MEDSTAR HEALTH, INC.

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

MEDSTAR HEALTH, INC.

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

Independent Auditors' Report

The Board of Directors
MedStar Health, Inc.:

We have audited the accompanying consolidated financial statements of MedStar Health, Inc. (the Corporation), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of MedStar Health, Inc. as of June 30, 2019 and 2018, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member
firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of Matter

As discussed in note 1(u) to the consolidated financial statements, the Corporation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958)*: Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers*, during the year ended June 30, 2019 on a modified retrospective basis. Our opinion is not modified with respect to these matters.

KPMG LLP

October 2, 2019

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2019 and 2018

(Dollars in millions)

Assets		2019	2018
Current assets:			
Cash and cash equivalents	$	559.6	692.6
Investments		188.7	162.7
Assets whose use is limited or restricted		65.1	64.3
Receivables:			
Patient accounts receivable, net		691.7	651.5
Other receivables		101.6	88.5
		793.3	740.0
Inventories		71.5	67.1
Prepaids and other current assets		57.6	53.2
Total current assets		1,735.8	1,779.9
Investments, net of current portion		1,209.5	1,077.2
Assets whose use is limited or restricted, net of current portion		902.2	938.1
Property and equipment, net		1,433.4	1,321.0
Interest in net assets of foundation		65.0	62.5
Goodwill and other intangible assets, net		379.6	380.9
Other assets		130.3	129.9
Total assets	$	5,855.8	5,689.5

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2019 and 2018

(Dollars in millions)

Liabilities and Net Assets		2019	2018
Current liabilities:			
Accounts payable and accrued expenses	$	493.8	471.8
Accrued salaries, benefits, and payroll taxes		394.8	368.8
Amounts due to third-party payors, net		86.3	96.6
Current portion of long-term debt		63.9	157.3
Current portion of self insurance liabilities		98.4	95.5
Other current liabilities		156.0	158.0
Total current liabilities		1,293.2	1,348.0
Long-term debt, net of current portion		1,574.4	1,514.0
Self insurance liabilities, net of current portion		272.6	283.2
Pension liabilities		436.5	290.0
Other long-term liabilities, net of current portion		254.4	259.4
Total liabilities		3,831.1	3,694.6
Net assets:			
Without donor restrictions - attributable to MedStar Health, Inc.		1,795.6	1,787.7
Without donor restrictions - noncontrolling interest		18.0	16.2
Total net assets without donor restrictions		1,813.6	1,803.9
With donor restrictions		211.1	191.0
Total net assets		2,024.7	1,994.9
Total liabilities and net assets	$	5,855.8	5,689.5

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(Dollars in millions)

		2019	2018
Operating revenues:			
Net patient service revenue	$	4,930.7	4,740.2
Premium revenue		525.4	636.6
Other operating revenue		234.3	227.2
Net operating revenues		5,690.4	5,604.0
Operating expenses:			
Personnel		3,213.0	3,037.8
Supplies		836.1	805.5
Purchased services		762.4	844.8
Other operating		479.1	502.9
Interest expense		46.4	46.2
Depreciation and amortization		201.6	205.9
Total operating expenses		5,538.6	5,443.1
Earnings from operations		151.8	160.9
Nonoperating gains (losses):			
Investment gains, net		52.8	118.5
Income tax (provision) benefit		(3.1)	1.6
Other nonoperating activities, net		(13.6)	(9.1)
Total nonoperating gains		36.1	111.0
Excess of revenues over expenses	$	187.9	271.9

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(Dollars in millions)

	Without donor restrictions			
	Medstar Health, Inc.	Noncontrolling Interest	With donor restrictions	Total
Balance at June 30, 2017	$ 1,472.8	17.7	179.8	1,670.3
Excess of revenues over expenses	269.4	2.5	—	271.9
Change in funded status of defined benefit plans	42.2	—	—	42.2
Distributions to noncontrolling interests	—	(4.6)	—	(4.6)
Net assets released from restrictions used for purchase of property and equipment and other	3.3	0.6	(3.9)	—
Net assets released from restrictions for operations	—	—	(9.6)	(9.6)
Contributions	—	—	17.8	17.8
Investment gains on restricted investments, net	—	—	3.7	3.7
Increase in net assets of foundation	—	—	3.2	3.2
Increase (decrease) in net assets	314.9	(1.5)	11.2	324.6
Balance at June 30, 2018	$ 1,787.7	16.2	191.0	1,994.9
Excess of revenues over expenses	184.8	3.1	—	187.9
Change in funded status of defined benefit plans	(183.1)	—	—	(183.1)
Distributions to noncontrolling interests	—	(3.2)	—	(3.2)
Net assets released from restrictions used for purchase of property and equipment and other	6.2	1.9	(8.1)	—
Net assets released from restrictions for operations	—	—	(5.2)	(5.2)
Contributions	—	—	29.2	29.2
Investment gains on restricted investments, net	—	—	1.7	1.7
Increase in net assets of foundation	—	—	2.5	2.5
Increase in net assets	7.9	1.8	20.1	29.8
Balance at June 30, 2019	$ 1,795.6	18.0	211.1	2,024.7

