KPMG

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

**MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES**

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

Independent Auditors' Report

The Board of Trustees
Mt. Washington Pediatric Hospital, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, 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 Mt. Washington Pediatric Hospital, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and change 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 1–4 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 26, 2018

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018 and 2017

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	21,837,485	19,037,440
Current portion of assets limited as to use		92,341	97,630
Patient accounts receivable, less allowance for doubtful accounts of $2,277,315 and $2,266,542, respectively		7,100,125	6,227,829
Other accounts receivable		1,415,519	1,426,238
Inventories of supplies		170,900	130,649
Prepaid expenses and other current assets		265,832	50,273
Total current assets		30,882,202	26,970,059
Investments		35,145,266	33,780,923
Assets limited as to use, less current portion:			
Board-designated funds		4,011,089	4,006,089
Eliasberg construction fund		1,249,449	1,249,449
Funds restricted by donor		13,744,598	11,079,009
Self-insurance trust funds		6,122,964	5,375,965
		25,128,100	21,710,512
Property and equipment, net		35,097,615	34,354,091
Other assets		1,376,586	1,132,459
Total assets	$	127,629,769	117,948,044
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	354,930	339,930
Trade accounts payable		4,507,298	4,966,669
Accrued payroll benefits		4,710,922	3,986,457
Advances from third-party payors		3,574,033	3,826,482
Current portion of malpractice liabilities		92,341	97,630
Due to affiliates		408,856	704,184
Long-term debt subject to short-term remarketing arrangements		4,308,762	—
Total current liabilities		17,957,142	13,921,352
Malpractice liabilities		2,300,000	2,011,131
Accrued pension obligations		353,268	741,188
Long-term debt, less current portion		—	4,663,631
Total liabilities		20,610,410	21,337,302
Net assets:			
Unrestricted		90,999,450	83,235,642
Temporarily restricted		15,194,738	12,549,929
Permanently restricted		825,171	825,171
Total net assets		107,019,359	96,610,742
Total liabilities and net assets	$	127,629,769	117,948,044

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2018 and 2017

		2018	2017
Unrestricted revenue, gains, and other support:			
Patient service revenue (net of contractual adjustments)	$	62,581,998	57,893,074
Provision for bad debts		(571,860)	(396,879)
Net patient service revenue		62,010,138	57,496,195
Other revenue		331,678	518,423
Total unrestricted revenue, gains, and other support		62,341,816	58,014,618
Operating expenses:			
Salaries, wages, and benefits		40,143,225	37,530,808
Purchased services and supplies		14,767,907	14,294,054
Interest expense		121,266	105,103
Depreciation and amortization		3,678,036	3,224,371
Total operating expenses		58,710,434	55,154,336
Operating income		3,631,382	2,860,282
Nonoperating income and expenses, net:			
Contributions		636,114	757,334
Investment income		1,684,711	1,446,384
Other income and expenses, net		11,101	(38,304)
Change in unrealized gains of trading securities		1,229,324	2,380,720
Excess of revenues over expenses		7,192,632	7,406,416
Net unrealized gains on other-than-trading securities		336,315	580,031
Change in funded status of defined benefit plan		234,861	608,755
Increase in unrestricted net assets		7,763,808	8,595,202
Changes in temporarily restricted net assets:			
Contributions		779,465	1,145,275
Investment income, net		1,293,356	721,192
Net unrealized gains on temporarily restricted investments		571,988	972,725
Net assets released from restrictions used for operations		—	(307,992)
Increase in temporarily restricted net assets		2,644,809	2,531,200
Total increase in net assets		10,408,617	11,126,402
Net assets, beginning of year		96,610,742	85,484,340
Net assets, end of year	$	107,019,359	96,610,742

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	10,408,617	11,126,402
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		3,678,036	3,224,371
Amortization of debt issue costs		5,131	5,131
Provision for bad debts		571,860	396,879
Net realized gains and change in value of trading securities		(3,861,825)	(4,230,086)
Restricted contributions and investment income		(2,072,821)	(1,866,466)
Net unrealized gains on other-than-trading securities		(908,303)	(1,552,756)
Increase in funded status of defined benefit plan		(234,861)	(608,755)
Changes in operating assets and liabilities:			
Net patient accounts receivable		(1,444,156)	(628,896)
Other accounts receivable		10,719	(59,549)
Inventories of supplies		(40,251)	(9,799)
Prepaid expenses and other current assets		(215,559)	158,454
Other long-term assets		(244,127)	(74,338)
Amounts due to affiliates		(295,328)	198,787
Trade accounts payable		(459,371)	1,782,950
Accrued payroll benefits		724,465	(1,087,951)
Advances from third-party payors		(252,449)	(17,575)
Other liabilities		130,521	(71,351)
Net cash provided by operating activities		5,500,298	6,685,452
Cash flows from investing activities:			
Purchases of property and equipment		(4,421,560)	(5,435,941)
Purchases and sales of investments and assets limited to use, net (trading)		(297,192)	(443,724)
Purchases of investments and assets limited to use (other-than-trading)		(9,855,445)	(10,513,797)
Sales/Maturities of investments and assets limited to use (other-than-trading)		10,146,123	11,422,619
Net cash used in investing activities		(4,428,074)	(4,970,843)
Cash flows from financing activities:			
Repayment of long-term debt		(345,000)	(325,000)
Restricted contributions and investment income		2,072,821	926,466
Net cash provided by financing activities		1,727,821	601,466
Increase in cash and cash equivalents		2,800,045	2,316,075
Cash and cash equivalents at beginning of year		19,037,440	16,721,365
Cash and cash equivalents at end of year	$	21,837,485	19,037,440
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	117,145	100,696

See accompanying notes to consolidated financial statements.

