Calvert Health System, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information

Years Ended June 30, 2019 and 2018

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DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

Board of Directors
Calvert Health System, Inc.
Prince Frederick, Maryland

We have audited the accompanying consolidated financial statements of Calvert Health System, Inc. and Subsidiaries (the "System"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of operations and other changes in net assets without donor restrictions, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audits 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 auditor's 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 Calvert Health System, Inc. and Subsidiaries as of June 30, 2019 and 2018, and their consolidated operations, changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Change in Accounting Principle

As described in Note 3 to the consolidated financial statements, the System adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition and related disclosure using the modified retrospective method in 2019. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 consolidating schedules on pages 35 - 41 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets without donor restrictions, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Such information and the other supplementary information on page 42 are 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 2019 information has been subjected to the auditing procedures applied in the audit of the 2019 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 2019 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Tysons, Virginia
October 25, 2019

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,343,813	$ 28,364,524
Short-term investments	94,298	89,678
Patient accounts receivable, net of allowance for uncollectible accounts of $5,224,000 in 2018	13,695,126	13,540,293
Inventories	2,532,744	2,324,160
Prepaid expenses and other assets	4,047,101	3,883,886
Assets limited as to use, current	994,928	989,587
Total current assets	44,708,010	49,192,128
Investments and other assets:		
Investments	95,916,402	118,944,247
Investments in affiliated enterprises	6,740,257	4,854,338
Assets limited as to use	7,660,934	6,177,749
Property and equipment, net	91,442,164	76,960,289
Insurance recoverable	4,339,175	4,047,912
Other assets	1,017,259	1,586,892
Total assets	$ 251,824,201	$ 261,763,555
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 16,359,929	$ 16,938,231
Current portion of long-term debt	2,417,949	2,177,865
Current portion of capital lease obligation	794,127	826,979
Accrued pension cost	-	11,230,219
Advances from third party payers	3,263,944	4,437,880
Total current liabilities	22,835,949	35,611,174
Long-term debt, less current portion, net of unamortized debt issuance costs	56,249,231	58,603,224
Long-term capital lease obligation	1,623,677	2,495,041
Professional liability	4,980,724	4,721,111
Other long-term liabilities	1,362,745	971,774
Total liabilities	87,052,326	102,402,324
Net assets:		
Without donor restrictions:		
Unrestricted - general	156,612,291	152,585,199
Unrestricted - board designated	3,947,827	3,788,055
Unrestricted - noncontrolling interest in subsidiary	(37,501)	(89,879)
With donor restrictions	4,249,258	3,077,856
Total net assets	164,771,875	159,361,231
Total liabilities and net assets	$ 251,824,201	$ 261,763,555

See accompanying notes.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Other Changes in Net Assets Without Donor Restrictions
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue:		
Patient service revenue (net of contractual adjustments and discounts)	$ -	$ 152,143,231
Provision for bad debts	-	(772,523)
Net patient service revenue	**151,905,227**	151,370,708
Rental revenue	**360,247**	298,906
Other operating revenue	**3,560,902**	4,125,782
Total operating revenue	**155,826,376**	155,795,396
Expenses:		
Salaries and wages	**69,087,949**	70,260,114
Employee benefits	**14,164,973**	14,064,754
Supplies	**28,721,698**	26,274,222
Purchased services	**6,805,379**	6,528,897
Professional fees	**7,924,056**	6,694,628
Depreciation and amortization	**11,661,942**	11,600,244
Interest	**1,858,758**	2,581,147
Other	**18,558,075**	16,916,343
Total operating expenses	**158,782,830**	154,920,349
Income (loss) from operations	**(2,956,454)**	875,047
Nonoperating gains (losses):		
Investment income	**2,532,453**	13,431,362
Income from equity investments	**1,267,831**	1,143,494
Loss on building renovation	-	(2,425,039)
Loss on pension settlement	**(13,581,965)**	(523,519)
Total nonoperating gains (losses), net	**(9,781,681)**	11,626,298
Excess of revenue over expenses (expenses over revenue)	**(12,738,135)**	12,501,345
Net assets released from restrictions for capital acquisitions	**144,853**	55,500
Contributions from noncontrolling interest holders	-	32,895
Other pension-related changes	**14,621,628**	(1,864,354)
Net unrealized gains (losses) on marketable investments	**2,210,896**	(8,014,377)
Increase in net assets without donor restrictions	**$ 4,239,242**	$ 2,711,009

Calvert Health System, Inc and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	Without Donor Restrictions	Noncontrolling Interest	With Donor Restrictions	Total
Balance, June 30, 2017	$ 153,760,264	$ (231,073)	$ 1,903,682	$ 155,432,873
Excess of revenue over expenses	12,393,046	108,299	-	12,501,345
Transfer of net assets	43,175	-	(43,175)	-
Contributions	-	-	2,141,423	2,141,423
Net assets released from restrictions for capital acquisitions	55,500	-	(55,500)	-
Net assets released from restrictions to fund operating programs	-	-	(944,167)	(944,167)
Contributions from noncontrolling interest in subsidiary	-	32,895	-	32,895
Investment income on restricted net assets	-	-	241,436	241,436
Other pension-related changes	(1,864,354)	-	-	(1,864,354)
Net unrealized (losses) gains on marketable investments	(8,014,377)	-	(165,843)	(8,180,220)
Balance, June 30, 2018	156,373,254	(89,879)	3,077,856	159,361,231
Excess of revenue over expenses (expenses over revenue)	**(12,790,513)**	**52,378**	**-**	**(12,738,135)**
Contributions	**-**	**-**	**1,970,441**	**1,970,441**
Net assets released from restrictions for capital acquisitions	**144,853**	**-**	**(144,853)**	**-**
Net assets released from restrictions to fund operating programs	**-**	**-**	**(717,548)**	**(717,548)**
Investment income on restricted net assets	**-**	**-**	**42,944**	**42,944**
Other pension-related changes	**14,621,628**	**-**	**-**	**14,621,628**
Net unrealized gains on marketable investments	**2,210,896**	**-**	**20,418**	**2,231,314**
Balance, June 30, 2019	**$ 160,560,118**	**$ (37,501)**	**$ 4,249,258**	**$ 164,771,875**

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$ 5,410,644	$ 3,928,358
Adjustments to reconcile to net cash from operating activities:		
Provision for bad debts	-	1,511,498
Depreciation and amortization	11,661,942	11,600,244
Amortization of debt issuance costs	63,956	66,111
Loss on building renovation	-	2,425,039
Donations restricted for capital acquisition	(867,237)	(254,948)
Equity in earnings of affiliated enterprises	(1,267,831)	(1,143,494)
Investment income on restricted assets	(42,944)	(241,436)
Realized net losses (gains) on investments	118,695	(10,944,196)
Unrealized net (gains) losses on investments	(2,171,526)	8,180,220
Loss on pension settlement	13,581,965	523,519
Other pension-related changes	(14,621,628)	1,864,354
Change in:		
Patient accounts receivable	(154,833)	2,066,928
Inventories	(208,584)	191,202
Prepaid expenses and other assets	86,231	326,253
Accounts payable, accrued expenses and other liabilities	(11,218,254)	77,855
Net cash provided by operating activities	370,596	20,177,507
Cash flows from investing activities:		
Purchases of investments	(37,373,488)	(143,649,898)
Sales of investments	62,439,473	137,972,641
Net increase in assets limited as to use	(1,449,532)	(1,486,850)
Purchases of property and equipment	(26,143,817)	(13,575,460)
Net cash used in investing activities	(2,527,364)	(20,739,567)
Cash flows from financing activities:		
Repayment of long-term debt	(2,251,821)	(2,291,516)
Payments on capital leases	(904,216)	(855,348)
Donations received restricted for capital acquisitions	867,237	254,948
Net distributions from (to) investees	(618,087)	925,000
Investment income on restricted assets	42,944	241,436
Net cash used in financing activities	(2,863,943)	(1,725,480)
Net decrease in cash and cash equivalents	(5,020,711)	(2,287,540)
Cash and cash equivalents, beginning of year	28,364,524	30,652,064
Cash and cash equivalents, end of year	$ 23,343,813	$ 28,364,524
Supplemental disclosure of noncash investing and financing activities:		
Capital lease obligations issued for equipment	$ -	$ 3,616,173

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Nature of Business

Organization

Calvert Health System, Inc. and Subsidiaries (the "System"), a Maryland corporation formed on January 1, 2000, is the sole member of CalvertHealth Medical Center, Inc. (the "Hospital"), Calvert Health Ventures, Inc. (CHV), CalvertHealth Medical Group, LLC (CHMG), CMH Holding Company (Holding Co. I), and CMH II Holding Company (Holding Co. II).

The System and the Hospital are nonprofit, nonstock membership corporations formed under the laws of the State of Maryland, organized for charitable purposes and exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

The Hospital, located in Prince Frederick, Maryland, provides inpatient, outpatient and emergency care services for the residents of Calvert County and the surrounding areas. The Hospital was incorporated in Maryland in 1917. The Hospital has two wholly owned or controlled subsidiaries: CalvertHealth Foundation, Inc. (the Foundation) and Calvert Community Health, Inc. (CCH). The Foundation is a non-profit corporation that operates exclusively for the charitable purpose of supporting the Hospital. CCH is the Hospital's for-profit subsidiary organized to establish managed care contracts. CCH is currently inactive.

CHV is a for-profit corporation that owns and manages investments in certain health care related entities, including Calvert Surgery Center, LLC (CSC), an imaging center, and a physical therapy and sports rehabilitation center. CMM is a medical service organization that supports CHMG's operations. CSC holds a 15% interest in Prince Frederick Surgery Center, LLC (PFSC).

