment Policies*

The primary objective of the Medical Center's pension investment program is the long-term growth of capital consistent with the protection of principal during major market declines. The program utilizes several balanced managers and provides for asset allocation guidelines consistent with the Medical Center's risk exposure. The equity portion of the DB Union portfolio may range from 50% to 60% of total portfolio assets with a target of 55% measured at market value. The fixed-income

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

and cash equivalents portion of the DB Union portfolio may range from 40% to 50% of total portfolio assets with a target of 45% measured at market value. The distribution of the DB Union plan as of June 30, 2018 was 57% equities, fixed income 40%, and cash 3%. At June 30, 2018 the funded ratio of the plan was 69.3%. The investment program related to the DB Non Union portfolio, which was frozen effective June 30, 2007, has the added objective to protect the principal in preparation for future termination of the plan. A major strategy of the investment program for the DB Non Union portfolio is a de-risking strategy that periodically transfers investments from equity to fixed-income securities based upon pre-established ranges correlating to the funded ratio of the plan, which are managed by the Company's investment consultants. At June 30, 2018 the funded ratio of the plan was 101.4%. At this funding ratio, the equity portion of the DB Non Union portfolio may range from 13% to 23% of total portfolio assets with a target of 18% measured at market value. The fixed-income and cash equivalents portion may range from 77% to 87% of total portfolio assets with a target of 82% measured at market value. The distribution of the DB Non Union portfolio as of June 30, 2018 was 14% equities, fixed income 83%, and cash 3%.

The equity segment of the portfolio may include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Equity holdings in any one industry should not exceed 20% of the equity portfolio, holdings in any one economic sector should not exceed 50% of the equity portfolio, and holdings in any one company should not exceed 8% of the equity portfolio. Cash equivalent positions should not exceed 10% of the equity managers' portfolio and no more than 15% of the total portfolio measured at market value shall be invested in small companies, defined as companies of less than \$1 billion in market capitalization.

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

(v) *Contributions*

The Company expects to contribute \$2,700 to its DB Union and \$0 DB Non Union pension plans in the fiscal year ending June 30, 2019.

(b) Defined Contribution Plan

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

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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

	2018	2017
Basic contribution	\$ 2,923	2,749
Match contribution	4,252	4,011
Total contribution	\$ 7,175	6,760

Effective July 1, 2009, the Company established the GBMC, Inc. 401(a) Defined Contribution Plan for Members of the Bargaining Union of Greater Baltimore Medical Center (DC Union) for the members covered by a collective bargaining agreement. The Company matches up to 3% of eligible employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. The Company contributed \$96 and \$91 for the years ended June 30, 2018 and 2017, respectively.

(c) Nonqualified Plan

The Company has a noncontributory, nonqualified deferred compensation plan for certain key employees. Benefits under the plan are determined based on increasing percentages (depending on years of service) of base pay. The Company recorded expense related to this plan of \$780 and \$751 for the years ended June 30, 2018 and 2017, respectively.

(11) Asserted and Unasserted Insurance Claims and Contingencies

The Company maintains an off-shore captive insurance company in Bermuda to provide coverage for medical malpractice claims. Reserve balances have been discounted at the rate of 3% for the years ended June 30, 2018 and 2017. The receivable for the expected reinsurance recoverable is recorded within other assets on the consolidated balance sheets. Retention on limits in which Ruxton assumes risk of loss is based on an annual occurrence basis of \$4 million per occurrence and \$19 million in aggregate. Amounts in excess of these limits are insured by highly rated commercial insurance companies.

As of June 30, 2018 and 2017, the Company was partially self-insured for workers' compensation and health insurance claims. The aggregate reserves for workers' compensation claims were determined and discounted at the rate of 2.3% and 2.1% for 2018 and 2017, respectively. The receivable for the expected reinsurance recoverable is recorded within other current assets on the consolidated balance sheets. The Company's excess workers' compensation policy is based on a per claim basis in excess of \$350 plus a corridor deductible of \$750.