(1) Organization

The consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries (the Corporation) include the accounts of Mt. Washington Pediatric Hospital, Inc. (the Hospital) and its wholly owned subsidiaries, Mt. Washington Pediatric Foundation, Inc. (the Foundation) and Mt. Washington Pediatric Community Health Services, LLC (Community Health). The Corporation is structured as a joint venture with a 50% ownership interest by the University of Maryland Medical System Corporation (UMMS) and a 50% ownership interest by Johns Hopkins Health System Corporation (JHHS).

The Hospital is a not-for-profit, nonstock corporation formed under the laws of the State of Maryland. Its purpose is to operate a pediatric rehabilitation and specialty hospital while providing the highest quality services and programs to meet the individualized needs of infants, children, and adolescents in a nurturing environment. The Hospital has 102 licensed beds. The Foundation uses its funds and investment income to solely support the Hospital and its programs. Community Health provides offsite rehabilitation and specialty healthcare services.

The Corporation incurred expenses of $501,703 and $475,926 for the years ended June 30, 2018 and 2017, respectively, for administrative services provided by UMMS. The Corporation is managed by UMMS, and accordingly, the results of the Corporation’s operations and its financial condition could be different if it were autonomous.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less from date of purchase, excluding amounts presented within investments and assets limited as to use.

(c) 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.

(d) Investments and Assets Limited as to Use

The Hospital participates in an investment pool of one of its owners, UMMS. The UMMS investment pool (investment pool) is classified as a trading portfolio. Each participating member of the investment pool has an undivided interest in the investment pool. The Hospital’s percentage interest in the assets of the investment pool was approximately 4% at June 30, 2018 and 2017. Investment income and administrative expenses relating to the investment pool are allocated to the individual members based on this percentage.

(Continued)

The Hospital's investment portfolio is classified as trading, and is reported at fair value, based on quoted market prices, at June 30, 2018 and 2017. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

The Foundation's investment portfolio is classified as other-than-trading and is reported in the consolidated balance sheets at its fair value, based on quoted market prices. Changes in fair value of securities with readily determinable market values below their recorded basis are recognized in the consolidated statements of operations and changes in net assets as realized losses and as investment income (other-than-trading), which is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets. Unrealized gains on investments in securities with readily determinable market values are recognized as a component of net assets.

The Foundation does not have any alternative investments in its investment portfolio. However, the Hospital has alternative investments in assets limited as to use for self-insurance and the investment pool. 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.

Assets limited as to use include investments set aside at the discretion of the board of trustees for the replacement or acquisition of property and equipment over which the board of trustees retains control and may at its discretion use for other purposes, 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. Declines in fair value of these unrestricted investments below their cost basis are recognized in nonoperating income and expense. Changes in fair value of these unrestricted investments above their cost basis are recognized as unrealized gains on investments and are included in other changes in net assets. Changes in fair values of donor-restricted investments are recorded in unrestricted net assets unless otherwise required by the donor or state law to be included in restricted net assets.

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 amounts reported in the accompanying consolidated financial statements.

(e) 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 benefits, current and long-term debt, and advances from third-party payors – The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

The Corporation has implemented the provisions of Accounting Standards Codification (ASC) Topic 820 in relation to fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. This guidance established a fair value hierarchy 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 I measurement) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

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

Assets and liabilities classified as Level I 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 II and Level III 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, 2018 and 2017, the Level II assets and liabilities listed in the fair value hierarchy tables below 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, are 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.

(f) Self-Insurance

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

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the assets are as follows:

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

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt are deferred and are amortized over the life of the related debt using the straight-line method, which approximates the effective-interest method. Accumulated amortization of such costs amounted to $54,730 and $49,599 for the years ended June 30, 2018 and 2017, respectively. Deferred financing costs are presented as a component of long-term debt in the accompanying consolidated balance sheets.

(Continued)

(i) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC Topic 360, *Property, Plant, and Equipment*, if there is an indication that the carrying amount of an asset is not recoverable, management estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such costs are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. There were no impairments in the years ended June 30, 2018 and 2017.

(j) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. 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.

(k) Net Patient Service Revenue and Provision for Uncollectible Accounts

Net patient service revenue 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, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC.

The Hospital records revenues and accounts receivable from patients and third-party payors at their estimated net realizable value. Revenue is reduced for anticipated discounts under contractual arrangements and for charity care. An estimated provision for bad debts is recorded in the period the related services are provided based upon anticipated uncompensated care, and is adjusted as additional information becomes available.

The provision for bad debts is based upon management’s assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical collection and write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts and to establish an allowance for uncollectible receivables. After collection of amounts due from insurers, the Hospital follows internal guidelines for placing certain past-due balances with collection agencies.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Hospital records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients ultimately do not pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts. The change in the allowance for bad debts was as follows during the years ended June 30:

		2018	2017
Beginning bad debt allowance	$	2,266,542	2,132,758
Plus provision for bad debt		571,860	396,879
Less bad debt write-offs		(561,087)	(263,095)
Ending bad debt allowance	$	2,277,315	2,266,542

The change in the allowance for bad debts during 2018 is attributable to trends experienced in the collection of the related patient receivables.

As of June 30, 2018 and 2017, the Corporation’s bad debt allowance was approximately 24.3% and 26.7%, respectively, as a percentage of patient accounts receivable, net of contractual allowances. The Corporation’s provision for bad debts represents 0.9% and 0.7% of net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

(l) Charity Care

The Hospital provides charity care to patients who are unable to pay or who meet certain criteria under its charity care policy. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Hospital does not expect collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Costs incurred are estimated based on the cost-to-charge ratio for the hospital and applied to charity care charges. Since the Hospital does not pursue collection of amounts determined to meet the criteria under the charity care policy, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services. The Hospital estimates the total direct and indirect costs to provide charity care were to $86,541 and $382,465 in the years ended June 30, 2018 and 2017, respectively.

(m) Nonoperating Income and Expenses, Net

Other activities that are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, change in fair value of investments and general donations, and fund-raising activities.