CHMG is a limited liability company that employs physicians who provide health care services for the residents of Calvert County and the surrounding area.

Holding Co. I and Holding Co. II are nonprofit, nonstock membership corporations formed under the laws of the State of Maryland, organized for charitable purposes and exempt from federal income taxes under Section 501(c)(2) of the IRC. Holding Co. I owns a medical office building in Solomon's Island, Maryland. Holding Co. II owns a 100% interest in Calvert Medical Arts Center, LLC (CMAC).

Principles of consolidation

At June 30, 2019 and 2018, the System's consolidated financial statements include the accounts of the Hospital and its wholly owned or controlled subsidiaries, CHV, CHMG, Holding Co. I and Holding Co. II. All material intercompany transactions are eliminated.

2. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, with no donor-imposed restrictions are recognized in the period received as increases in net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Income and realized net gains (losses) on investments are reported as follows:

- Increases (decreases) in net assets with donor restrictions if the terms of the gift or the System's interpretation of relevant state law require that they be added to the principal of a permanent net asset with donor restriction;
- Increases (decreases) in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income;
- Increases (decreases) in net assets without donor restrictions in all other cases.

In fiscal year 2019, the System adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The primary impact of adopting ASU 2016-14 for the System is the presentation of net assets without donor restrictions and expanded disclosures related to functional expenses and liquidity and availability, as disclosed in notes 14 and 15, respectively. The System has retrospectively adopted the guidance in ASU 2016-14 to the 2018 financial statement information and disclosures, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have only been presented for 2019, as permitted under the standard. The impact on net assets as of June 30, 2018 upon adoption of this standard was as follows:

Net Asset Classifications	ASU 2016-14 Classifications Without Donor Restrictions	 With Donor Restrictions	 Total Net Assets
As previously presented:			
Unrestricted	$156,283,375	$ -	$156,283,375
Temporarily restricted	-	2,602,546	2,602,546
Permanently restricted	-	475,310	475,310
Net assets as reclassified	$156,283,375	$ 3,077,856	$159,361,231

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents consist primarily of highly liquid, unrestricted investments in U.S. Treasury bills, commercial paper, and other interest-bearing deposits with original maturities of three months or less. Primarily all of the System's cash and cash equivalents are maintained in one commercial bank, of which an aggregate maximum of $250,000 is insured by the Federal Deposit Insurance Corporation (FDIC). The System's cash balance routinely exceeds the maximum amount insured by the FDIC.

Short-term investments

Short-term investments consist primarily of investments with maturities of less than one year from the date of purchase.

Inventories

Inventories consist primarily of drugs and medical supplies and are carried at the lower of cost or net realizable value, as determined principally by the first-in, first-out method.

Patient accounts receivable

Patient accounts receivable are reported at net realizable value. For receivables associated with services provided to patients who have third-party coverage, the System estimates net realizable value based on the estimated contractual reimbursement percentage, which in turn is based on current contract provisions and historical paid claims by payor. For self-pay accounts, including uninsured and patient responsibility accounts, the net realizable value is determined using historical collection experience, adjusted for estimated conversions of patient responsibility portions, expected recoveries and changes in trends to estimate implicit price concessions in 2019 or the provision for bad debts in 2018. Management continually reviews the estimated net realizable value of accounts receivable by monitoring cash collections, economic conditions and trends, changes in payor mix, changes in federal or state healthcare coverage and other matters.

Investments

Investments in fixed maturity and equity securities are recorded at fair value. Investment income, realized gains and losses and unrealized gains and losses on available-for-sale securities are reported in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions unless restricted by the donor, in which case they are reported as an addition to, or deduction from, the appropriate net assets with donor restriction balance.

As of June 30, 2019 and 2018, $1,457,043 and $1,061,452 of the investments balance, respectively, are available to fund an executive severance and deferred compensation plan that has been established to provide benefits to the System's executive management team. The current portion amounts are included in accounts payable and accrued expenses and the noncurrent portion amounts are recorded as noncurrent liabilities in the accompanying consolidated statements of financial position as of June 30, 2019 and 2018.

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

Investments in affiliated enterprises

Investments in affiliated, non-controlled enterprises are accounted for using the cost or equity method of accounting.

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Property and equipment

Property and equipment acquisitions are recorded at cost, except for donated items, which are recorded at fair value at the date of donation. Renovations, alterations, and improvements that increase the useful lives or the functionality of the related assets are capitalized and subsequently depreciated over the remaining useful life of each class of depreciable assets. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Useful lives range from 20 - 40 years for buildings, 5 - 10 years for equipment and 10 - 20 years for leasehold improvements. Interest cost incurred on borrowed funds during the construction period for capital assets is capitalized as a component of the cost of acquiring those assets.

Net assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenue without donor restrictions and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue with donor restrictions as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Other assets

Other assets consist of insurance recoverables and long-term other amounts receivable. Long-term other amounts receivable includes a promissory note that was entered into between the Hospital and PFSC on July 1, 2015 in the amount of $1,800,000. The original terms and conditions of the promissory note were restated and amended on December 1, 2018 for a new principal amount of $1,187,095, a fixed rate of 3.75%, four payments of interest only that commenced on January 1, 2019 and sixty monthly payments of principal and interest that commenced on May 1, 2019. The long-term portion of the outstanding principal amounted to $929,643 and $1,422,703 at June 30, 2019 and 2018, respectively.

Third-party advances

The Hospital receives advances from third-party payors to provide working capital for services rendered to the beneficiaries of such services. These advances are subject to periodic adjustment and are principally determined based on the timing difference between the provision of care and the anticipated payment date of the claim for service.

Consolidated statements of operations

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue or expenses, as applicable. Peripheral or incidental transactions are reported as non-operating gains or losses, as applicable.

Excess of revenue over expenses (expenses over revenue)

The consolidated statements of operations and other changes in net assets without donor restrictions report excess of revenue over expenses (expenses over revenue). Changes in net assets without donor restrictions that are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets.

Net Patient Service Revenue

Net patient service revenue is recognized at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third party payors (including commercial and governmental programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the System bills the patients and third-party payors after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

The System charges are based on rates established by the State of Maryland Health Services Cost Review Commission (the Commission); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered. Physician practice charges are based on either negotiated contracts with commercial payors, fee schedules with Medicare and Medicaid or standardized pricing for self-pay patients.

The System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third party payors, financial assistance provided to uninsured or underinsured patients in accordance with the System's policies, and/or implicit price concessions provided to uninsured or underinsured patients. Prior to July 1, 2018, these explicit price concessions were reported as contractual discounts within patient service revenue. The System determines its estimates of explicit price concession based on contractual agreements, its financial assistance policies, and historical experience. The System determines its estimates of implicit price concessions based on its historical and expected collection experience. This estimate considers business and general economic conditions, trends in healthcare coverage and other collection indicators. Throughout the year, management assesses the adequacy of these implicit price concessions based upon its review of patient accounts receivable and collections to date. Other factors, such as account aging and payment cycles, are considered when estimating implicit price concessions. Certain amounts categorized as implicit price concessions under ASC 606 were previously categorized as provision for doubtful accounts.

Charity care and other community services

The Hospital provides care to patients regardless of their ability to pay. In identifying charity care, the Hospital assesses the patient’s ability to pay, utilizing generally recognized poverty income levels for the community, and identifies certain cases where incurred charges are considered to be beyond the patient’s ability to pay. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable. The Hospital maintains records to identify and monitor the level of charity care it provides. These records represent the amount of charges forgone under its charity care policy. The charity policy of the Hospital provides free care to patients up to 200% of the federal poverty level and provides free care on a sliding scale between 200% and 300% of the federal poverty level.

The cost of charity care provided by the Hospital amounted to approximately $4,882,000 and $5,547,000 in 2019 and 2018, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect costs calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission (HSCRC), and therefore the cost of charity services noted above for the Hospital is equivalent to its established rates for those services. For any charity services rendered by the System other than the regulated services of the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the System's non-Hospital affiliates.

The Hospital receives monthly payments from the HSCRC or submits monthly payments with respect to an Uncompensated Care Fund (UCC) established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals as determined by the HSCRC. The Hospital contributed $559,044 and $2,008,450 for 2019 and 2018, respectively, to the UCC as required by the HSCRC. The Hospital did not receive any payments from the UCC in 2019 or 2018.

In addition to charity and uncompensated care, the System provides various health education programs, community screenings, classes, partnerships and neighborhood health centers, such as the following:

- Clinic eligibility workers that assist indigent patients to obtain healthcare and dental services,
- Health promotion programs and services, such as smoking cessation, blood pressure screenings and wellness programs, and
- Social services to assist patients in arranging for nonhospital healthcare services.

The HSCRC requires all Maryland hospitals to complete and submit a Community Benefit Report annually on December 15th for the preceding fiscal year. The Hospital's Community Benefit Report for the year ended June 30, 2018 reported $18,375,823 (unaudited) in community benefit services.

Other operating revenue

Other operating revenue of the System includes electronic health record income, cafeteria income, grant income, ground lease income and revenue from instructional classes and other operating programs.

Tax-exempt status

The System is exempt from federal income tax under section 501(c)(3) of the IRC as a public charity. The System is entitled to rely on this determination as long as there are no substantial changes in its character, purposes, or methods of operation. Management has concluded that there have been no such changes and, therefore, the System's status as a public charity exempt from federal income taxation remains in effect.

The state in which the System operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the System is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

The System had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required.

Management has also considered the impact of unrelated business activities and has concluded that the System is not subject to unrelated business tax or any other taxes that could be imposed by the IRC or state taxing authorities. As such, no provision is made for income taxes and no asset or liability has been recognized for deferred taxes.