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in millions)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	29.8	324.6
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		201.6	205.9
Gain on sale of property and equipment and other		(0.7)	(5.0)
Change in funded status of defined benefit plans		183.1	(42.2)
Investment gains, net and change in derivative instrument		(25.4)	(106.3)
Increase in net assets of foundation		(2.5)	(3.2)
Deferred income tax provision (benefit)		3.1	(1.6)
Donor restricted contributions		(29.2)	(17.8)
Changes in operating assets and liabilities:			
Patient accounts receivable		(52.9)	(32.8)
Accounts payable and accrued expenses		43.1	1.8
Other		(75.7)	(99.6)
Net cash provided by operations		274.3	223.8
Cash flows from investing activities:			
Purchases of property and equipment, and other		(299.7)	(197.0)
Proceeds from sale of property and equipment and other		—	5.2
(Purchases) proceeds from sales of investments and assets whose use is limited or restricted, net		(84.9)	75.9
Purchases of alternative investments		(31.5)	(93.5)
Proceeds from sales of alternative investments		18.5	23.3
Net settlement payment on derivative instrument		(1.5)	(2.1)
Net cash used in investing activities		(399.1)	(188.2)
Cash flows from financing activities:			
Repayments of long-term borrowings		(34.2)	(30.9)
Donor restricted contributions		29.2	17.8
Distributions to noncontrolling interests		(3.2)	(4.6)
Net cash used in financing activities		(8.2)	(17.7)
(Decrease) increase in cash and cash equivalents		(133.0)	17.9
Cash and cash equivalents at beginning of year		692.6	674.7
Cash and cash equivalents at end of year	$	559.6	692.6
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	68.8	66.3
Supplemental disclosure of noncash investing and financing activities:			
Noncash purchases of property, plant and equipment	$	29.6	20.8

See accompanying notes to consolidated financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Organization

MedStar Health, Inc. (MedStar or the Corporation) is a tax-exempt, Maryland membership corporation which, through its controlled entities and other affiliates, provides and manages healthcare services in the region encompassing Maryland, Washington D.C. and Northern Virginia. The Corporation became operational on June 30, 1998 by the transfer of the membership interests of Helix Health, Inc. (Helix – a not-for-profit Maryland Corporation) and Medlantic Healthcare Group, Inc. (Medlantic – a not-for-profit Delaware Corporation) in exchange for the guarantee of the debt of both Helix and Medlantic by the Corporation. The trade names of the principal tax-exempt and taxable entities of the Corporation are:

Tax-Exempt

- MedStar Ambulatory Services
- MedStar Franklin Square Medical Center (MFSMC)
- MedStar Georgetown University Hospital (MGUH)
- MedStar Good Samaritan Hospital
- MedStar Harbor Hospital
- MedStar Health Research Institute
- MedStar Health Visiting Nurse Association, Inc.
- MedStar Medical Group, LLC
- MedStar Montgomery Medical Center (MMMC)
- MedStar National Rehabilitation Network
- MedStar Southern Maryland Hospital Center
- MedStar St. Mary's Hospital (MSMH)
- MedStar Surgery Center, Inc.
- MedStar Union Memorial Hospital (MUMH)
- MedStar Washington Hospital Center (MWHC)
- HH MedStar Health, Inc.

Taxable

- Greenspring Financial Insurance, LTD.
- MedStar Enterprises, Inc. and Subsidiaries
- MedStar Family Choice, Inc. (MFC)
- MedStar Physician Partners, Inc.
- Parkway Ventures, Inc. and Subsidiaries
- RadAmerica II, LLC

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(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). All majority owned subsidiaries, direct member entities and controlled affiliates are consolidated. All significant intercompany accounts and transactions have been eliminated.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents.

(e) Investments and Assets Whose Use is Limited or Restricted

The Corporation's investment portfolio is considered trading and is classified as current or noncurrent based on management's intention as to use. All securities are reported at fair value principally based on quoted market prices in the consolidated balance sheets. The fair value of alternative investments is measured based on the Net Asset Value (NAV) of the shares in each investment company or partnership as a practical expedient, except for those institutional funds which have readily determinable fair values (RDFV) and are disclosed separately. Purchases and sales of securities are recorded on a trade-date basis.

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting, as appropriate, and are included in other assets in the consolidated balance sheets. The Corporation utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. Under the equity method, original investments are recorded at cost and adjusted by the Corporation's share of earnings or losses in these organizations. The Corporation's equity income or loss is recognized in other operating revenue within the consolidated statements of operations and changes in net assets.