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

**GBMC HEALTHCARE, INC.
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June 30, 2018 and 2017

(In thousands)

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

	2018			
	Malpractice	Workers' Compensation	Health	Total
Insurance reserves for self-insured claims	\$ 34,126	6,260	2,676	43,062
Reserves that are recoverable from reinsurance carrier	14,259	683	—	14,942
Total insurance accrual	48,385	6,943	2,676	58,004
Less current portion of insurance accrual	7,434	3,325	2,676	13,435
Total noncurrent insurance accrual	\$ <u>40,951</u>	<u>3,618</u>	<u>—</u>	<u>44,569</u>
	2017			
	Malpractice	Workers' Compensation	Health	Total
Insurance reserves for self-insured insured claims	\$ 32,186	5,624	2,727	40,537
Reserves that are recoverable from reinsurance carrier	15,207	948	—	16,155
Total insurance accrual	47,393	6,572	2,727	56,692
Less current portion of insurance accrual	6,700	3,039	2,727	12,466
Total noncurrent insurance accrual	\$ <u>40,693</u>	<u>3,533</u>	<u>—</u>	<u>44,226</u>

**GBMC HEALTHCARE, INC.
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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

(12) Promises to Contribute

The Company has received unconditional and conditional promises to give. The pledge receivables are recorded on a discounted basis using the rate in effect at the time of the pledge. Such rates approximate 4%. The Company is the beneficiary of four charitable remainder trusts whose present value as of June 30, 2018 and 2017 was \$1,291 and \$1,262, respectively. Current pledge receivables are included in other receivables and noncurrent pledge receivables are included in other assets in the accompanying consolidated balance sheets.

	<u>2018</u>	<u>2017</u>
Due within 1 year	\$ 6,933	9,464
Due 1-5 year	8,370	6,226
Due over 5 year	<u>5,041</u>	<u>1,262</u>
Gross pledge receivables	20,344	16,952
Less discount and allowances	<u>(1,135)</u>	<u>(1,000)</u>
Net pledge receivables	<u>\$ 19,209</u>	<u>15,952</u>

(13) Controlling and Non-controlling Interest

The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the Company's controlling interest and non-controlling interest:

	<u>Unrestricted net assets – controlling interest</u>	<u>Unrestricted net assets – noncontrolling interest</u>	<u>Total unrestricted net assets</u>
Balance as of June 30, 2016	\$ 361,531	5,641	367,172
Excess of revenues over expenses	25,940	1,059	26,999
Pension related changes other than net periodic pension costs	17,546	—	17,546
Distributions to noncontrolling interest owners	—	(1,550)	(1,550)
Net assets released for purchase of fixed assets	<u>925</u>	<u>—</u>	<u>925</u>
Increase (decrease) in net assets	<u>44,411</u>	<u>(491)</u>	<u>43,920</u>
Balance as of June 30, 2017	<u>405,942</u>	<u>5,150</u>	<u>411,092</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

	<u>Unrestricted net assets – controlling interest</u>	<u>Unrestricted net assets – noncontrolling interest</u>	<u>Total unrestricted net assets</u>
Excess of revenues over expenses	\$ 28,739	1,892	30,631
Pension related changes other than net periodic pension costs	1,117	—	1,117
Distributions to noncontrolling interest owners	—	(1,900)	(1,900)
Net assets released for purchase of fixed assets	<u>1,710</u>	<u>—</u>	<u>1,710</u>
Increase (decrease) in net assets	<u>31,566</u>	<u>(8)</u>	<u>31,558</u>
Balance as of June 30, 2018	<u>\$ 437,508</u>	<u>5,142</u>	<u>442,650</u>

The non-controlling interest is comprised of:

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

(14) Subsequent Events

The Company has evaluated all events and transactions from the consolidated balance sheet date through October 4, 2018, the date the consolidated financial statements were issued, and determined there are no other items to be recognized or disclosed this period.