Subsequent events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition or disclosure through October 25, 2019, the date the consolidated financial statements were issued.

Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported change in net assets.

New accounting pronouncements

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (Topic 23): Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The ASU is effective for the System for fiscal year ending June 30, 2020. The ASU should be applied retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The amendments in this ASU are effective for the System for fiscal year ending June 30, 2020, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU requires equity investments, excluding investments recorded under the equity method of accounting, to be measured at fair value with changes reported within the performance indicator. Not-for-profit entities are no longer required to disclose fair value of finical instruments not recognized at fair value on the statement of financial position. The ASU is effective for the System for its fiscal year ending June 30, 2020.

Management has not yet determined the impact, if any, of adoption of these changes in accounting standards on the consolidated financial statements of the System.

3. Net Patient Service Revenue

During fiscal year 2019, the System adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, using the modified retrospective method (ASC 606). The information in the prior year comparative period has not been restated and continues to be reported under the accounting standards in effect for that period. Notwithstanding the significance of the changes in disclosures and presentation associated with the adoption of this standard, the overall impact to the accompanying consolidated financial statements, with the primary changes related to presentation of certain information, as described below, and expanded disclosures related to revenue recognition principles, disaggregation of revenue and other matters was immaterial.

As part of the adoption of ASC 606, the System elected certain available practical expedients under the standard. First, the System elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the respective contracts. Additionally, the System has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

Management has determined that the System has an unconditional right to payment only subject to the passage of time for services provided to date based on just the need to either finalize billing for such services (i.e., charge lag) or to discharge the patient and bill for such services for patients who are still receiving inpatient care in the System's facilities at the statement of financial position date. Accordingly, the System accrues revenue and the related accounts receivable for services performed but not yet billed at the statement of financial position date for in-house patients. Thus, management has determined that System does not have any amounts that should be reflected separately as contract assets.

As a result of the adoption of ASC 606, estimated uncollectible amounts from patients that were previously presented as the provision for bad debts in the consolidated statements of operations are now considered implicit price concessions (as defined in ASC 606) and, therefore, included in net patient service revenue in 2019. Such implicit price concessions reflected in net patient service revenue in the accompanying consolidated financial statements for the year ended June 30, 2019 were $2,163,646. Prior to July 1, 2018, the provision for bad debts was presented consistent with the previous revenue recognition standards separately as a component of patient service revenue. Upon adoption of ASC 606, the allowance for doubtful accounts of $5,224,129 at June 30, 2018, was reclassified as a direct reduction of patient accounts receivable. Such implicit price concessions continue to be presented as a direct reduction of patient accounts receivable.

The System routinely obtains assignments of (or is otherwise entitled to receive) patient benefits receivable under their health insurance programs, plans or policies (i.e., third-party payors). Third party payors include both government payors, which include Medicare, Medicaid, and management care organizations, and commercial insurance carriers. Agreements with third party payors typically provide for payments at amounts less than established charges. A summary of payment arrangements with third party payors, by service type, is as follows:

- Global budget revenue – the Hospital has entered into agreements by which the third-party payors pay a percentage of approved HSCRC charges. A reduced percentage can be obtained if the payor advances a certain amount of working capital.

- Physician practice services – CHMG has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.

- Outpatient Rehabilitation – Calvert Health Outpatient Rehabilitation has entered into agreements by which the third-party payor pay negotiated rates per procedures as defined in the term sheet of the agreements

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving services over multiple days. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time are generally recognized when goods or services are provided and the System does not believe it is required to provide additional services to the patient. Generally, performance obligations satisfied at a point in time relate to patients receiving outpatient services in a single day. The System measures the performance obligation from the commencement of the outpatient service, to the point when it is no longer required to provide services to that patient, which is generally the completion of the outpatient service.

All of the System's performance obligations generally relate to contracts with a duration of less than one year, therefore the System has elected to apply the optional exemptions provided under applicable standards and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Generally, patients who are covered by third party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured or underinsured patients financial assistance, by either policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any explicit price concession, financial assistance, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles).

The System aggregates revenue from contracts with customers by type of service and payor source. Tables providing details of these factors are presented below.

Net patient service revenue disaggregated by service type for the year ended June 30, 2019 and 2018 are as follows:

	2019	2018
Global budget revenue	**$ 130,059,760**	$ 127,724,769
Rehabilitation services	**2,028,081**	1,953,535
Physician practice services	**17,843,208**	16,570,556
Other health services	**1,974,178**	5,121,848
Total	**$ 151,905,227**	$ 151,370,708

Net patient service revenue disaggregated by payor for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Medicare	**$ 64,997,219**	$ 58,455,761
Medicaid	**20,381,383**	21,506,635
Blue Cross	**28,233,973**	29,587,591
Commercial	**5,060,210**	6,558,544
Managed Care	**29,058,398**	31,126,615
Self-Pay	**4,174,044**	4,135,562
Total	**$ 151,905,227**	$ 151,370,708

4. Investments in Affiliated Enterprises

A summary of investments in affiliated enterprises as of and for the years ended June 30 follows:

	2019		2018	
	Investment	Income	Investment	Income
Equity:				
Calvert Medical Imaging Center	**$ 1,785,163**	**$ 735,886**	$ 1,249,276	$ 816,928
NRH/CPT Regional Rehab, LLC	**-**	**243,107**	(4,257)	9,478
Chesapeake-Potomac Healthcare Alliance, LLC	**3,452,968**	**179,463**	3,273,505	316,323
ChoiceOne Urgent Care of Calvert County, LLC	**1,198,547**	**120,610**	-	-
Prince Frederick Surgery Center, LLC	**273,671**	**(11,325)**	305,996	765
Cost:				
Freestate Healthcare Insurance Company, LTD	**20,542**	**90**	20,452	-
Maryland eCare, LLC	**9,366**	**-**	9,366	-
	$ 6,740,257	**$ 1,267,831**	$ 4,854,338	$ 1,143,494

An overview of these organizations is presented below. Because CHV's investment in Calvert Medical Imaging Center (CMIC) represents approximately 26% of the reported investment balance in affiliates as of June 30, 2019 and 2018, and the Hospital's investment in Chesapeake-Potomac Healthcare Alliance (the Alliance) represents approximately 51% and 67% of the reported investment balance in affiliates as of June 30, 2019 and 2018, respectively and the Hospital's investment in ChoiceOne Urgent Care of Calvert County (ChoiceOne) represents approximately 18% as of June 30 , 2019, summarized financial information for CMIC, the Alliance and ChoiceOne is also presented below.

Calvert Medical Imaging Center

Calvert Medical Imaging Center (CMIC) is a joint venture between CHV and American Radiology Services, Inc. that operates diagnostic imaging facilities. CHV maintains a 50% interest in CMIC.

Summarized unaudited financial information of CMIC as of and for the years ended June 30 is presented below:

	2019	2018
Total assets	**$ 4,591,182**	$ 4,013,932
Total liabilities	**$ 1,020,857**	$ 1,516,974
Partners' capital	**3,570,325**	2,496,958
Total liabilities and partners' capital	**$ 4,591,182**	$ 4,013,932
Total revenue	**$ 8,051,883**	$ 9,202,592
Net income	**$ 1,473,367**	$ 1,877,287

NRH/CPT Regional Rehab, LLC

CHV invested in NRH/CPT Regional Rehab, LLC (NRH/CPT) for the purpose of providing comprehensive and coordinated physical therapy and rehabilitation services in St. Mary’s and Charles counties. CHV maintained a 15% interest in NRH/CPT as of June 30, 2018. On April 30, 2019, CHV sold its entire membership interest in NRH/CPT.

Chesapeake-Potomac Healthcare Alliance, LLC

Chesapeake-Potomac Healthcare Alliance, LLC (the Alliance) is a joint venture in which the Hospital and two other hospitals have invested equally. It was created to provide certain healthcare services to the population of southern Maryland. The Alliance is a 60% owner of Chesapeake Potomac Regional Cancer Center, LLC (CPRCC), a limited liability company which owns and operates two outpatient radiation oncology centers. The other 40% of CPRCC is owned by Holy Cross Hospital of Silver Spring and Adventist Healthcare, Inc. The Alliance is also one of two members in Chesapeake-Potomac Home Health Agency, Inc., a Maryland nonstock corporation that was formed in 1995 for the purpose of providing home health care and other health care services to individuals in need of such services in Calvert, Charles and St. Mary's counties.

Summarized unaudited financial information of the Alliance as of and for the years ended June 30 is presented below:

	2019	2018
Total assets	**$ 16,742,390**	$ 15,446,587
Total liabilities	**$ 2,199,754**	$ 1,886,958
Members' equity	**14,542,636**	13,559,629
Total liabilities and members' equity	**$ 16,742,390**	$ 15,446,587
Total revenue	**$ 14,829,915**	$ 14,174,102
Net income	**$ 538,363**	$ 948,967

ChoiceOne Urgent Care of Calvert County, LLC

ChoiceOnce Urgent Care of Calvert County, LLC (ChoiceOne) is a joint venture which was formed in November 2018 to manage and operate the Dunkirk, Prince Frederick and Solomons Urgent Care locations. The Hospital maintains a 49% interest in this joint venture at June 30, 2019.

Summarized unaudited financial information of ChoiceOne as of and for the years ended June 30 is presented below:

	2019
Total assets	$ 3,545,348
Total liabilities	$ 1,099,727
Members' equity	2,445,621
Total liabilities and members' equity	$ 3,545,348
Total revenue	$ 1,948,505
Net income	$ 246,142

Freestate Healthcare Insurance Company, LTD

Freestate Healthcare Insurance Company, LTD is a captive insurance company formed in the Cayman Islands. It is owned by five Maryland hospitals. Freestate provides insurance coverage to its shareholders for professional liability and comprehensive general liability (see Note 10).