Assets whose use is limited or restricted include assets held by trustees under bond indentures, self-insurance trust arrangements, assets restricted by donor, and assets designated by the Board of Directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes. Amounts from these funds required to meet current liabilities have been classified in the consolidated balance sheets as current assets.

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Investment income (interest and dividends), realized gains and losses on investment sales, and unrealized gains and losses are reported as investment gains, net within the excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets (unless the income or loss is restricted). Investment income and realized gains and losses on funds held in trust for self-insurance purposes are included in other operating revenue. Investment returns that are restricted by the donor are recorded as a component of changes in donor restricted net assets, in accordance with donor imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price or adjusted cost if the investment was previously determined to be other-than-temporarily impaired.

(f) Inventories

Inventories, which primarily consist of medical supplies and pharmaceuticals at many of the operating entities, are stated at the lower of cost or market, with cost being determined primarily under the weighted average cost or first-in, first-out methods.

(g) Property and Equipment, net

Property and equipment acquisitions are recorded at cost and are depreciated or amortized over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any interest earned on unexpended bond proceeds. Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Buildings and improvements	10–40 years
Equipment	3–20 years

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

Management routinely evaluates the carrying value of its long-lived assets for impairment. No significant impairment charges were recorded against the carrying value of the Corporation's long-lived assets during the years ended June 30, 2019 and 2018.

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(h) Interest in Net Assets of Foundation

The Corporation recognizes its rights to assets held by a recipient organization, which accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in the financially interrelated organization are recognized in the consolidated statements of operations and changes in net assets as a component of changes in net assets with donor restrictions.

(i) Goodwill and Other Intangible Assets, net

Goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. As of June 30, 2019 and 2018, the Corporation had one reporting unit, which included all subsidiaries of the Corporation, and held goodwill, net on its consolidated balance sheets of $225.0 and $220.4, respectively. Goodwill is evaluated for impairment annually (or sooner if indicators of impairment arise) using a qualitative assessment to determine whether there are events or circumstances that indicate it is more likely than not that the reporting unit's fair value is less than its carrying amount. Based on this qualitative assessment, the Corporation determined that there was no goodwill impairment for the years ended June 30, 2019 and 2018.

Other intangible assets are recorded at fair value and amortized over their estimated useful lives. Other intangible assets, were $154.6 and $160.5, net of accumulated amortization of $28.6 and $22.7, as of June 30, 2019 and 2018, respectively. The Corporation recognized amortization expense of $5.9 for the years ended June 30, 2019 and 2018 related to identifiable intangible assets. Other intangible assets are evaluated for impairment whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. No impairment charges related to other intangibles were recorded for the years ended June 30, 2019 and 2018.

(j) Estimated Professional Liability Costs

The provision for estimated self-insured professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents. The receivables related to such claims are recorded at their net realizable value and are included in other assets in the accompanying consolidated balance sheets.

(k) Leases

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the consolidated statements of operations and changes in net assets within depreciation and amortization expense.

(Continued)

(l) Derivative

The Corporation utilizes a derivative financial instrument to manage its interest rate risks associated with tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes. The derivative instrument is recorded within the consolidated balance sheets at its fair value within other long-term liabilities. The Corporation's current derivative investment does not qualify for hedge accounting; therefore, the changes in fair value have been recognized in the accompanying consolidated statements of operations and changes in net assets as mark-to-market adjustments in other nonoperating activities, net.

(m) Net Patient Service Revenue and Net Patient Accounts Receivable

Net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient services revenues, is recorded at the transaction price estimated by the Corporation to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services in patient care. The Corporation recognizes net patient service revenue in the period in which performance obligations are satisfied under contracts by transferring our services to customers.

The Corporation determines performance obligations based on the nature of the services provided. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient services. The Corporation 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, such as outpatient services, is recognized when goods or services are provided and the Corporation does not believe it is required to provide additional goods or services to the patient. Inpatient goods and/or services may include room, meals, ancillary services, etc. These services represent a bundle of goods and services that are distinct and accounted for as a single performance obligation within a patient stay or encounter.

The Corporation's estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts, which are determined using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Estimates for uncollectible amounts are based on the aging of the accounts receivable, historical collection experience for similar payors and patients, current market conditions, and other relevant factors. Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are considered in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and our historical settlement activity, including an assessment to ensure that it is probable that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews or investigations. In addition, the Corporation is committed to ensuring that patients within the communities it serves who lack financial resources have access to necessary hospital services. The Corporation works with uninsured and underinsured patients to gain an understanding of each patient's

financial resources prior to admission (for scheduled services) or prior to billing (for emergency services). Based on this information and patient eligibility for charity care, the Corporation records estimated price concessions accordingly.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2019 and 2018 was not significant.

(n) Premium Revenue and Medical Claims Expense

Premium revenue consists of amounts received by the Corporation's managed care organization for providing medical services to subscribing participants, regardless of services actually performed. As of June 30, 2019, the managed care organization provides services primarily to enrolled Medicaid beneficiaries in the State of Maryland. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but unreported and are included in purchased services within the consolidated statements of operations and changes in net assets.