(n) Excess of Revenues over Expenses

The consolidated statement of operations and changes in net assets includes a performance indicator, the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include the change in unrealized gains on investments (other-than-trading securities), contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension costs and other items which are required by generally accepted accounting principles to be reported separately.

(o) Income Tax Status

The Hospital is a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is a not-for-profit corporation formed under the laws of the state of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Code.

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 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. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors, as such the Corporation's effective tax rate was reduced from 35% to 21% during the fiscal year 2018. The Company has reviewed these provisions and the potential impact and has concluded the enactment of H.R.1 will not have a material effect on the operations of the organization

(p) 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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and either reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions for operations as net assets released from restrictions for property and equipment. Donor-restricted contributions for operations whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Revenue earned from contributed assets is considered unrestricted unless specifically restricted by the donor.

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).

(q) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. ASU No. 2014-09 is effective for fiscal year 2019. The Corporation expects to record a decrease in net patient service revenue and a corresponding decrease in bad debt expense upon the adoption of the standard. The Corporation adopted ASU No. 2014-09 on July 1, 2018 and as a result, substantially all amounts that were previously presented as provision for bad debts in the Corporation's consolidated statements of operations is considered an implicit price concession resulting in a reduction in patient service revenue net of contractual adjustments. Other than described above, the Corporation is currently finalizing their assessment of the impact on the Corporation's consolidated balance sheets, results of operations or cash flows. However, expanded disclosures will be required.

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 – sometimes very significantly. 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 adoption of ASU No. 2016-02 is effective 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 Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

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), rather than the three classes of net assets currently required, and other qualitative information regarding the entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance amends ASC Topic 715, *Compensation – Retirement Benefits*, to require employers that present a measure of operating income in their statements of operations to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit and settlement and curtailment effects, are to be included in nonoperating expenses. Employers are required to include all other components of net benefit cost in a separate line item(s). The line item(s) in which the components of net benefit cost other than the service cost are included need to be identified as such on the income statement or in the disclosures. The standard also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for the Corporation as of July 1, 2019, with early adoption permitted. Early adoption was elected and the impact of the early adoption is presented in note 5.

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 our consolidated financial position, results of operations, or cash flows.

(r) Going Concern

Management evaluates whether there are conditions or events, considered in 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.

(s) 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 the 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.

(Continued)

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2018 presentation of ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

(3) Investments and Assets Limited as to Use

The carrying value of assets limited or restricted as to use is summarized as follows at June 30:

		2018	2017
Cash and cash equivalents	$	1,127,067	184,173
Corporate obligations		3,010,153	3,180,968
Foreign bonds		198,456	—
Common stocks		10,669,460	8,969,406
UMMS investment pool		4,000,000	4,000,000
Self insurance trust funds – MMCIP		6,215,305	5,473,595
Total assets limited or restricted as to use		25,220,441	21,808,142
Less amounts available for current liabilities		(92,341)	(97,630)
Total assets limited as to use, less current portion	$	25,128,100	21,710,512

Board-designated assets represent assets designated by the Hospital’s board of trustees for future capital improvements and expansion. The board retains control of these assets and may, at its discretion, subsequently use them for other purposes. The assets consist primarily of cash and cash equivalents, fixed-income securities, equity instruments, and the Hospital’s allocation of the UMMS investment pool.

The Corporation’s self-insurance trust funds are 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. 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 malpractice liabilities in the accompanying consolidated balance sheets.

The composition and carrying value of investments were as follows at June 30:

		2018	2017
Corporate obligations	$	732,382	1,348,139
Foreign bonds		48,285	—
Common stocks		2,595,921	3,801,360
UMMS investment pool		31,768,678	28,631,424
	$	35,145,266	33,780,923

The composition and carrying value of total cash and investments held in the UMMS investment pool as of June 30 are as follows:

		2018	2017
Cash and cash equivalents	$	35,752,037	12,324,206
Corporate bonds		55,661,123	49,349,529
Collateralized corporate obligations		26,880,451	17,163,682
U.S. government and agency securities		29,389,685	22,025,595
Common stocks		206,592,817	193,174,597
Alternative investments		514,973,310	490,822,909
	$	869,249,423	784,860,518
Hospital’s allocation (investments)	$	31,768,678	28,631,424
Hospital’s allocation (assets limited as to use)		4,000,000	4,000,000

Investment income and realized and unrealized gains (losses) for investments limited or restricted as to use and other long-term investments are summarized as follows for the years ended June 30:

		2018	2017
Interest and dividend income, net of fees	$	345,566	318,209
Net realized gains on investments and assets limited to use		2,632,501	1,849,367
Change in unrealized gains of trading securities		1,229,324	2,380,720
Net unrealized gains on temporarily restricted investments		571,988	972,725
Net unrealized gains on other-than-trading securities		336,315	580,031
	$	5,115,694	6,101,052

(Continued)

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

		2018	2017
Nonoperating investment income	$	1,684,711	1,446,384
Investment income on restricted net assets		1,293,356	721,192
Net realized gains on restricted net assets		571,988	972,725
Change in unrealized gains of trading securities		1,229,324	2,380,720
Net unrealized gains on other-than-trading securities		336,315	580,031
	$	5,115,694	6,101,052

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of $18,767,337 for investments and $2,369,738 for assets limited as to use, which are accounted for under the equity method, as of June 30, 2018:

		Level I	Level II	Level III	Total
Investments:					
Corporate obligations	$	732,382	—	—	732,382
Common stocks		2,595,921	—	—	2,595,921
Foreign bonds		—	48,285	—	48,285
UMMS investment pool		10,626,226	2,375,115	—	13,001,341
Subtotal		13,954,529	2,423,400	—	16,377,929
Assets limited as to use:					
Cash and cash equivalents		1,127,067	—	—	1,127,067
Corporate obligations		3,010,153	—	—	3,010,153
Common stocks		10,669,460	—	—	10,669,460
Foreign bonds		—	198,456	—	198,456
UMMS investment pool		1,332,442	297,820	—	1,630,262
Self insurance trust funds – MMCIP		—	6,215,305	—	6,215,305
Subtotal		16,139,122	6,711,581	—	22,850,703
	$	30,093,651	9,134,981	—	39,228,632