Maryland eCare, LLC

Maryland eCare, LLC is a joint venture formed by six Maryland hospitals to provide remote monitoring technology with clinical decision support and physician/nursing services for their use in intensive care units and other clinical areas within their respective hospitals. The Hospital maintains a 6.90% interest in this joint venture at June 30, 2019 and 2018.

Prince Frederick Surgery Center, LLC

PFSC operates a surgical center in Prince Frederick Maryland. It was formed initially as a joint venture by five physicians in May 2009. On July 1, 2015, CSC acquired a 25% interest in PFSC. On December 1, 2018, CSC and the physician members agreed to an additional ownership interest that was issued to Surgical Center Development #3, LLC resulting in a new ownership structure where CSC now maintains a 15% interest in PFSC.

5. Investments

Investments, stated at market value, which approximates fair value, at June 30 include:

	2019	2018
Equity mutual funds	**$ 37,107,666**	$ 39,288,916
Fixed maturity mutual funds	**20,176,553**	23,448,508
Guaranteed investment account	**297,666**	207,801
Corporate and municipal bonds	**16,034,221**	46,363,235
U.S. government issues	**12,680,872**	-
Alternative investments	**9,713,722**	9,725,465
	96,010,700	119,033,925
Less - short-term investments	**94,298**	89,678
Long-term investments	**$ 95,916,402**	$ 118,944,247

Assets limited as to use, stated at fair value, at June 30 include:

	2019	2018
Internally designated for capital acquisition and scholarships:		
Cash and cash equivalents	**$ 4,112,369**	$ 2,758,460
Net pledges receivable	**516,040**	537,097
Equity mutual funds	**1,759,701**	2,044,529
Exchange traded funds	**325,567**	-
Fixed income mutual funds	**1,942,185**	1,827,250
	8,655,862	7,167,336
Less – current portion	**994,928**	994,928
	$ 7,660,934	$ 6,177,749

Assets held by a trustee under the indenture agreement for debt service consist of the following funds at June 30:

	2019	2018
Held by trustee under indenture agreement:		
Cash and cash equivalents	**$ 994,928**	$ 989,587

The debt service fund was comprised of principal and interest funds held by a trustee in accordance with the Hospital's bond indentures.

Investment income and gains or losses for assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended June 30:

	Year Ended June 30, 2019		
Investment Income	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Interest and dividends	**$ 2,959,301**	**$ 32,764**	**$ 2,992,065**
Realized gains (losses)	**(118,695)**	**10,180**	**(108,515)**
Investment expenses	**(308,153)**	**-**	**(308,153)**
	$ 2,532,453	**$ 42,944**	**$ 2,575,397**
Unrealized gains	**$ 2,210,896**	**$ 20,418**	**$ 2,231,314**

	Year Ended June 30, 2018		
Investment Income	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Interest and dividends	$ 2,815,476	$ 24,960	$ 2,840,436
Realized gains	10,944,196	216,476	11,160,672
Investment expenses	(328,310)	-	(328,310)
	$ 13,431,362	$ 241,436	$ 13,672,798
Unrealized losses	$ (8,014,377)	$ (165,843)	$ (8,180,220)

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish a framework for measuring fair value, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable input other than Level 1 prices 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 full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about System's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values for the System's fixed maturity securities are based on prices provided by its investment managers, who use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. The System's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the System from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

The guaranteed investment account is valued at contract value, (which includes contributions made, adjusted for interest earned, withdrawals and administrative expenses) which approximates fair value.

The System's investments include investments in limited partnerships and other alternative investments, which are made in accordance with the System's investment policies. The limited partnerships acquire, hold, invest, manage, dispose of, and otherwise deal in and with securities of all kinds and descriptions. Publicly traded securities are generally valued by reference to closing market prices on one or more national securities exchange or generally accepted pricing services selected by the fund managers of the limited partnership. Securities not valued by such pricing services will be valued upon bid quotations obtained from independent dealers in the securities. The equity in earnings or losses from these investments is recorded as a component of investment income in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions.

Although the various fund managers use their best judgment at estimating the fair value of the alternative investments, there are inherent limitations in any valuation technique. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of the fair value could be material.

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Equity mutual funds:				
Foreign large growth	$ 70,080	$ -	$ -	$ 70,080
Foreign large value	6,872,200	-	-	6,872,200
Foreign large blend	1,459,957	-	-	1,459,957
Large growth	22,184	-	-	22,184
Large value	48,615	-	-	48,615
Large blend	23,965,701	-	-	23,965,701
Mid cap growth	33,424	-	-	33,424
Mid cap value	21,263	-	-	21,263
Mid cap blend	61,040	-	-	61,040
Small growth	14,555	-	-	14,555
Small value	14,519	-	-	14,519
Small blend	5,955,800	-	-	5,955,800
World large stock	328,029	-	-	328,029
Fixed maturity mutual funds:				
Intermediate term bond	1,774,058	-	-	1,774,058
Intermediate core-plus bond	50,711	-	-	50,711
Inflation-protected bond	204,444	-	-	204,444
World bond	337,255	-	-	337,255
Tactical allocation	3,887,964	-	-	3,887,964
Ultrashort bond	15,864,306	-	-	15,864,306
Exchange traded funds	325,567			325,567
Corporate bonds	16,034,221	-	-	16,034,221
U.S. government issues (Maturity 1 - 10 years)	12,680,872	-	-	12,680,872
Guaranteed investment account	297,666	-	-	297,666
Total assets in fair value hierarchy	$ 90,324,431	$ -	$ -	90,324,431
Cash and cash equivalents				4,112,369
Investments measured at NAV (a)				9,713,722
Investments at fair value				$104,150,522

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Equity mutual funds:				
Foreign large blend	$ 9,107,193	$ -	$ -	$ 9,107,193
Large growth	199	-	-	199
Large value	74,631	-	-	74,631
Large blend	25,088,401	-	-	25,088,401
Mid cap growth	19,098	-	-	19,098
Mid cap value	44,507	-	-	44,507
Mid cap blend	18,639	-	-	18,639
Small value	15,662	-	-	15,662
Small blend	6,249,901	-	-	6,249,901
World stock	24,405	-	-	24,405
World large stock	326,261	-	-	326,261
Fixed maturity mutual funds:				
Intermediate term bond	1,624,120	-	-	1,624,120
Inflation-protected bond	136,965	-	-	136,965
World bond	310,078	-	-	310,078
Tactical allocation	3,705,132	-	-	3,705,132
Ultrashort bond	19,499,454	-	-	19,499,454
Exchange traded funds	364,546			364,546
Corporate bonds	30,080,202	-	-	30,080,202
U.S. government issues (Maturity 1 - 10 years)	16,283,034	-	-	16,283,034
Guaranteed investment account	207,811	-	-	207,811
Total assets in fair value hierarchy	$113,180,239	$ -	$ -	113,180,239
Cash and cash equivalents				2,758,460
Investments measured at NAV (a)				9,725,465
Investments at fair value				$125,664,164

(a) *In accordance with current accounting standards, the alternative investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.*

The accompanying consolidated financial statements of the System include total restricted and unrestricted hedge fund alternative investments as of June 30, 2019 and 2018 with the following characteristics:

The fund invests in the Master Fund, which is in underlying hedge funds. The underlying funds use a variety of investment strategies with distressed/structured products being the largest. The fund owned more than 50% of the Master Fund at December 31, 2019 and 2018. Liquidity restrictions include quarterly at net asset value with 95-days' notice. As of June 30, 2019 and 2018, the fund balance was to $9,713,722 and $9,725,465, respectively.

6. Pledges Receivable

During 2017, the Foundation commenced a capital campaign. Contributions from the campaign are being used to fund the Hospital's expansion project to build a three-story addition to its existing facility. At June 30, 2019, pledges receivables were $936,892 less an allowance for uncollectible pledges of $93,689 and a discount of $327,163. The discount rate used was 2.73%.

Anticipated collection of the pledges receivable at June 30, 2019 is as follows:

2020	$ 295,667
2021	273,433
2022	192,671
2023	153,441
2024	21,680
	936,892
Less - allowance for uncollectible accounts	93,689
Less - discount	327,163
Total	$ 516,040

7. Net Assets with Donor Restrictions

	2019	**2018**
Subject to expenditure for specified purposes:		
Purchases of building and equipment	**$ 2,694,421**	$ 1,618,305
Health education	**706,075**	706,012
Health care services	**373,452**	278,229
Total subject to expenditure for specified purposes	**3,773,948**	2,602,546
Investments to be held in perpetuity, the income from which is expendable to support health education	**475,310**	475,310
Total net assets with donor restrictions	**$ 4,249,258**	$ 3,077,856

8. Property and Equipment

A summary of property and equipment at June 30 follows:

	2019	**2018**
Land improvements	**$ 2,632,705**	$ 2,872,829
Buildings	**34,706,544**	34,729,044
Building improvements	**44,495,369**	45,940,752
Fixed equipment	**4,826,334**	4,501,820
Movable equipment	**70,987,736**	82,154,301
	157,648,688	170,198,746
Less - accumulated depreciation and amortization	**102,448,870**	107,866,316
	55,199,818	62,332,430
Land	**6,016,980**	6,016,980
Construction in progress	**30,225,366**	8,610,879
Property and equipment, net	**$ 91,442,164**	$ 76,960,289

In September 2017, the Hospital held a ground-breaking ceremony for a new capital expenditures project related to the building of a three-story addition to the existing facility. The two main objectives of the project are to expand the number of private patient rooms in the Hospital and to create an 18-room dedicated observation unit. The total project cost was approved for $51,583,000 and is being funded internally from operating cash and investments.