(o) Grants

Grants are accounted for as either an exchange transaction or as a contribution based on terms and conditions of the grant. If the grant is accounted for as an exchange transaction, revenue is recognized as other operating revenue when earned. If the grant is accounted for as a contribution, the revenue is recognized as either other operating revenue, or as donor restricted contributions, depending on the restrictions within the grant.

(p) Contributions Received and Made

Unconditional promises to give cash and other assets to the Corporation are reported at fair value on the date the promise is received. Conditional promises to give are reported at fair value on the date the condition is met. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these restricted assets are reclassified as assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Such amounts are classified as other operating revenue or transfers for additions to property and equipment. Donor restricted contributions whose restrictions are satisfied within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

Contributions made by the Corporation to other not-for-profit organizations are recorded at fair value in other nonoperating activities, net within the consolidated statements of operations and changes in net assets as conditions, if applicable, are met.

(Continued)

(q) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator for the Corporation, which is the excess of revenues over expenses. Consistent with industry practice, changes in net assets that are excluded from excess of revenues over expenses may include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), contributions from and acquisitions of and distributions to noncontrolling interests, certain pension adjustments, and other miscellaneous items as defined under U.S. GAAP.

(r) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. The Corporation accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*.

(s) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent amounts that arise as the result of operations or contributions, gifts, and grants that have no donor-imposed restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose, passage of time and/or to be maintained by the Corporation in perpetuity. Net assets with donor restrictions primarily consist of pledges and funds received for the purposes of purchasing property and equipment, providing health education, research, and other healthcare services, as donor or other restrictions are satisfied.

The Corporation accounts for and presents noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets. The income attributable to noncontrolling interests is included within operating income within the consolidated statements of operations and changes in net assets.

(t) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair values of financial instruments:

Cash and cash equivalents, receivables, other current assets, other assets, current liabilities and long-term liabilities: The carrying amount reported in the consolidated balance sheets for each of these assets and liabilities approximates their fair value.

The fair values of investments, assets whose use is limited or restricted, and the interest rate swap are discussed in note 3.

(u) New Accounting Pronouncements

Effective July 1, 2018, the Corporation adopted the FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the modified retrospective method of adoption. The core principle of Topic 606 is that an entity should recognize revenue in an amount that the entity ultimately expects to receive for the services provided. As a result of the adoption of Topic 606, what was previously classified as the provision for bad debts in the statement of operations and changes in net assets is now reflected as implicit price concessions (as defined in Topic 606) and therefore included as a reduction to net patient service revenue. Additionally, the allowance for uncollectible accounts of approximately $185.6 million as of July 1, 2018 was collapsed as a component of net patient accounts receivable. Periods prior to adoption have been revised to conform to the net presentation of a single net patient service revenue total. Other than these changes in presentation, the adoption of Topic 606 did not have a material impact on the consolidated results of operations for the years ended June 30, 2019 and 2018, and the Corporation does not expect it to have a material impact on its consolidated results of operations going forward. For the years ended June 30, 2019 and 2018 the Corporation recorded $186.2 and $191.0, respectively, of implicit price concessions as a reduction of net patient service revenue that would have been recorded as bad debt expense prior to the adoption of Topic 606. The Corporation's MFC insurance business is accounted for under the FASB ASC Topic 944, *Financial Services – Insurance* and as a result, premium revenue is not subject to Topic 606.

In February 2016 and modified through subsequent ASUs, the FASB issued *Leases* (Topic 842), the primary impact of which requires lessees to recognize right-of-use assets and liabilities for most operating leases. ASU 2016-02 is effective for fiscal year and interim periods beginning after December 15, 2018. The Corporation will adopt Topic 842 effective July 1, 2019 applying the modified retrospective approach in which the Corporation will not adjust comparable prior period information and disclosures. The Corporation expects to utilize the practical expedients being made available, including the package of practical expedients to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. The Corporation estimates the amount of right-of-use assets and obligations resulting from the adoption of ASU 2016-02 to be within a range of $325.0 to $375.0.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to revise its financial presentation of net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk and expand disclosures on functional expenses. The Corporation adopted the new standard on June 30, 2019 on a retrospective basis. There were no material changes to the consolidated balance sheets, statements of operations and changes in net assets or cash flows because of the adoption. Periods prior to adoption, which previously presented temporarily restricted and permanently restricted net assets, have been revised to conform to the new presentation of a single classification of net assets with donor restrictions.

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

(v) Reclassifications

Certain prior year amounts, aside from the items discussed in note 1(u), have been reclassified to conform with current period presentation, the effects of which are not material.