CONSOLIDATING INFORMATION

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidating Balance Sheet

June 30, 2018

(In thousands)

Assets	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Agency Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Current assets:									
Cash	\$ 16,872	19	5,907	12,052	—	—	—	—	34,850
Short-term investments and limited or restricted use funds	4,344	6,326	—	1,285	—	—	—	—	11,955
Patient accounts receivable, net	46,645	—	1,744	5,612	—	—	—	—	54,001
Other receivables	8,204	2,271	1,280	3,261	—	815	—	—	15,831
Advances to affiliates	37,488	—	89	(6)	—	—	—	(37,571)	—
Other current assets	10,485	205	46	73	—	—	—	—	10,809
Total current assets	124,038	8,821	9,066	22,277	—	815	—	(37,571)	127,446
Investments and limited use funds	237,980	61,178	1,504	118,684	—	—	—	—	419,346
Interest in net assets of affiliate	—	—	—	—	—	—	520,778	(520,778)	—
Long-term receivables from affiliates	5,283	—	—	—	—	—	—	(5,283)	—
Property and equipment, net	247,698	—	14,445	11,503	241	1,319	—	—	275,206
Other noncurrent assets	10,535	14,260	8,291	3,473	—	213	—	(702)	36,070
Total assets	\$ 625,534	84,259	33,306	155,937	241	2,347	520,778	(564,334)	858,068
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 63,538	20	500	7,436	1	28	30	—	71,553
Insurance reserves current	5,192	8,090	—	153	—	—	—	—	13,435
Payable to affiliates	—	2,154	33,625	1,512	—	—	280	(37,571)	—
Advances from third-party payors	14,453	—	—	—	—	—	—	—	14,453
Current portion of long-term debt and capital lease liability	13,608	—	52	—	—	—	—	—	13,660
Other current liabilities	4,001	—	7	574	—	—	—	—	4,582
Total current liabilities	100,792	10,264	34,184	9,675	1	28	310	(37,571)	117,683
Long-term debt	140,713	—	—	—	—	—	—	—	140,713
Capital lease liabilities	23,302	—	—	—	—	—	—	—	23,302
Insurance reserves	3,310	40,952	—	307	—	—	—	—	44,569
Long-term payable to affiliate	—	—	(2,887)	—	7,611	559	—	(5,283)	—
Pension liability	8,494	—	—	—	—	—	—	—	8,494
Other long-term liabilities	1,137	—	1,087	615	—	—	—	—	2,839
Total liabilities	277,748	51,216	32,384	10,597	7,612	587	310	(42,854)	337,600
Net assets:									
Unrestricted – controlling	295,368	33,043	(4,220)	119,690	(7,371)	1,760	437,508	(438,270)	437,508
Unrestricted – noncontrolling	—	—	5,142	—	—	—	5,142	(5,142)	5,142
Total unrestricted	295,368	33,043	922	119,690	(7,371)	1,760	442,650	(443,412)	442,650
Temporarily restricted	34,373	—	—	8,104	—	—	42,477	(42,477)	42,477
Permanently restricted	18,045	—	—	17,546	—	—	35,341	(35,591)	35,341
Total liabilities and net assets	\$ 625,534	84,259	33,306	155,937	241	2,347	520,778	(564,334)	858,068

See accompanying independent auditors' report.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidating Statement of Operations

Year ended June 30, 2018

(In thousands)

	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Agency Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Operating revenues:									
Patient service revenue net of contractual allowances	\$ 488,948	—	12,754	59,503	—	—	—	—	561,205
Provision for uncollectible accounts	(12,041)	—	(535)	(1,223)	—	—	—	—	(13,799)
Net patient service revenue	476,907	—	12,219	58,280	—	—	—	—	547,406
Other operating revenue	10,727	13,911	6,158	187	—	3,236	—	(19,196)	15,023
Net assets released from restrictions	7,601	—	—	3,738	—	—	—	(288)	11,051
Total operating revenue	495,235	13,911	18,377	62,205	—	3,236	—	(19,484)	573,480
Operating expenses:									
Salaries, wages and employee benefits	308,292	—	2,940	38,911	1,042	345	7	(1,166)	350,371
Expendable supplies	88,160	—	770	3,826	2	31	—	—	92,789
Purchased services	66,904	9,987	6,437	10,988	76	3,003	39	(18,601)	78,833
Depreciation and amortization	36,282	—	2,679	1,479	99	256	—	—	40,795
Interest	6,560	—	6	—	—	—	—	—	6,566
Overhead	(1,852)	250	500	540	—	50	262	250	—
Total operating expenses	504,346	10,237	13,332	55,744	1,219	3,685	308	(19,517)	569,354
Operating (loss) income	(9,111)	3,674	5,045	6,461	(1,219)	(449)	(308)	33	4,126
Other income:									
Contributions	957	—	—	1,057	—	—	50	(50)	2,014
Fund-raising expense	(2,486)	—	—	(908)	—	—	—	250	(3,144)
Investment income (loss), net	19,765	(2,124)	(4)	9,998	—	—	—	—	27,635
Interests in net assets of affiliate	—	—	—	—	—	—	31,816	(31,816)	—
Excess (deficit) of revenues over expenses	\$ 9,125	1,550	5,041	16,608	(1,219)	(449)	31,558	(31,583)	30,631