In September 2017, the Hospital entered into an agreement for building contractor services for the three-story addition, renovation of second and third floor nursing units and other interior renovations. Under the agreement, the Hospital is obligated to pay the building contractor a contract sum of $28,553,000. As of June 30, 2019, approximately $22,207,000 has been paid to the contractor. If the Hospital were to terminate the agreement, it would be liable for payment of materials and supplies committed to that date along with reasonable overhead and profit. The project is expected to conclude in fiscal year 2021.

Interest cost incurred on borrowed funds during the period of construction of capital assets is a capitalized as a component of the cost of acquiring those assets. Interest capitalized for the years ended June 30, 2019 and 2018 amounted to $753,584 and $173,935, respectively.

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to $11,661,942 and $11,600,244, respectively.

9. Long-Term Debt

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

	2019	2018
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2012 Revenue Bonds); maturing in varying amounts from September 1, 2012 to June 1, 2027; interest due monthly at a fixed rate of 3.16% per annum until July 24, 2022 at which time the interest rate shall be adjusted.	**$ 11,284,839**	$ 12,432,321
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2013 Revenue Bonds); maturing in varying amounts from July 1, 2014 to July 1, 2038; interest due semi-annually at rates ranging from 3.0% to 5.18%; (4.0% at June 30 2019 and 2018).	**30,190,000**	30,430,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2015 Revenue Bonds); maturing in varying amounts from October 1, 2015 to September 1, 2035; interest due monthly at a fixed rate of 3.282% per annum.	**17,872,086**	18,662,469
	59,346,925	61,524,790
Less - current portion	**2,417,949**	2,177,865
	56,928,976	59,346,925
Less - unamortized debt issuance costs	**597,366**	655,249
Less - unamortized original issue discount	**82,379**	88,452
	$ 56,249,231	$ 58,603,224

Series 2012 Revenue Bonds

The 2012 Revenue Bonds were issued by the Maryland Health and Higher Education Facilities Authority (Authority) on July 1, 2012 for the purpose of refunding the 1998 Revenue Bonds. The master loan agreement for the 1998 Revenue Bonds remained substantially unchanged.

The Obligated Group for the 2012 Revenue Bonds is composed of the Hospital and the System. The financing was completed through SunTrust Bank and is a tax-exempt issuance. Terms of the financing agreement included an initial fixed rate of 2.6% per annum until July 24, 2022, at which time the interest rate shall be adjusted and the 2012 Revenue Bonds are subject to mandatory purchase unless SunTrust Bank agrees to extend such period, the Obligated Group obtains another purchaser, or the Authority, at the request of the Obligated Group, converts the interest mode applicable to the 2012 Revenue Bonds to another interest mode for which a purchaser can be found. Terms of the financing agreement also included a requirement that the interest rate be increased as a result of a decrease in the maximum federal corporate income tax rate. With the passage of The Tax Cuts and Jobs Act of 2017, effective January 1, 2018 the maximum federal corporate income tax rate decreased from 35% to 21% resulting in an increase of the fixed rate from 2.6% to 3.16%. The 2012 Revenue Bonds mature on June 1, 2027. The 2012 Revenue Bonds require the Obligated Group to maintain a certain debt service coverage ratio.

Series 2013 Revenue Bonds

The 2013 Revenue Bonds were issued by the Authority on August 7, 2013 for the purpose of refunding the 2004 Revenue Bonds.

The Obligated Group for the 2013 Revenue Bonds is composed of the Hospital and the System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in its receipts, revenue, rental income and other amounts received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is not required to maintain a debt service reserve fund. The Series 2013 Revenue Bonds also place limits on the incurrence of additional borrowings and require the Obligated Group to maintain a certain debt service coverage ratio. Series 2013 bonds maturing on or after July 1, 2024 are subject to redemption prior to maturity beginning on July 1, 2023 at the option of the Authority upon the direction of the Hospital.

Series 2015 Revenue Bonds

The 2015 Revenue Bonds were issued by the Authority on September 10, 2015 for the purpose of financing the expansion and renovation of the radiology department at the Hospital, the acquisition and installation of a new information technology system, the acquisition of a parcel of land and the acquisition and installation of certain fixtures, equipment and machinery for the Hospital.

The Obligated Group for the 2015 Revenue Bonds is composed of the Hospital and the System. The financing was completed through The Columbia Bank and is a tax-exempt issuance. Terms of the financing agreement include a fixed rate of 2.7% for ten years with an amortization schedule of twenty years. Terms of the financing agreement also included a requirement that the interest rate be increased as a result of a decrease in the maximum federal corporate income tax rate. With the passage of The Tax Cuts and Jobs Act of 2017 the maximum federal corporate income tax rate decreased from 35% to 21% resulting in an increase of the fixed rate from 2.7% to 3.282% effective January 1, 2019. The Obligated Group is not required to main debt service reserve fund.

Principal payments due under all debt instruments as of June 30, 2019 are as follows:

2020	$ 2,417,949
2021	2,488,777
2022	2,559,191
2023	2,636,243
2024	2,708,594
Thereafter	46,536,171
Total	$ 59,346,925

Interest paid on indebtedness by the System was $2,343,750 and $2,404,110 in 2019 and 2018, respectively.

10. Employee Retirement Plans

The Hospital's retirement program consists of a qualified defined benefit plan (DB plan) and a defined contribution plan (DC plan). The DB plan was terminated and plan assets were distributed in November 2018.

Defined Benefit Plan

The Hospital had a qualified non-contributory DB plan covering employees who were employed by the Hospital prior to January 1, 2008. Effective January 1, 2008, employees hired or rehired were not eligible to participate in the DB plan. The Hospital instituted a "hard freeze" on December 31, 2016. The DB plan remained operational and continued to pay distributions to Hospital employees as they separated or requested a distribution during 2018 until the DB plan was terminated; however no additional benefits were accrued. Effective September 24, 2017 a plan termination was approved by the CHS Board of Directors and accordingly, the plan was amended and restated to include such termination. Substantial settlement related to the termination began with cash distributions in October 2018. An annuity was purchased for participants in a pay status and for participants who elected to defer benefits until their retirement. As a result, a settlement charge of approximately $13,582,000 was recorded as a component of net benefit cost within other non-operating gains (losses) in the accompanying consolidated statements of operations for the year ended June 30, 2019.

The Hospital used a June 30 measurement date for its DB plan in 2019 and 2018.

The following table sets forth the changes in the projected benefit obligation at June 30:

	2019	2018
Benefit obligation at beginning of year	**$ 40,437,739**	$ 41,189,740
Interest cost	**548,345**	1,582,897
Actuarial (gain) loss	**(1,321,201)**	262,717
Benefits paid	**(39,664,883)**	(2,597,615)
Benefit obligation at end of year	**$ -**	$ 40,437,739

The following table sets forth the changes in the plan assets at June 30:

	2019	2018
Fair value of plan assets at beginning of year	**$ 29,207,520**	$ 33,316,642
Actual return on plan assets	**(376,337)**	(1,511,507)
Employer contributions	**10,833,700**	-
Actual benefits paid	**(39,664,883)**	(2,597,615)
Fair value of plan assets at end of year	**$ -**	$ 29,207,520

In accordance with current standards, the Hospital recognized the full extent of the underfunded (a liability) status of the DB plan as a current liability in the accompanying consolidated financial statements, and the underfunded status is measured as the difference between the fair value of the DB plan assets and the projected benefit obligation. As of June 30, 2018, the DB plan's projected benefit obligation exceeded the fair value of the DB plan's assets by $11,230,219. The DB plan's accumulated benefit obligation was $40,437,739 as of June 30, 2018. The plan was fully funded as of November 16, 2018.

Net periodic pension cost for the years ended June 30 include the following components:

	2019	2018
Interest cost	$ 548,345	$ 1,582,897
Expected return on plan assets	(296,401)	(1,685,398)
Recognized net actuarial loss	391,200	1,071,749
Preliminary periodic benefit cost	643,144	969,248
Settlement loss	13,581,965	523,519
	$ 14,225,109	$ 1,492,767

The following table sets forth the weighted average assumptions used to determine benefit obligations as of June 30:

	2019	2018
Discount rate	N/A	4.36%
Rate of compensation increase	N/A	N/A

The following table sets forth the weighted average assumptions used to determine net periodic benefit costs for the years ended June 30:

	2019	2018
Discount rate	4.36%	3.96%
Expected return on plan assets	2.60%	5.25%
Rate of compensation increase	0.00%	0.00%

Cumulative amounts recognized in net assets without donor restrictions as of June 30 consist of:

	2019	2018
Net loss	$ -	$ 14,621,628

Defined Contribution Plan

The Hospital has a DC plan for employees hired or rehired after January 1, 2008. Effective January 1, 2017, participants previously in the DB plan became eligible for the DC plan. Employees credited with 1,000 hours of service in a Plan year receive an employer annual contribution of 2.5% of their annual wages. On a pay period basis, the Hospital provides a 50% matching contribution not to exceed 2% of plan compensation to all participating employees. If a participant has 10 years of service and is 55 years of age, the Hospital will provide a 50% matching contribution not to exceed 3% of plan compensation.

The employer total annual contributions to the DC plan were $1,502,412 and $1,519,767 during the years ended June 30, 2019 and 2018, respectively.