(2) Investments and Assets Whose Use is Limited or Restricted

Investments and assets whose use is limited or restricted as of June 30 at fair value consist of the following:

		2019	2018
Cash and cash equivalents	$	127.0	87.6
Fixed income securities and funds		791.1	736.7
Equity securities		660.6	645.8
Institutional funds with RDFV		30.8	41.9
Alternative investments:			
Commingled equity funds		288.6	280.5
Inflation hedging equity, commodity, fixed income fund		71.3	76.3
Hedge fund of funds and private equity		396.1	373.5
Total investments and assets whose use is limited or restricted		2,365.5	2,242.3
Less short-term investments and assets whose use is limited or restricted		(253.8)	(227.0)
Long-term investments and assets whose use is limited or restricted	$	2,111.7	2,015.3

Assets whose use is limited or restricted as of June 30, included in the table above, consist of the following:

		2019	2018
Funds held by trustees	$	349.6	389.1
Self-insurance funds		332.6	324.1
Funds restricted by donors for specific purposes and endowment		114.8	100.0
Funds designated by board		170.3	189.2
Total assets whose use is limited or restricted		967.3	1,002.4
Less assets required for current obligations		(65.1)	(64.3)
Long-term assets whose use limited or restricted	$	902.2	938.1

Investment income and realized and unrealized gains for assets whose use is limited or restricted, cash equivalents and investments are comprised of the following for the years ended June 30:

		2019	2018
Other operating revenue:			
Investment income and realized gains	$	12.8	12.7
Investment gains, net:			
Investment income, net		28.4	19.5
Net realized gains on investments		13.8	32.8
Change in unrealized gains on investments, net		10.6	66.2
		52.8	118.5
Other changes in net assets:			
Realized net gains on restricted net assets		1.1	1.6
Change in unrealized gains on restricted net assets, net		0.6	2.1
Total investment returns, net	$	67.3	134.9

(3) Fair Value of Financial Instruments

The Corporation follows the guidance within FASB ASC Topic 820, *Fair Value Measurement* (ASC 820), which defines fair value and establishes methods used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 – Observable inputs other than quoted prices for the asset, either directly or indirectly observable, that reflect assumptions market participants would use to price the asset based on market data obtained from sources independent of the Corporation.
- Level 3 – Unobservable inputs that reflect the Corporation's own assumptions about the assumptions market participants would use to price an asset based on the best information available in the circumstances.

The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. As of June 30, 2019 and 2018, management believes that all investments were being managed in a manner consistent with the IPS.

The following table illustrates the actual allocations of the Corporation's primary long-term investment portfolio as of June 30:

	2019	2018
Cash	3 %	2 %
Publicly traded equities – domestic	28	27
Publicly traded equities – international	9	10
Fixed income securities	15	15
Institutional funds with RDFV	1	1
Alternative investments:		
Commingled equity funds	17	18
Inflation hedging equity, commodity, fixed income fund	5	5
Hedge funds	21	21
Private equities	1	1
Total	100 %	100 %

The table below presents the Corporation's investable assets and liabilities as of June 30, 2019, aggregated by the three-level valuation hierarchy and separately identifies investments reported at NAV:

	Level 1	Level 2	NAV	Total
Assets:				
Cash and cash equivalents	$ 686.6	—	—	686.6
U.S. Treasury bonds	534.9	—	—	534.9
U.S. agency mortgage backed securities	87.5	—	—	87.5
Corporate bonds	—	137.2	—	137.2
Fixed income mutual funds	1.0	—	—	1.0
All other fixed income securities	6.8	23.7	—	30.5
Equity mutual funds & ETF's	242.5	—	—	242.5
Institutional funds with RDFV	—	30.8	—	30.8
Common stocks	418.1	—	—	418.1
Alternative investments:				
Commingled funds	—	—	288.6	288.6
Inflation hedging equity, commodity, fixed income fund	—	—	71.3	71.3
Private equity	—	—	20.6	20.6
Hedge funds:				
Custom hedge fund	—	—	65.5	65.5
Other hedge funds	—	—	310.0	310.0
Total assets	$ 1,977.4	191.7	756.0	2,925.1
Liabilities:				
Interest rate swap	$ —	7.1		7.1
Total liabilities	$ —	7.1		7.1

The table below presents the Corporation’s investable assets and liabilities as of June 30, 2018, aggregated by the three-level valuation hierarchy and separately identifies investments reported at NAV:

	Level 1	Level 2	NAV	Total
Assets:				
Cash and cash equivalents	$ 780.2	—	—	780.2
U.S. Treasury bonds	339.0	—	—	339.0
U.S. agency mortgage backed securities	226.6	—	—	226.6
Corporate bonds	—	139.4	—	139.4
Fixed income mutual funds	1.2	—	—	1.2
All other fixed income securities	8.6	21.9	—	30.5
Equity mutual funds & ETF’s	244.7	—	—	244.7
Institutional funds with RDFV	—	41.9	—	41.9
Common stocks	401.1	—	—	401.1
Alternative investments:				
Commingled funds	—	—	280.5	280.5
Inflation hedging equity, commodity, fixed income fund	—	—	76.3	76.3
Private equity	—	—	18.1	18.1
Hedge funds:				
Custom hedge fund	—	—	64.3	64.3
Other hedge funds	—	—	291.1	291.1
Total assets	$ 2,001.4	203.2	730.3	2,934.9
Liabilities:				
Interest rate swap	$ —	6.4		6.4
Total liabilities	$ —	6.4		6.4

For the years ended June 30, 2019 and 2018, there were no significant transfers between Levels 1 and 2.