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of $17,937,996 for investments and $2,501,453 for assets limited as to use, which are accounted for under the equity method, as of June 30, 2017:

	Level I	Level II	Level III	Total
Investments:				
Corporate obligations	$ 1,348,139	—	—	1,348,139
Common stocks	3,801,360	—	—	3,801,360
UMMS investment pool	9,028,074	1,665,354	—	10,693,428
Subtotal	14,177,573	1,665,354	—	15,842,927
Assets limited as to use:				
Cash and cash equivalents	184,175	—	—	184,175
Corporate obligations	3,181,229	—	—	3,181,229
Common stocks	8,969,143	—	—	8,969,143
UMMS investment pool	1,265,169	233,378	—	1,498,547
Self insurance trust funds – MMCIP	—	5,473,595	—	5,473,595
Subtotal	13,599,716	5,706,973	—	19,306,689
	$ 27,777,289	7,372,327	—	35,149,616

(4) Property and Equipment

A summary of property and equipment and related accumulated depreciation is as follows at June 30:

	2018	2017
Land and land improvements	$ 1,587,397	1,413,434
Buildings and fixed equipment	55,776,837	51,358,893
Leasehold improvements	842,497	832,288
Major moveable equipment	13,747,661	13,522,151
Minor equipment	6,551,383	6,176,324
Construction in progress	1,631,331	2,412,456
	80,137,106	75,715,546
Less accumulated depreciation	(45,039,491)	(41,361,455)
Property and equipment, net	$ 35,097,615	34,354,091

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 Hospital's facilities.

(Continued)

The Hospital entered into a construction contract for the expansion and renovation of its hospital building. The Hospital had unspent commitments under the construction contract of approximately $40,542 as of June 30, 2018.

(5) Retirement Plans

Employees of the Corporation became eligible to participate in the Baltimore Washington Medical System, Inc.'s (BWMS) noncontributory defined benefit pension plan (the Plan) effective July 1, 1997. In connection with BWMS' sale of 50% interest in the Hospital, this Plan was amended effective July 1, 2006 to become a multiple employer plan whereby the assets and liabilities of this Plan related to the Corporation's participants have been transferred to the Corporation. The Plan covers employees who have completed one year of eligibility service and have reached 21 years of age.

On June 30, 2015 the Baltimore Washington Medical Center Pension Plan was amended to merge two other pension plans into the Baltimore Washington Medical Center Pension 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. In addition, as of June 30, 2015 all of the assets of the three formerly separate plans that were previously available only to pay benefits for their separate plan participants are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

Under the Plan, upon normal retirement, participants shall be eligible to receive benefits based on the value of their vested accrued benefit. Vested accrued benefits are calculated as the sum of: (a) the present value of a participant's accrued benefit under the previous plan as of June 30, 1989, plus (b) a percentage (3.0% for less than 15 years, 4.0% for years 15 to 19, 5.6% for years 20 to 24, and 7.2% for 25 years and higher) of the participant's annual compensation and compensation in excess of the Social Security Wage Base, as defined, plus (c) annual interest credited at a rate equal to the average yield of six-month U.S. Treasury Bills at the beginning of the plan year.

Vesting begins after three years of participation in the Plan. The funding policy is to make annual contributions to the Plan in amounts sufficient to satisfy the funding standards of the Employee Retirement Income Security Act of 1974. Pension expense for the defined benefit pension plan was approximately $647,000 and $662,000 for the years ended June 30, 2018 and 2017, respectively.

The following table sets forth the change in the benefit obligation and plan assets as of and for the years ended June 30, the measurement date:

		2018	2017
Change in projected benefit obligations:			
Benefit obligations at beginning of year	$	9,721,683	9,257,854
Settlements		(325,123)	—
Service cost		658,042	623,537
Interest cost		382,183	356,458
Actuarial loss (gain)		(168,746)	(268,229)
Benefits paid		(5,280)	(247,937)
Projected benefit obligations at end of year	$	10,262,759	9,721,683
Change in plan assets:			
Fair value of plan assets at beginning of year	$	8,980,495	7,769,752
Actual return on plan assets		459,399	658,680
Settlements		(325,123)	—
Employer contributions		800,000	800,000
Benefits paid		(5,280)	(247,937)
Fair value of plan assets at end of year	$	9,909,491	8,980,495
Accumulated benefit obligation at end of year	$	9,834,316	9,313,824

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

		2018	2017
Funded status, end of period:			
Fair value of plan assets	$	9,909,491	8,980,495
Projected benefit obligations		10,262,759	9,721,683
Funded status	$	(353,268)	(741,188)
Amounts recognized in unrestricted net assets as of June 30:			
Net actuarial loss	$	(1,976,896)	(2,207,010)
Unamortized prior service cost		(11,789)	(16,536)
	$	(1,988,685)	(2,223,546)

(Continued)

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2019 are as follows:

Net actuarial loss	$	138,882
Prior service cost		2,242
	$	141,124

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

		2018	2017
Service cost	$	658,042	623,537
Interest cost		382,183	356,458
Expected return on plan assets		(614,276)	(541,316)
Amortization of prior service cost		2,442	2,641
Amortization of net actuarial loss		218,550	220,521
	$	646,941	661,841

As described in 2(q) the Corporation adopted ASU 2017-07 as of July 1, 2017. As a result of the adoption of this ASU, the components of net benefit cost other than the service cost of $658,042 were recorded in other nonoperating losses, net in the consolidated statements of operations and changes in net assets for the year ended June 30, 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 Corporation elected to use the practical expedient as of July 1, 2016. This election resulted in a decrease in operating expenses and increase in other nonoperating losses, net of $38,304 in the consolidated statements of operations and changes in net assets for the year ended June 30, 2017.