11. Malpractice Insurance

Prior to March 1, 2005, the Hospital maintained a professional liability insurance policy on a claims-made basis. Under this insurance policy, the Hospital was insured for individual claims up to $1,000,000 with a total annual aggregate of $3,000,000 with no deductible for claims made. The Hospital also had excess coverage of up to $10,000,000 for individual claims and in the aggregate.

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands. The Hospital maintains a 20% shareholder interest in Freestate. The Hospital decided to become a shareholder of Freestate when the Hospital's insurance company elected not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital believes that becoming a shareholder of a captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its owners and their affiliates for professional liability claims and comprehensive general liability of $1,000,000 for each and every claim. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. The Hospital has $10,000,000 of additional insurance in the aggregate through such reinsurance arrangements. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2019. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Additional claims may be asserted against the Hospital arising from services provided through June 30, 2019. The ultimate outcome of these matters cannot be determined at this time.

As of June 30, 2019 and 2018, the System recorded insurance recoverables and related professional claims liability of $4,339,175 and $4,047,912, respectively, in long-term assets and liabilities, respectively, in the accompanying consolidated statements of financial position. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately $641,549 and $673,199 in long-term liabilities as of June 30, 2019 and 2018, respectively. Management believes this estimate is adequate to provide for all professional liability claims that have been incurred through June 30, 2019 but not reported to its insurance carriers.

12. Maryland Health Services Cost Review Commission

Patient service revenue is recorded at rates established by the HSCRC. Effective July 1, 2016, the Hospital entered into a Global Budget Revenue (GBR) agreement with the HSCRC. The GBR agreement will renew each year for a one-year period unless it is cancelled by the HSCRC or by the Hospital. The GBR agreement provides the Hospital with a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payor mix and uncompensated care, change in population and quality incentives. Approximately 94% of the total operating revenue of the Hospital is subject to the GBR system.

13. Concentration of Credit and Business Risk

The System provides health care services to residents located primarily in Calvert, St. Mary's, southern Anne Arundel and Charles counties. The System grants credit without collateral to its patients, most of whom are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. The System records accounts receivable net of estimated price concessions in 2019 and allowance for bad debts in 2018, and such amounts have historically been within management's expectations.

The mix of accounts receivable at June 30, 2019 and 2018 from patients and third-party payors is as follows:

	2019	2018
Medicare	**27.1%**	23.7%
Medicaid (including managed care)	**11.3%**	12.3%
Blue Cross	**11.8%**	12.3%
Commercial and other	**6.7%**	8.1%
Managed care	**15.2%**	16.8%
Self-pay	**27.9%**	26.8%
	100.0%	100.0%

14. Functional Expenses

The System provides general health care services and related services to individual within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the year ended June 30:

	2019			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	**$ 58,421,870**	**$ 10,305,080**	**$ 360,999**	**$ 69,087,949**
Employee benefits	**11,915,775**	**2,169,939**	**79,259**	**14,164,973**
Supplies	**28,572,323**	**146,477**	**2,898**	**28,721,698**
Purchased services	**4,620,588**	**2,035,276**	**149,515**	**6,805,379**
Professional fees	**7,924,056**	**-**	**-**	**7,924,056**
Depreciation and amortization	**10,528,322**	**1,133,620**	**-**	**11,661,942**
Interest	**1,712,288**	**146,470**	**-**	**1,858,758**
Other	**12,548,971**	**5,652,400**	**356,704**	**18,558,075**
Total	**$136,244,193**	**$ 21,589,262**	**$ 949,375**	**$158,782,830**

	2018
Health care services	$ 128,732,554
General and administrative	26,187,795
	$ 154,920,349

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs are allocated to a function based on a square footage basis.

15. Liquidity and Availability

As of June 30, 2019, the System has working capital of approximately $21,872,000 and 296 average days (based on normal expenditures) cash and investments without donor restriction on hand.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following at June 30, 2019 (in accordance with applicable transitional guidance, 2018 amounts have not been presented):

Cash and cash equivalents	$ 23,343,813
Accounts receivable, net	13,695,126
Other receivables	1,259,443
Assets whose use is limited	994,928
Total	$ 39,293,310

In addition to the assets in the table above, the System has other investments and assets whose use is limited for specified purposes, and because they are not available for general expenditure within one year are not reflected in the amounts above. The System does, however, have investments and certain other long-term assets whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.

16. Lease Obligations

The System is obligated under various operating leases for several office facilities and equipment. Total office rent and equipment lease expense was $3,490,569 and $3,739,914 for the years ended June 30, 2019 and 2018, respectively, and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions. The future minimum lease payments expected to be made to non-affiliated parties under noncancelable operating leases are as follows for the years ending June 30:

2020	$ 3,274,170
2021	3,021,176
2022	2,501,705
2023	2,134,340
2024	476,695
	$ 11,408,086

Three of the four medical office buildings previously owned by the System were sold on August 29, 2013. As part of the sales transaction, the System continues to lease space in the buildings from the current owners. Rents to be received in the future from affiliated enterprises and other tenants are as follows for the years ending June 30:

2020	$ 592,950
2021	435,343
2022	332,132
2023	119,751
2024	35,764
	$ 1,515,940

Rental income totaling $360,247 and $298,906 has been recognized in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions for the years ended June 30, 2019 and 2018, respectively.

17. Capital Leases

The Hospital is the lessee of equipment under a two capital leases expiring in February 2020 and July 2022. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under the capital leases is included in depreciation expense for the year ended June 30, 2019.

Following is a summary of property held under the capital leases as of June 30, 2019:

	2019	2018
Information services equipment	**$ 4,261,561**	$ 4,261,561
Accumulated amortization	**(1,622,675)**	(684,311)
	$ 2,638,886	$ 3,577,250

Minimum future lease payments under the two capital leases are as follows for the years ending June 30:

	Principal	Interest
2020	$ 871,365	$ 110,257
2021	757,053	67,869
2022	798,183	26,738
2023	68,440	302
	$ 2,495,041	$ 205,166

18. Certain Risks and Uncertainties

The Hospital's ability to maintain or increase future revenue could be adversely affected by: (1) proposed or future changes in the laws, rules, regulations, and policies relating to the definition, activities, or taxation of not-for-profit tax-exempt entities; (2) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology or further reductions in payments to hospitals and other health care providers; (3) limited supply of physicians nationally which may limit the Hospital's ability to meet the healthcare demands of the population within its primary and secondary service areas; and (4) the ultimate impact of any changes to the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010.

The Joint Commission, a non-governmental privately-owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payors require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs or payors would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In September 2017, the Hospital was surveyed by the Joint Commission and received a full three-year Joint Commission accreditation through November 2020.

The HSCRC has jurisdiction over hospital reimbursement in Maryland by an agreement with the Centers for Medicare and Medicaid Services (CMS) based on a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a waiver to modernize Maryland's unique all-payor rate-setting system for hospital services. The waiver consists of a five-year performance period. Maryland Hospitals committed to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions. Maryland also limited annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2015 to 2018. Under this model, Medicare savings were estimated to be at least $330 million. Under the waiver, Maryland shifted virtually all of its hospital revenue over the five-year performance period into global payment models.

In connection with the waiver, the HSCRC introduced new revenue arrangements, including the Global Budget Revenue (GBR) model. This new model for Maryland hospitals moved payment to hospitals from each individual service to a total revenue for each hospital or a combination of hospitals to provide hospitals flexibility in the objectives of better care for individuals, higher levels of overall population health, and improved health care affordability. It removed the financial incentive from increasing volume and provided incentive to work with partners to provide care in the appropriate setting. Beginning January 2019 the new “Total Cost of Care Model” (the “Model”) was approved and builds upon the successes of the all-payor model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the System’s revenue and the System’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 System.

Changes in Federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the System. The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws (STARK law and regulation). The System’s compliance with these laws and regulations is subject to ongoing internal monitoring as well as periodic governmental review and inquiries, and the System has responded appropriately to any such compliance matters. The System is aware of certain asserted and unasserted compliance matters, and from time to time, the System may agree to resolve certain compliance matters with the government through the self-disclosure process. The amount of such settlement for compliance matters currently being evaluated for submission under the self-disclosure process cannot be estimated at this time. The System will continue to monitor its compliance and all related government inquiries and respond appropriately, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As result there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

As a result of pending federal healthcare reform legislation, substantial changes may occur in the healthcare system. Such legislation potentially 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.

19. Fair Value of Financial Instruments

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, investments, patient accounts receivable, assets limited as of use, accounts payable and accrued expenses, and third-party advances approximate the related fair values. The composition and related fair values of assets limited as to use and investments are disclosed in Note 4. The fair value of the System’s outstanding long-term obligations as of June 30, 2019 and 2018 was approximately $62,465,000 and $64,191,000, respectively.

20. Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of Maryland has adopted UPMIFA.

The System's endowment consists of two donor-restricted funds. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the System has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the System 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 System and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the System
7. The investment policies of the System

From time to time, the fair value of assets associated with the endowment fund may decline below the level that the donor or SPMIFA required the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Lehman Intermediate Government/Corporate Bond index while assuming a moderate level of investment risk. The System expects its endowment funds, over time, to provide an average rate of return of approximately 8% percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on highly liquid investments such as money market accounts to achieve its long-term return objectives within prudent risk constraints.