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2019:

	Fund 1	Custom Hedge Fund Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	67% monthly – quarterly 33% quarterly – annually	Quarterly	Quarterly
Required notice	70 days	within 95 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10 %	up to 10%	10 %	10 %

The hedge funds include three hedge fund-of-funds and one custom hedge fund. The custom fund is structured as a multi-strategy hedge fund with the Corporation as the sole investor. The investment objective and strategies used by the hedge funds-of-funds and custom hedge fund are similar. The investment objective is to achieve positive absolute returns with low volatility, achieved through investments with multiple underlying managers who are investing across various strategies. Strategies utilized within these hedge funds include, but are not limited to:

- *Credit/Distressed* includes investment companies that focus mainly on opportunities in corporate fixed income securities of companies that are in financial distress, or perceived financial distress, or going through a restructuring or re-organization.
- *Event Driven* includes investment companies that focus on identifying securities that would benefit from the occurrence of a major corporate event.
- *Global Macro* includes investment companies that employ broad mandates to invest globally across all asset classes, including interest rates, currencies, commodities, and equities, in order to benefit from market movements within various countries.
- *Equity Long/Short* includes investment companies that maintain long and short positions in publicly traded equities in order to capture opportunities driven by their perception of securities or industries being overvalued or undervalued.
- *Relative Value* includes investment companies that seek to identify valuation discrepancies between related securities, utilizing fundamental and quantitative techniques to establish equities, fixed income, and derivative positions.

Investments in hedge funds are carried at estimated fair value. Fair value is based on the NAV as a practical expedient of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U.S. GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions. Generally, no dividends or other distributions are paid.

The following summarizes the status of contributions to the private equity vehicles held as of June 30, 2019:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund-of-funds	$ 30.2	94.8 %	5.2 %
Direct funds	31.5	26.4	73.6
Total	$ 61.7		

Investments in private equity funds, typically structured as limited partnership interests, are carried at estimated fair value using NAV, as a practical expedient, or equivalent as determined by the General Partner in the absence of readily determinable fair values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute the proceeds of those assets. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third-party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third-party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

Institutional funds with RDFV are commingled equity and fixed income funds, structured similarly to mutual funds, whose fair value is considered to be readily determinable. These funds' shares can be redeemed on any trading day at the relevant NAV per share on that day, as reported by the funds. There are no significant restrictions on redemption or redemption penalties.

(4) Liquidity and Availability of Resources

Financial assets available within one year of the balance sheet date for general expenditures such as operating expenses and construction costs not financed with debt as of June 30 are as follows:

		2019	2018
Cash and cash equivalents	$	559.6	692.6
Investments (excluding certain alternative investments)		1,379.1	1,223.1
Patient accounts receivable		691.7	651.5
	$	2,630.4	2,567.2

The Corporation has certain board-designated assets whose use is limited which are available for general expenditures within one year in the normal course of operations, pending board approval. These board-designated assets were $170.3 and $189.2 as of June 30, 2019 and 2018, respectively, and are not included in the table above. The Corporation has other assets whose use is limited for donor restricted purposes, debt service, and for the self-insurance programs for professional and general liability risks, employee health and workers' compensation. These assets whose use is limited are not available for general expenditures within the next year and are not included in the table above.

As part of the Corporation's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

(5) Property and Equipment, net

The components of property and equipment recorded at historical cost and the related accumulated depreciation at June 30 are summarized as follows:

		2019	2018
Land	$	90.4	88.7
Buildings and improvements		1,648.3	1,590.1
Equipment		2,110.6	2,020.2
		3,849.3	3,699.0
Less accumulated depreciation and amortization		(2,676.8)	(2,519.7)
		1,172.5	1,179.3
Construction-in-progress		260.9	141.7
	$	1,433.4	1,321.0

(Continued)

Construction-in-progress includes a variety of ongoing capital projects of the Corporation as of June 30, 2019 and 2018, including the construction of a new surgical pavilion at MGUH, an operating room expansion at MFSMC and other capital projects at MWHC that were funded through the Series 2017A bond offering. In connection with these projects the Corporation has total unspent commitments of $464.4 and $68.7 as of June 30, 2019 and 2018, respectively. Interest expense, net of investment earnings, capitalized for these projects totaled $10.2 and $13.3 as of June 30, 2019 and 2018, respectively.