See accompanying independent auditors' report.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**
Consolidating Statement of Changes in Net Assets
Year ended June 30, 2018
(In thousands)

	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Agency Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Excess (deficit) of revenues over expenses	\$ 9,125	1,550	5,041	16,608	(1,219)	(449)	31,558	(31,583)	30,631
Other unrestricted net assets:									
Pension-related changes other than net periodic pension costs	1,117	—	—	—	—	—	—	—	1,117
Net assets released for purchase of fixed assets	35	—	—	1,675	—	—	—	—	1,710
Distribution to noncontrolling interest	—	—	(1,900)	—	—	—	—	—	(1,900)
Transfers	951	—	(951)	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets	<u>11,228</u>	<u>1,550</u>	<u>2,190</u>	<u>18,283</u>	<u>(1,219)</u>	<u>(449)</u>	<u>31,558</u>	<u>(31,583)</u>	<u>31,558</u>
Changes in temporarily restricted net assets:									
Contributions	7,813	—	—	1,849	—	—	—	(288)	9,374
Investment income, net	3,034	—	—	1,757	—	—	—	—	4,791
Interest in net assets of affiliate	—	—	—	—	—	—	1,404	(1,404)	—
Transfer of temporarily restricted assets	17	—	—	(17)	—	—	—	—	—
Net assets released for purchase of fixed assets	(35)	—	—	(1,675)	—	—	—	—	(1,710)
Net assets released for operations	(7,601)	—	—	(3,738)	—	—	—	288	(11,051)
Net asset reclass	—	—	—	—	—	—	—	—	—
Increase (decrease) in temporarily restricted net assets	<u>3,228</u>	<u>—</u>	<u>—</u>	<u>(1,824)</u>	<u>—</u>	<u>—</u>	<u>1,404</u>	<u>(1,404)</u>	<u>1,404</u>
Changes in permanently restricted net assets:									
Contributions	2,216	—	—	985	—	—	—	(250)	2,951
Interest in net assets of affiliate	—	—	—	—	—	—	2,998	(2,998)	—
Net unrealized loss on investments	—	—	—	47	—	—	—	—	47
Net asset reclass	—	—	—	—	—	—	—	—	—
Increase (decrease) in permanently restricted net assets	<u>2,216</u>	<u>—</u>	<u>—</u>	<u>1,032</u>	<u>—</u>	<u>—</u>	<u>2,998</u>	<u>(3,248)</u>	<u>2,998</u>
Increase (decrease) in net assets	<u>16,672</u>	<u>1,550</u>	<u>2,190</u>	<u>17,491</u>	<u>(1,219)</u>	<u>(449)</u>	<u>35,960</u>	<u>(36,235)</u>	<u>35,960</u>
Net assets, beginning of year	331,114	31,493	(1,268)	127,849	(6,152)	2,209	484,508	(485,245)	484,508
Net assets, end of year	<u>\$ 347,786</u>	<u>33,043</u>	<u>922</u>	<u>145,340</u>	<u>(7,371)</u>	<u>1,760</u>	<u>520,468</u>	<u>(521,480)</u>	<u>520,468</u>

See accompanying independent auditors' report.