The endowment's net asset composition as of June 30, 2019 and 2018 and the changes therein, are as follows:

	With Donor Restriction
Donor-restricted endowment, June 30, 2019	$ 1,130,674

Changes in endowment net assets for the fiscal year June 30, 2019:

	Without Donor Restriction	With Donor Restriction
Endowment net assets, beginning of year	**$ -**	**$ 1,130,612**
Investment return:		
Net appreciation (realized and unrealized)	**-**	**63,362**
Other changes:		
Contributions	**-**	**50**
Released from restriction	**63,350**	**(63,350)**
Used for designated purposes	**(63,350)**	**-**
Endowment net assets, end of year	**$ -**	**$ 1,130,674**

	With Donor Restriction
Donor-restricted endowment, June 30, 2018	**$ 1,130,612**

Changes in endowment net assets for the fiscal Year June 30, 2018:

	Without Donor Restriction	With Donor Restriction
Endowment net assets, beginning of year	$ -	$ 1,098,194
Investment return:		
Net appreciation (realized and unrealized)	-	75,593
Other changes:		
Released from restriction	43,175	(43,175)
Used for designated purposes	(43,175)	-
Endowment net assets, end of year	$ -	$ 1,130,612

Supplementary Consolidating Information

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Financial Position
June 30, 2019

	CalvertHealth Medical Center	CalvertHealth Foundation	Consolidating and Eliminating Entries	Consolidated CalvertHealth Medical Center
ASSETS				
Current assets:				
Cash and cash equivalents	$ 11,263,403	$ 246,869	$ -	$ 11,510,272
Short-term investments	94,298	-	-	94,298
Patient accounts receivable, net	12,344,618	-	-	12,344,618
Inventories	2,344,859	-	-	2,344,859
Prepaid expenses and other assets	3,711,246	-	-	3,711,246
Assets limited as of use, current	994,928	-	-	994,928
Total current assets	30,753,352	246,869	-	31,000,221
Investments	1,362,745	-	-	1,362,745
Investments in wholly owned subsidiaries	7,294,091	-	(7,294,091) (2)	- (2)
Investments in affiliated enterprises	4,681,423	-	-	4,681,423
Assets limited as of use	222,472	7,438,462	-	7,660,934
Property and equipment, net	89,249,823	-	-	89,249,823
Insurance recoverable	4,339,175	-	-	4,339,175
Other assets	944,643	-	-	944,643
Total assets	$ 138,847,724	$ 7,685,331	$ (7,294,091)	$ 139,238,964
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	$ 14,934,171	$ 4,688	$ -	$ 14,938,859
Intercompany accounts	(7,491,790)	386,552	-	(7,105,238)
Current portion of long-term debt	2,417,949	-	-	2,417,949
Current portion of capital lease obligation	794,127	-	-	794,127
Accrued pension cost	-	-	-	-
Advances from third-party payors	3,263,944	-	-	3,263,944
Total current liabilities	13,918,401	391,240	-	14,309,641
Long-term debt, net	56,249,231	-	-	56,249,231
Long-term capital lease obligation	1,623,677	-	-	1,623,677
Professional liability	4,980,724	-	-	4,980,724
Other long-term liabilities	1,362,745	-	-	1,362,745
Total liabilities	78,134,778	391,240	-	78,526,018
Net assets:				
Without donor restrictions:				
Unrestricted - general	52,515,861	231,503	(231,503) (2)	52,515,861 (2)
Unrestricted - board designated	3,947,827	2,947,827	(2,947,827) (2)	3,947,827 (2)
With donor restrictions	4,249,258	4,114,761	(4,114,761) (2)	4,249,258 (2)
Total net assets	60,712,946	7,294,091	(7,294,091)	60,712,946
Total liabilities and net assets	$ 138,847,724	$ 7,685,331	$ (7,294,091)	$ 139,238,964

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Operations and Other Changes in Net Assets Without Donor Restrictions
Year Ended June 30, 2019

	CalvertHealth Medical Center	CalvertHealth Foundation	Consolidating and Eliminating Entries		Consolidated CalvertHealth Medical Center
Revenue:					
Net patient service revenue	$ 134,061,597	$ -	$ -		$ 134,061,597
Other operating revenue	3,549,990	833,195	(367,952)	(6)(7)	4,015,233
Total operating revenue	137,611,587	833,195	(367,952)		138,076,830
Expense:					
Salaries & wages	57,652,212	-	-		57,652,212
Employee benefits	12,598,677	370	-		12,599,047
Supplies	22,026,038	-	-		22,026,038
Purchased services	6,003,742	149,515	-		6,153,257
Professional fees	7,105,125	-	-		7,105,125
Depreciation and amortization	11,282,003	-	-		11,282,003
Interest	1,858,758	-	-		1,858,758
Other	16,989,799	727,554	(367,952)	(6)(7)	17,349,401
Total operating expenses	135,516,354	877,439	(367,952)		136,025,841
Income (loss) from operations	2,095,233	(44,244)	-		2,050,989
Nonoperating gains:					
Investment income	80,717	114,780	-		195,497
Income from equity investments	278,334	-	21,829	(4)	300,163
Loss from building renovation	-	-	-		-
Loss on pension settlement	(13,581,965)	-			(13,581,965)
Total nonoperating gains (losses), net	(13,222,914)	114,780	21,829		(13,086,305)
Excess of revenue over expenses (expenses over revenue)	(11,127,681)	70,536	21,829		(11,035,316)
Transfer of net assets:					
Net assets released from restrictions	144,853	-	-		144,853
Equity transfers	24,333,700	-	-		24,333,700
Other pension-related changes	14,621,628	-	-		14,621,628
Net unrealized gains on investments	-	67,408	-		67,408
Increase in net assets without donor restrictions	$ 27,972,500	$ 137,944	$ 21,829		$ 28,132,273

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Cash Flows
Year Ended June 30, 2019

	Calvert Health Medical Center	Calvert Health Foundation	Consolidating and Eliminating Entries		Consolidated Calvert Memorial Hospital
Cash flows from operating activities:					
Increase (decrease) in net assets	$29,303,675	$ 1,306,633	$ (1,306,633)	(2)	$ 29,303,675
Adjustments to reconcile to net cash from operating activities:					
Depreciation and amortization	11,282,003	-	-		11,282,003
Amortization of debt issuance costs	63,956	-	-		63,956
Donations restricted for capital acquisition	-	(867,237)	-		(867,237)
Equity in earnings of wholly owned subsidiaries	21,829	-	(21,829)	(4)	-
Equity in earnings of affiliated enterprises	(300,163)	-	-		(300,163)
Investment income on restricted assets	-	(42,944)	-		(42,944)
Realized net gains on investments	-	(10,956)	-		(10,956)
Unrealized net gains on investments	-	(28,038)	-		(28,038)
Loss on pension settlement	13,581,965	-	-		13,581,965
Other pension-related changes	(14,621,628)	-	-		(14,621,628)
Change in:					
Patient accounts receivable	(5,525)	-	-		(5,525)
Inventories	(133,750)	-	-		(133,750)
Prepaid expenses and other assets	(111,928)	8,968	-		(102,960)
Accounts payable, accrued expenses and other liabilities	(12,724,263)	150,576	-		(12,573,687)
Net cash provided by operating activities	26,356,171	517,002	(1,328,462)		25,544,711
Cash flows from investing activities:					
Purchases of investments	(326,370)	-	-		(326,370)
Proceeds from sales of investments	(40,298)	-	-		(40,298)
Net increase in assets limited as to use	(8,054)	(1,441,478)	-		(1,449,532)
Purchases of property and equipment	(25,770,761)	-	-		(25,770,761)
Net cash used in investing activities	(26,145,483)	(1,441,478)	-		(27,586,961)
Cash flows from financing activities:					
Repayment of long-term debt	(2,251,821)	-	-		(2,251,821)
Payments on capital leases	(904,216)	-	-		(904,216)
Donations received restricted for capital acquisitions	-	867,237	-		867,237
Net distributions from (to) investees	(2,406,399)	-	1,328,462	(5)	(1,077,937)
Investment income on restricted assets	-	42,944	-		42,944
Net cash (used in) provided by financing activities	(5,562,436)	910,181	1,328,462		(3,323,793)
Net change in cash and cash equivalents	(5,351,748)	(14,295)	-		(5,366,043)
Cash and cash equivalents, beginning of year	16,615,151	261,164	-		16,876,315
Cash and cash equivalents, end of year	$11,263,403	$ 246,869	$ -		$ 11,510,272

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2019

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries		Consolidated Calvert Health System, Inc.	
ASSETS										
Current assets:										
Cash and cash equivalents	$ 11,510,272	$ 538,764	$ 2,771,708	$ 126,229	$ 5,190	$ 8,391,650	$ -		$ 23,343,813	
Short-term investments	94,298	-	-	-	-	-	-		94,298	
Patient accounts receivable, net	12,344,618	1,350,508	-	-	-	-	-		13,695,126	
Inventories	2,344,859	187,885	-	-	-	-	-		2,532,744	
Prepaid expenses and other assets	3,711,246	387,278	8,102	109,024	1,048	-	(169,597)	(1)	4,047,101	(1)
Assets limited as to use, current	994,928	-	-	-	-	-	-		994,928	
Total current assets	31,000,221	2,464,435	2,779,810	235,253	6,238	8,391,650	(169,597)		44,708,010	
Investments	1,362,745	-	-	-	-	94,553,657	-		95,916,402	
Investments in wholly owned subsidiaries	-	-	-	-	-	(917,281)	917,281	(2)(5)	-	(2)(5)
Investments in affiliated enterprises	4,681,423	-	2,058,834	-	-	-	-		6,740,257	
Assets limited as of use	7,660,934	-	-	-	-	-	-		7,660,934	
Property and equipment, net	89,249,823	354,969	-	1,308,581	528,791	-	-		91,442,164	
Insurance recoverable	4,339,175	-	-	-	-	-	-		4,339,175	
Other assets	944,643	65,000	7,616	-	-	-	-		1,017,259	
Total assets	$ 139,238,964	$ 2,884,404	$ 4,846,260	$ 1,543,834	$ 535,029	$ 102,028,026	$ 747,684		$ 251,824,201	