The information below related to the assumptions relates to the entire Plan. Certain information related to the Corporation is not separately identifiable.

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

	2018	2017
Discount rate	4.39 %	4.10 %
Rate of compensation increase	3.00	3.00

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

	2018	2017
Discount rate	4.1/3.85%	3.95 %
Expected long-term return on plan assets	6.50	6.75
Rate of compensation increase	3.00	4.00

All of the Plan's assets are held in the UMMS Master Pension Trust (the Master Trust), which was established during the year ended June 30, 2012 for the investment assets of multiple-sponsored retirement plans. Each participating plan has an undivided interest in the Master Trust. The Plan's percentage interest in the net assets of the Master Trust was approximately 6% at June 30, 2018 and 2017. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based on this percentage.

The fair values of total cash and investments held in the Master Trust are as follows as of June 30:

		2018	2017
Cash and cash equivalents	$	3,165,125	7,401,393
Common and preferred stocks		10,751,942	11,649,868
Equity mutual funds		18,351,267	21,188,066
Fixed-income mutual funds		12,081,870	10,967,253
Other mutual funds		12,720,183	13,835,903
Alternative investments		102,453,322	94,325,690
Total Master Trust cash and investments	$	159,523,709	159,368,173
Plan's interest in Master Trust	$	9,909,491	8,980,495

The investment policies of the Master Trust 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 Master Trust 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 Master Trust considered 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 was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

(Continued)

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

Asset category	Target allocation	Percentage of plan assets as of June 30 2018	2017
Cash and cash equivalents	0–10%	2 %	5 %
Equity securities	30–50%	23	32
Fixed-income securities	25–45%	38	26
Global asset allocation	10–20%	27	27
Hedge funds	5–15%	10	10
		100 %	100 %

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

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2018 aggregated by the fair value hierarchies as described in note 4:

		Level I	Level II	Level III	Investments Reported at NAV*	Total
Cash and cash equivalents	$	(7,137)	3,172,261	—	—	3,165,124
Common and preferred stocks		10,751,942	—	—	—	10,751,942
Equity mutual funds		18,351,267	—	—	—	18,351,267
Fixed-income mutual funds		12,081,870	—	—	—	12,081,870
Other mutual funds		12,720,183	—	—	—	12,720,183
Alternative investments		19,054,137	28,951,412	—	54,447,773	102,453,322
	$	72,952,262	32,123,673	—	54,447,773	159,523,708
The Plan's allocation	$	4,532,922	1,995,059	—	3,381,510	9,909,491

* Fund investments reported at NAV as practical expedient estimate

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2017 aggregated by the fair value hierarchies as described in note 4:

		Level I	Level II	Level III	Investments Reported at NAV*	Total
Cash and cash equivalents	$	1,793,804	5,607,589	—	—	7,401,393
Common and preferred stocks		11,649,868	—	—	—	11,649,868
Equity mutual funds		21,188,066	—	—	—	21,188,066
Fixed-income mutual funds		10,967,253	—	—	—	10,967,253
Other mutual funds		13,835,903	—	—	—	13,835,903
Alternative investments		19,328,729	30,128,725	—	44,868,236	94,325,690
	$	78,763,623	35,736,314	—	44,868,236	159,368,173
The Plan's allocation	$	4,438,107	2,013,640	—	2,528,748	8,980,495

* Fund investments reported at NAV as practical expedient estimate

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 $14,400,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling $13,400,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling $1,200,000 is subject to a lock-up restriction of three years. In addition, one fund totaling $800,000 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 majority of these alternative investments held as of June 30, 2017 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 $6,500,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling $5,000,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling $1,200,000 is subject to a lock-up restriction of three years. The Corporation had no unfunded commitments as of June 30, 2017.

The Corporation expects to contribute approximately $800,000 to its defined benefit pension plans for the fiscal year ended June 30, 2019.

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:

2019	$	712,989
2020		743,154
2021		682,840
2022		685,648
2023		739,596
2024–2027		4,027,358

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2018.

The Corporation also has a 403(b) retirement plan (Retirement Plan) covering substantially all employees. Employees are immediately eligible for elective deferrals of compensation as contributions to the Retirement Plan. The Retirement Plan currently has a discretionary provision for employer matching contributions.

(6) Leases

The Corporation rents office and clinical space from Prince George's County Hospital and administrative space from an unrelated third party. Total rent expense for the years ended June 30, 2018 and 2017 was $227,316 and $83,116, respectively. The Prince George's County lease is for a period of one year, with additional one year renewal options for an unidentified period of time, and therefore, there are no future obligations on the lease. The initial term for the administrative space is 5 years, with additional one year renewal options for an unidentified period of time.

Future noncancelable minimum lease payments under operating leases are as follows for the years ending June 30 (in thousands)

2019	$	49,516
2020		51,001
2021		52,331
2022		54,107
2023		46,211
	$	253,166

(7) Functional Expenses

The Corporation considers healthcare services and management and general to be its primary functional categories for purposes of expense classification. Depreciation and interest costs are allocated ratably to each classification. The Hospital's operating expenses by functional classification for the years ended June 30 is as follows:

		2018	2017
Healthcare services	$	49,903,869	46,881,185
Management and general		8,806,565	8,273,151
	$	58,710,434	55,154,336

(8) Maryland Health Services Cost Review Commission (HSCRC)

Most of the Hospital's revenues are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC). Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with the HSCRC's requirements.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services (CMS) and the HSCRC. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as certain conditions are met. Management believes that this program will remain in effect at least through June 30, 2019.

Patient service revenue is recorded at established rates regulated by the HSCRC. Such rates are adjusted prospectively giving effect to, among other things, the projected impact of inflation, and variances between actual unit rates and previously approved unit rates (price variances) during the previous year.