Depreciation and amortization expense related to property and equipment amounted to $194.3 and $200.0 for the years ended June 30, 2019 and 2018, respectively.

(6) Other Assets

Other assets as of June 30 consist of the following:

		2019	2018
Investments in unconsolidated entities	$	16.5	18.2
Reinsurance receivables		21.9	25.1
Other		91.9	86.6
	$	130.3	129.9

The Corporation has investments in other healthcare related organizations that are accounted for under the equity method which total $16.5 and $18.2 at June 30, 2019 and 2018, respectively. The related ownership interest in these organizations ranges from 8% to 50%. The Corporation's share of earnings in these organizations was $4.2 and $1.4 for the years ended June 30, 2019 and 2018, respectively, and are recognized in other operating revenue in the consolidated statements of operations and changes in net assets.

As of June 30, 2019 and 2018, other assets also include $74.1 and $64.4, respectively, of investments associated with a nonqualified, tax-deferred compensation plan for which there is an offsetting payable included in other long-term liabilities within the consolidated balance sheets.

(Continued)

(7) Debt

As of June 30, the Corporation's outstanding borrowings include the following:

		2019	2018
Maryland Health and Higher Educational Facilities:			
Authority fixed rate revenue bonds:			
Series 1998A 5.25% Term bonds due 2038	$	82.0	82.0
Series 1998B 5.25% Term bonds due 2038		57.0	57.0
Series 2011 2.00%–5.00% Serial bonds due 2012–2023		16.3	19.3
Series 2011 5.00% Term bonds due 2031–2041		41.0	41.0
Series 2012 2.19% Direct Purchase due 2017–2022		26.8	32.8
Series 2013A 3.00%–5.00% Serial bonds due 2016–2028		55.7	57.3
Series 2013A 4.00%–5.00% Term bonds due 2038–2041		56.9	56.9
Series 2013B 3.00%–5.00% Serial bonds due 2025–2033		60.8	60.8
Series 2013B 4.00%–5.00% Term bonds due 2038		89.0	89.0
Series 2015 2.00%–5.00% Serial bonds due 2016–2033		167.9	172.3
Series 2015 4.00%–5.00% Term bonds due 2038–2045		176.8	176.8
Series 2017A 3.75%–5.00% Term bonds due 2042–2047		395.0	395.0
Plus unamortized net premium		85.2	91.4
		1,310.4	1,331.6
District of Columbia Hospital Revenue Bonds:			
Multimodal revenue bonds at variable rates:			
Series 1998A 1.35%–2.04% at June 30, 2019 Serial bonds due 2008–2038 0.95%–1.55% at June 30, 2018		109.1	112.8
Multimodal revenue bonds at fixed rates:			
Series 1998B 2.75%–5.00% Serial bonds due 2008–2019		—	1.7
Series 1998C 2.75%–5.00% Serial bonds due 2008–2019		—	1.7
		109.1	116.2
MedStar Health, Inc. Taxable Fixed Rate Revenue Bonds:			
Series 2015 0.80%–3.70% Serial bonds due 2016–2031		85.6	90.6
Notes payable to financial institutions or state agencies under mortgages (floating rates ranging between 3.1%–8.0%) and other		14.8	15.4
Line of credit due January 2022 (0.10%–2.97% at June 30, 2019 and 0.14%–2.54% at June 30, 2018)		129.8	129.8
Deferred financing costs, net		(11.4)	(12.3)
Total debt		1,638.3	1,671.3
Less current portion of long-term debt		(63.9)	(157.3)
Long-term debt, net	$	1,574.4	1,514.0

Scheduled maturities on borrowings for the next five fiscal years and thereafter are as follows:

2020	$	63.9
2021		29.8
2022		160.7
2023		31.8
2024		32.8
Thereafter		1,245.5
	$	1,564.5

The Corporation, which is currently the sole member of an “obligated group” as defined in the Master Trust Indenture, is bound by the provisions of the Master Trust Indenture for payment of any outstanding obligations under existing loan agreements. All of the hospitals and certain other affiliates of the Corporation are parties to a guaranty agreement pursuant to which they jointly and severally guaranty the payment and performance of the obligations under the Master Trust Indenture. The Master Trust Indenture requires that certain Material System Affiliates, which is defined therein as any system affiliate that generates in excess of 5.0% of the system’s revenues, execute the guaranty agreement unless otherwise exempt pursuant to the provisions of the Master Trust Indenture. The Master Trust Indenture has been amended such that the Corporation’s regulated insurance entities, which may constitute Material System Affiliates, are not required to become parties to the Guaranty Agreement due to regulatory restrictions placed on their assets which make them unable to fulfill the obligations of a guarantor. Parties to the guaranty agreement currently include: HH MedStar Health, Inc., MedStar Enterprises, MedStar Georgetown University Hospital, MedStar National Rehabilitation Hospital, MedStar Washington Hospital Center, MedStar Franklin Square Medical Center, MedStar Good Samaritan Hospital, MedStar Harbor Hospital, MedStar Montgomery Medical Center, MedStar Southern Maryland Hospital Center, MedStar St. Mary’s Hospital, MedStar Union Memorial Hospital, Parkway Ventures, and MedStar Visiting Nurse Association, Inc. The obligations of the guarantors under the Guaranty Agreement are currently collateralized by deeds of trust granted by the hospitals. Under the Master Trust Indenture and the deeds of trust, as collateral for the payments due thereunder, the Corporation and its hospital affiliates, have granted a security interest in their revenues subject to permitted encumbrances. As of June 30, 2019, all of the Corporation’s Maryland Health and Higher Educational Facilities Authority Revenue Bonds, District Hospital Revenue Bonds, and MedStar Health Taxable Revenue Bonds are secured by obligations issued under the Master Trust Indenture.