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries	Consolidated Calvert Health System, Inc.
LIABILITIES AND NET ASSETS								
Current liabilities:								
Accounts payable and accrued expenses	$ 14,938,859	$ 1,579,574	$ 635	$ 10,458	$ -	$ -	$ (169,597) (1)	$ 16,359,929 (1)
Intercompany accounts	(7,105,238)	7,553,229	(447,991)	-	-	-	-	-
Current portion of long-term debt	2,417,949	-	-	-	-	-	-	2,417,949
Current portion of capital lease obligation	794,127	-	-	-	-	-	-	794,127
Advances from third-party payors	3,263,944	-	-	-	-	-	-	3,263,944
Total current liabilities	14,309,641	9,132,803	(447,356)	10,458	-	-	(169,597)	22,835,949
Long-term debt, less current portion	56,249,231	-	-	-	-	-	-	56,249,231
Long-term capital lease obligation	1,623,677	-	-	-	-	-	-	1,623,677
Professional liability	4,980,724	-	-	-	-	-	-	4,980,724
Other long-term liabilities	1,362,745	-	-	-	-	-	-	1,362,745
Total liabilities	78,526,018	9,132,803	(447,356)	10,458	-	-	(169,597)	87,052,326
Net assets:								
Without donor restrictions:								
Unrestricted - general	52,515,861	(6,248,399)	5,331,117	1,533,376	535,029	102,028,026	917,281 (2)(5)	156,612,291 (2)(5)
Unrestricted - board designated	3,947,827	-	-	-	-	-	-	3,947,827
Unrestricted - noncontrolling interest in subsidiary	-	-	(37,501)	-	-	-	-	(37,501)
With donor restrictions	4,249,258	-	-	-	-	-	-	4,249,258
Total net assets	60,712,946	(6,248,399)	5,293,616	1,533,376	535,029	102,028,026	917,281	164,771,875
Total liabilities and net assets	$ 139,238,964	$ 2,884,404	$ 4,846,260	$ 1,543,834	$ 535,029	$ 102,028,026	$ 747,684	$ 251,824,201

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Other Changes in Net Assets Without Donor Restrictions
Year Ended June 30, 2019

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries		Consolidated Calvert Health System, Inc.	
Revenue:										
Net patient service revenue	$ 134,061,597	$ 17,843,208	$ 422	$ -	$ -	$ -	$ -		$ 151,905,227	
Rental revenue	-	-	-	644,355	15,229	-	(299,337)	(3)	360,247	(3)
Other operating revenue	4,015,233	266,800	192,186	-	-	-	(913,317)	(3)	3,560,902	(3)
Total operating revenue	138,076,830	18,110,008	192,608	644,355	15,229	-	(1,212,654)		155,826,376	
Expenses:										
Salaries & wages	57,652,212	11,471,160	(35,423)	-	-	-	-		69,087,949	
Employee benefits	12,599,047	1,567,790	(1,864)	-	-	-	-		14,164,973	
Supplies	22,026,038	6,695,660	-	-	-	-	-		28,721,698	
Purchased services	6,153,257	875,285	10,700	229,086	-	-	(462,949)	(3)	6,805,379	(3)
Professional fees	7,105,125	818,931	-	-	-	-	-		7,924,056	
Depreciation and amortization	11,282,003	135,341	-	244,398	200	-	-		11,661,942	
Interest	1,858,758	-	-	-	-	-	-		1,858,758	
Other	17,349,401	1,789,255	(14,784)	182,978	915	15	(749,705)	(3)	18,558,075	(3)
Total operating expenses	136,025,841	23,353,422	(41,371)	656,462	1,115	15	(1,212,654)		158,782,830	
Income (loss) from operations	2,050,989	(5,243,414)	233,979	(12,107)	14,114	(15)	-		(2,956,454)	
Nonoperating gains (losses):										
Investment income	195,497	-	719	-	-	2,336,237	-		2,532,453	
Income (loss) from equity investments	300,163	-	967,668	-	-	(4,093,425)	4,093,425	(4)	1,267,831	(4)
Loss from building renovation	-	-	-	-	-	-	-		-	
Loss on pension settlement	(13,581,965)	-	-	-	-	-	-		(13,581,965)	
Total nonoperating gains (losses), net	(13,086,305)	-	968,387	-	-	(1,757,188)	4,093,425		(9,781,681)	
Excess of revenue over expenses (expenses over revenue)	(11,035,316)	(5,243,414)	1,202,366	(12,107)	14,114	(1,757,203)	4,093,425		(12,738,135)	
Net assets released from restrictions for capital acquisitions	144,853	-	-	-	-	-	-		144,853	
Equity contributions	24,333,700	3,500,000	-	(50,000)	(11,000)	(24,272,700)	(3,500,000)	(5)	-	(5)
Contributions from noncontrolling interest holders	-	-	-	-	-	-	-		-	
Other pension-related changes	14,621,628	-	-	-	-	-	-		14,621,628	
Net unrealized gains on marketable investments	67,408	-	-	-	-	2,143,488	-		2,210,896	
Increase (decrease) in net assets without donor restrictions	$ 28,132,273	$ (1,743,414)	$ 1,202,366	$ (62,107)	$ 3,114	$ (23,886,415)	$ 593,425		$ 4,239,242	

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Cash Flows
Year Ended June 30, 2019

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries	Consolidated Calvert Health System, Inc.
Cash flows from operating activities:								
Increase (decrease) in net assets	$ 29,303,675	$ (1,743,414)	$ 1,202,366	$ (62,107)	$ 3,114	$ (23,886,415)	$ 593,425 (2)	$ 5,410,644 (2)
Adjustments to reconcile to net cash from operating activities:								
Depreciation and amortization	11,282,003	135,341	-	244,398	200	-	-	11,661,942
Amortization of debt issuance costs	63,956	-	-	-	-	-	-	63,956
Donations restricted for capital acquisition	(867,237)	-	-	-	-	-	-	(867,237)
Equity in earnings of wholly owned subsidiaries	-	-	-	-	-	4,093,425	(4,093,425) (4)	- (4)
Equity in earnings of affiliated enterprises	(300,163)	-	(967,668)	-	-	-	-	(1,267,831)
Investment income on restricted assets	(42,944)	-	-	-	-	-	-	(42,944)
Realized net (gains) losses on investments	(10,956)	-	-	-	-	129,651	-	118,695
Unrealized net gains on investments	(28,038)	-	-	-	-	(2,143,488)	-	(2,171,526)
Loss on pension settlement	13,581,965	-	-	-	-	-	-	13,581,965
Other pension-related changes	(14,621,628)	-	-	-	-	-	-	(14,621,628)
Change in:		-	-	-	-	-	-	
Patient accounts receivable	(5,525)	(29,309)	(119,999)	-	-	-	-	(154,833)
Inventories	(133,750)	(74,834)	-	-	-	-	-	(208,584)
Prepaid expenses and other assets	(102,960)	198,326	32,280	(63,666)	205	-	22,046 (1)	86,231 (1)
Accounts payable, accrued expenses and other liabilities	(12,573,687)	1,524,586	(139,650)	(7,457)	-	-	(22,046) (1)	(11,218,254) (1)
Net cash provided by (used in) operating activities	25,544,711	10,696	7,329	111,168	3,519	(21,806,827)	(3,500,000)	370,596
Cash flows from investing activities:								
Purchases of investments	(326,370)	-	-	-	-	(37,047,118)	-	(37,373,488)
Proceeds from sales of investments	(40,298)	-	-	-	-	62,479,771	-	62,439,473
Net increase in assets limited as to use	(1,449,532)	-	-	-	-	-	-	(1,449,532)
Purchases of property and equipment	(25,770,761)	(262,549)	-	(106,516)	(3,991)	-	-	(26,143,817)
Net cash (used in) provided by investing activities	(27,586,961)	(262,549)	-	(106,516)	(3,991)	25,432,653	-	(2,527,364)
Cash flows from financing activities:								
Repayment of long-term debt	(2,251,821)	-	-	-	-	-	-	(2,251,821)
Payments on capital leases	(904,216)	-	-	-	-	-	-	(904,216)
Donations received restricted for capital acquisitions	867,237	-	-	-	-	-	-	867,237
Net distributions from (to) investees	(1,077,937)	-	459,850	-	-	(3,500,000)	3,500,000 (5)	(618,087) (5)
Investment income on restricted assets	42,944	-	-	-	-	-	-	42,944
Net cash (used in) provided by financing activities	(3,323,793)	-	459,850	-	-	(3,500,000)	3,500,000	(2,863,943)
Net change in cash and cash equivalents	(5,366,043)	(251,853)	467,179	4,652	(472)	125,826	-	(5,020,711)
Cash and cash equivalents, beginning of year	16,876,315	790,617	2,304,529	121,577	5,662	8,265,824	-	28,364,524
Cash and cash equivalents, end of year	$ 11,510,272	$ 538,764	$ 2,771,708	$ 126,229	$ 5,190	$ 8,391,650	$ -	$ 23,343,813

1. To eliminate intercompany payables/receivables.
2. To eliminate investment in subsidiaries and related net asset accounts.
3. To eliminate intercompany income/expense generated from support and building service fees, staffing contracts and operating leases.
4. To eliminate income of wholly owned subsidiaries.
5. To eliminate intercompany transfer of equity and assets.
6. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital for the acquisition of property, plant and equipment.
7. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital to fund operating programs.

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