The timing of the HSCRC's adjustment for the Hospital could result in an increase or reduction in rates (revenue) due to the variances described above in a year subsequent to the year in which the variances occur. The Hospital's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed.

(9) Long-Term Debt

Long-term debt, including current maturities of Maryland Health and Higher Education Facilities Authority Series D Revenue Bonds, totaled $4,663,692 and $5,003,561 at June 30, 2018 and 2017, respectively. The bonds were issued on November 1, 2007, interest payable monthly at a variable rate payable in fiscal years 2010 through 2029. Interest rates during fiscal year 2018 ranged from 0.8% to 1.90%.

(Continued)

The annual future maturities of long-term debt according to the original terms of the Loan Agreement are as follows for the years ending June 30:

2019	$	360,000
2020		375,000
2021		400,000
2022		410,000
2023		425,000
Thereafter		2,745,000
Total debt		4,715,000
Unamortized deferred financing costs		(51,308)
	$	4,663,692

The Corporation's Series D Revenue Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into a Security Agreement and obtained an irrevocable letter of credit for $7,668,740. 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, at the sole discretion of the bank, to require full repayment of the outstanding balance on the mandatory prepayment date, which is on or after February 28, 2019, as defined in the Amendment to Loan Agreement. The Corporation has reflected the current portion of its long-term debt that is subject to these remarketing arrangements as a component of current liabilities. As of June 30, 2018, the Corporation did not have any amounts outstanding on the letter of credit.

For the year ended June 30, 2018, $4,715,000 represents the approximate required repayment terms of the Corporation's debt obligations in the event that the put options associated with variable rate demand bonds subject to the remarketing agreement were exercised, but the related bonds were not successfully remarketed.

The Loan Agreement contains certain restrictive covenants, including requirements that rates and charges be set at certain levels, that incurrence of additional debt be limited, and that compliance with certain operating ratios be maintained. As further security under the Loan Agreement, the Foundation has guaranteed the Corporation's repayment of principal and interest due on the bonds.

(10) Insurance

(a) Professional Liability Insurance

In connection with the affiliation agreement with UMMS and effective July 1, 2006, the Corporation became self-insured with respect to professional and general liability through its participation in the Maryland Medicine Comprehensive Insurance Program Self Insurance Trust (the Trust). The Corporation is self-insured for claims up to the limits of $1,000,000 on individual claims and $3,000,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture of UMMS. For the year ended June 30, 2018, Terrapin provided insurance for claims related to UMMS and the Corporation for claims in excess of $1,000,000 on individual claims and $3,000,000 in the aggregate up to $150,000,000 individually and $150,000,000 in the aggregate under modified claims made policies between the aforementioned entities and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. Malpractice liabilities include $1,376,586 and $1,132,459 as of June 30, 2018 and 2017, respectively, for which related reinsurance receivables have been recorded within other assets.

The Corporation may become involved in claims and litigation on malpractice matters that arise in the normal course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

Total malpractice insurance expense for the Corporation in 2018 and 2017 was $491,902 and $364,417, respectively.

(b) Workers' Compensation

The Corporation is insured against workers' compensation claims through membership in the Maryland Hospital Association Workers' Compensation Self-Insurance Group. Premiums are paid quarterly and adjusted yearly based on the group's actual experience.

(c) Health Insurance

The Corporation maintains a self-insurance plan for employee health insurance. The Corporation has accrued $499,000 as of both June 30, 2018 and 2017, for estimated claims incurred but not reported, which are included in accrued payroll benefits.

(11) Business and Credit Concentrations

The Corporation provides services to patients in the Baltimore Metropolitan area, the majority of whom are under the age of 18 and are covered by third-party health insurance or state Medicaid programs. Insurance coverage and credit information is obtained from patients upon admission when available. The Corporation bills the insurer directly for services provided. No collateral is obtained for accounts receivable.

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.

Gross receivables from patients and third-party payors consisted of the following at June 30:

	2018	2017
Medicaid	67 %	76 %
Blue Cross	14	11
Commercial insurance and HMO	13	10
Self-pay and others	6	3
	100 %	100 %

Gross patient service revenue, by payor class, consisted of the following at June 30:

	2018	2017
Medicaid	76 %	73 %
Blue Cross	13	14
Commercial insurance and HMO	10	11
Self-pay and others	1	2
	100 %	100 %

(Continued)

(12) Endowment

The Corporation's endowment consists of four individual funds established based on donor-imposed restrictions. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees has interpreted UPMIFA as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. 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 directions 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 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 board of trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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. The other resources of the Corporation
7. The investment policies of the Corporation

Endowment net assets consist of the following as of June 30, 2018:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Total endowed net assets $	—	13,264,717	825,171	14,089,888

Endowment net assets consist of the following as of June 30, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Total endowed net assets $	—	11,401,761	825,171	12,226,932

(Continued)

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. As of June 30, 2018, there have been no deficiencies of this nature. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets, as appropriate.

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and funding policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the investment policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark that includes the S&P 500, Barclays Government/Credit, and T-Bill Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(13) Temporarily and Permanently Restricted Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions.

Temporarily and permanently restricted net assets consisted of the following at June 30:

		2018	2017
Temporarily restricted net assets:			
Funds to be used for programs and capital projects	$	1,903,638	1,121,785
Callaway Fund		26,383	26,383
Endowment funds to be used for renovations		3,516,592	3,023,089
Endowment funds, other		9,748,125	8,378,672
Total	$	15,194,738	12,549,929
Permanently restricted net assets:			
Eliasberg Fund	$	5,000	5,000
White Fund		150,576	150,576
Williams Fund		86,829	86,829
Redman Fund		582,766	582,766
Total	$	825,171	825,171

(Continued)

(14) Certain Significant Risks and Uncertainties

The Corporation provides pediatric rehabilitation and specialty 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 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 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, is 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 Medicaid anti-fraud 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 Medicaid program. 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.

(Continued)

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, and impact on the healthcare “demand curve” as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10.

(15) Subsequent Events

The Corporation evaluated all events and transaction that occurred after June 30, 2018 and through October 26, 2018. The Corporation did not have any material recognizable subsequent events during the period.

Schedule 1

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2018

Assets	**Mt. Washington Pediatric Hospital, Inc.**	**Mt. Washington Pediatric Foundation, Inc.**	**Mt. Washington Pediatric Community Health Services, LLC**	**Elimination entries**	**Consolidated total**
Current assets:					
Cash and cash equivalents	$ 17,449,666	4,305,350	82,469	—	21,837,485
Current portion of assets limited as to use	92,341	—	—	—	92,341
Patient accounts receivable, less allowance for doubtful accounts of $2,277,315	7,100,125	—	—	—	7,100,125
Other accounts receivable	1,387,144	—	28,375	—	1,415,519
Inventories of supplies	170,900	—	—	—	170,900
Prepaid expenses and other current assets	216,783	49,049	—	—	265,832
Total current assets	26,416,959	4,354,399	110,844	—	30,882,202
Investments	31,768,678	3,376,588	—	—	35,145,266
Assets limited as to use, less current portion:					
Board-designated funds	4,011,089	—	—	—	4,011,089
Eliasberg Construction Fund	—	1,249,449	—	—	1,249,449
Funds restricted by donor	1,115,978	12,628,620	—	—	13,744,598
Self-insurance trust funds	6,122,964	—	—	—	6,122,964
	11,250,031	13,878,069	—	—	25,128,100
Property and equipment, net	35,097,615	—	—	—	35,097,615
Economic interest in net assets of the Foundation	21,433,730	—	—	(21,433,730)	—
Other assets	1,376,586	—	—	—	1,376,586
Total assets	$ 127,343,599	21,609,056	110,844	(21,433,730)	127,629,769
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$ 354,930	—	—	—	354,930
Trade accounts payable	4,331,972	175,326	—	—	4,507,298
Accrued payroll benefits	4,710,922	—	—	—	4,710,922
Advances from third-party payors	3,574,033	—	—	—	3,574,033
Current portion of malpractice liabilities	92,341	—	—	—	92,341
Due to affiliates	332,013	—	76,843	—	408,856
Long-term debt subject to short-term remarketing arrangements	4,308,762	—	—	—	4,308,762
Total current liabilities	17,704,973	175,326	76,843	—	17,957,142
Malpractice liabilities	2,300,000	—	—	—	2,300,000
Accrued pension obligations	353,268	—	—	—	353,268
Total liabilities	20,358,241	175,326	76,843	—	20,610,410
Net assets:					
Unrestricted	90,965,449	7,317,459	34,001	(7,317,459)	90,999,450
Temporarily restricted	15,194,738	13,291,100	—	(13,291,100)	15,194,738
Permanently restricted	825,171	825,171	—	(825,171)	825,171
Total net assets	106,985,358	21,433,730	34,001	(21,433,730)	107,019,359
Total liabilities and net assets	$ 127,343,599	21,609,056	110,844	(21,433,730)	127,629,769

See accompanying independent auditors' report.

Schedule 2

**MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2017

Assets	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Mt. Washington Pediatric Community Health Services, LLC	Elimination entries	Consolidated total
Current assets:					
Cash and cash equivalents	$ 17,203,576	1,826,996	6,868	—	19,037,440
Current portion of assets limited as to use	97,630	—	—	—	97,630
Patient accounts receivable, less allowance for doubtful accounts of $2,266,542	6,227,829	—	—	—	6,227,829
Other accounts receivable	1,417,588	—	8,650	—	1,426,238
Inventories of supplies	130,649	—	—	—	130,649
Prepaid expenses and other current assets	9,500	40,773	—	—	50,273
Total current assets	25,086,772	1,867,769	15,518	—	26,970,059
Investments	28,631,424	5,149,499	—	—	33,780,923
Assets limited as to use, less current portion:					
Board-designated funds	4,006,089	—	—	—	4,006,089
Eliasberg Construction Fund	—	1,249,449	—	—	1,249,449
Funds restricted by donor	178,084	10,900,925	—	—	11,079,009
Self-insurance trust funds	5,375,965	—	—		5,375,965
	9,560,138	12,150,374	—	—	21,710,512
Property and equipment, net	34,354,091	—	—	—	34,354,091
Economic interest in net assets of the Foundation	19,027,369	—	—	(19,027,369)	—
Other assets	1,132,459	—	—	—	1,132,459
Total assets	$ 117,792,253	19,167,642	15,518	(19,027,369)	117,948,044
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$ 339,930	—	—	—	339,930
Trade accounts payable	4,826,396	140,273	—	—	4,966,669
Accrued payroll benefits	3,986,457	—	—	—	3,986,457
Advances from third-party payors	3,826,482	—	—	—	3,826,482
Current portion of malpractice liabilities	97,630	—	—	—	97,630
Due to affiliates	700,324	—	3,860	—	704,184
Total current liabilities	13,777,219	140,273	3,860	—	13,921,352
Malpractice liabilities	2,011,131	—	—	—	2,011,131
Accrued pension obligations	741,188	—	—	—	741,188
Long-term debt, less current portion	4,663,631	—	—	—	4,663,631
Total liabilities	21,193,169	140,273	3,860	—	21,337,302
Net assets:					
Unrestricted	83,223,984	6,776,442	11,658	(6,776,442)	83,235,642
Temporarily restricted	12,549,929	11,425,756	—	(11,425,756)	12,549,929
Permanently restricted	825,171	825,171	—	(825,171)	825,171
Total net assets	96,599,084	19,027,369	11,658	(19,027,369)	96,610,742
Total liabilities and net assets	$ 117,792,253	19,167,642	15,518	(19,027,369)	117,948,044

See accompanying independent auditors' report.

Schedule 3

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2018

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Mt. Washington Pediatric Community Health Services, LLC	Elimination entries	Consolidated total
Unrestricted revenue, gains, and other support:					
Patient service revenue (net of contractual adjustments)	$ 62,478,657	—	103,341	—	62,581,998
Provision for bad debts	(571,860)	—	—	—	(571,860)
Net patient service revenue	61,906,797	—	103,341	—	62,010,138
Other revenue	980,540	—	—	(648,862)	331,678
Total unrestricted revenue, gains, and other support	62,887,337	—	103,341	(648,862)	62,341,816
Operating expenses:					
Salaries, wages, and benefits	40,084,274	—	58,951	—	40,143,225
Purchased services	14,745,860	—	22,047	—	14,767,907
Interest expense	121,266	—	—	—	121,266
Depreciation	3,678,036	—	—	—	3,678,036
Total operating expenses	58,629,436	—	80,998	—	58,710,434
Operating income	4,257,901	—	22,343	(648,862)	3,631,382
Nonoperating income and expenses, net:					
Contributions	570,721	65,393	—	—	636,114
Investment income	896,540	788,171	—	—	1,684,711
Change in unrealized gains of trading securities	1,229,324	—	—	—	1,229,324
Other income and expenses, net	11,101	—	—	—	11,101
Support from Mt. Washington Pediatric Foundation, Inc.	—	(648,862)	—	648,862	—
Total nonoperating income and expense	2,707,686	204,702	—	648,862	3,561,250
Excess of revenues over expenses	6,965,587	204,702	22,343	—	7,192,632
Net unrealized losses on other-than-trading securities	—	336,315	—	—	336,315
Change in funded status of defined benefit plan	234,861	—	—	—	234,861
Change in economic interest in the Foundation	541,017	—	—	(541,017)	—
Increase in unrestricted net assets	7,741,465	541,017	22,343	(541,017)	7,763,808
Changes in temporarily restricted net assets:					
Contributions	1,428,327	—	—	(648,862)	779,465
Investment income, net	—	1,293,356	—	—	1,293,356
Net unrealized losses on temporarily restricted investments	—	571,988	—	—	571,988
Change in economic interest in the Foundation	1,865,344	—	—	(1,865,344)	—
Net assets released from restrictions used for operations	(648,862)	—	—	648,862	—
Increase in temporarily restricted net assets	2,644,809	1,865,344	—	(1,865,344)	2,644,809
Total increase in net assets	10,386,274	2,406,361	22,343	(2,406,361)	10,408,617
Net assets, beginning of year	96,599,084	19,027,369	11,658	(19,027,369)	96,610,742
Net assets, end of year	$ 106,985,358	21,433,730	34,001	(21,433,730)	107,019,359

See accompanying independent auditors' report.

Schedule 4

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2017

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Mt. Washington Pediatric Community Health Services, LLC	Elimination entries	Consolidated total
Unrestricted revenue, gains, and other support:					
Patient service revenue (net of contractual adjustments)	$ 57,879,524	—	13,550	—	57,893,074
Provision for bad debts	(396,879)	—	—	—	(396,879)
Net patient service revenue	57,482,645	—	13,550	—	57,496,195
Other revenue	774,940	—	—	(256,517)	518,423
Total unrestricted revenue, gains, and other support	58,257,585	—	13,550	(256,517)	58,014,618
Operating expenses:					
Salaries, wages, and benefits	37,527,852	—	2,956	—	37,530,808
Purchased services	14,292,647	—	1,407	—	14,294,054
Interest expense	105,103	—	—	—	105,103
Depreciation	3,224,371	—	—	—	3,224,371
Total operating expenses	55,149,973	—	4,363	—	55,154,336
Operating income	3,107,612	—	9,187	(256,517)	2,860,282
Nonoperating income and expenses, net:					
Contributions	747,608	9,726	—	—	757,334
Investment income	987,493	458,891	—	—	1,446,384
Change in unrealized gains of trading securities	2,380,720	—	—	—	2,380,720
Other income and expenses, net	(38,304)	—	—	—	(38,304)
Support from Mt. Washington Pediatric Foundation, Inc.	—	(442,117)	—	442,117	—
Total nonoperating income and expense	4,077,517	26,500	—	442,117	4,546,134
Excess of revenues over expenses	7,185,129	26,500	9,187	185,600	7,406,416
Net unrealized losses on other-than-trading securities	—	580,031	—	—	580,031
Net assets released from restrictions used for the purchase of property and equipment upon donor request	185,600	—	—	(185,600)	—
Change in funded status of defined benefit plan	608,755	—	—	—	608,755
Change in economic interest in the Foundation	606,531	—	—	(606,531)	—
Increase in unrestricted net assets	8,586,015	606,531	9,187	(606,531)	8,595,202
Changes in temporarily restricted net assets:					
Contributions	1,587,392	—	—	(442,117)	1,145,275
Investment income, net	—	721,192	—	—	721,192
Net unrealized losses on temporarily restricted investments	—	972,725	—	—	972,725
Change in economic interest in the Foundation	1,693,917	—	—	(1,693,917)	—
Net assets released from restrictions used for the purchase of property and equipment	(185,600)	—	—	185,600	—
Net assets released from restrictions used for operations	(564,509)	—	—	256,517	(307,992)
Increase in temporarily restricted net assets	2,531,200	1,693,917	—	(1,693,917)	2,531,200
Total increase in net assets	11,117,215	2,300,448	9,187	(2,300,448)	11,126,402
Net assets, beginning of year	85,481,869	16,726,921	2,471	(16,726,921)	85,484,340
Net assets, end of year	$ 96,599,084	19,027,369	11,658	(19,027,369)	96,610,742

See accompanying independent auditors' report.