Under the Master Trust Indenture, the Corporation is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.10. Under the loan agreements relating to the Series 1998 Bonds (defined below), the Corporation is required to maintain a historical debt service coverage ratio of not less than 2.0 and to maintain at least 65 days cash on hand. In the event the Corporation does not meet either of these requirements, it is required to fund a trustee-held debt service reserve fund securing the Series 1998 Bonds. The amount to be deposited shall equal the lesser of: 10% of the principal amount of such outstanding bonds, or the largest annual debt service with respect to such bonds in any future year, or 125% of the average annual debt service of future years. As of June 30, 2019

and 2018, there were no funds required to be held in the debt service reserve fund for the Series 1998 Bonds.

In December 1998, the Maryland Health and Higher Education Facilities Authority (MHHEFA) and the District of Columbia (District) issued bonds (Series 1998 Bonds) on behalf of the Corporation. Bond proceeds of approximately $588.6 were loaned to the Corporation under separate loan agreements with MHHEFA and the District upon execution of obligations pursuant to the Master Trust Indenture. MHHEFA issued $283.5 of Revenue Bonds. Principal and interest under the Series 1998 MHHEFA bonds are insured under municipal insurance policies with Assured and Ambac. The District issued $300.0 of Multimodal Revenue Bonds, including $150.0 Series 1998A, $75.0 Series 1998B, and $75.0 Series 1998C. The District Series 1998A bonds, which consist of three tranches totaling $105.3 at August 2019, trade as uninsured Variable Rate Demand Obligations backed by bank letters of credit. The Series 1998A Tranche I bonds which remained outstanding in August 2019 consisted of approximately $35.1 bonds trading in a daily mode backed by a letter of credit issued by TD Bank, N.A. and remarketed by J.P. Morgan Securities Inc. The letter of credit expires in February 2022. In the event of a failed remarketing, the Tranche I bonds would be tendered to the bank and repaid over a five-year period, beginning 367 days following the date of the failed remarketing. The Series 1998A Tranche II bonds totaled $35.1 in August 2019. These bonds trade in a weekly mode and are remarketed by TD Securities. The letter of credit backing these bonds was issued by TD Bank, National Association and expires in January 2021. In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a five-year period, beginning 367 days following the failed remarketing. The Series 1998A Tranche III bonds totaled $35.1 in August 2019. These bonds trade in a weekly mode and are remarketed by Citigroup Global Markets Inc. The letter of credit backing these bonds was issued by PNC Bank, National Association and expires in March 2020. In the event of a failed remarketing, the Tranche III bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the failed remarketing. None of the Series 1998A bonds have been put at June 30, 2019 and 2018, respectively. The reimbursement obligation with respect to the letters of credit are evidenced and secured by obligations issued by the Corporation under the Master Trust Indenture.

Related to the District Series 1998A bonds, the Corporation entered into an interest rate swap with Wells Fargo Bank, National Association in a notional amount totaling $150.0 (reduced to $63.5 at August 2019). The swap agreement expires in fiscal year 2027. Under the terms of the swap, the Corporation pays a fixed rate and receives a variable rate. Collateral is only required to be posted under the swap in the event that the Corporation’s credit ratings are downgraded by two rating agencies below the BBB – or Baa2 – level. To date, no collateral postings have been required. As of June 30, 2019 and 2018, the variable interest rate under these agreements was 1.59% and 1.29%, respectively. The fixed rate was 3.69% as of June 30, 2019 and 2018. The variable rates are capped at 14.0%. The interest rate swap was secured by obligations issued under the Master Trust Indenture.

Certain of the Corporation’s bonds are subject to optional redemption or purchase, as follows: (i) the Series 2011 MHHEFA Bonds maturing on or after August 2022 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2021; (ii) the Series 2013A MHHEFA Bonds maturing on or after August 2024 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2023; (iii) the Series 2015 MHHEFA Bonds maturing on or after August 2025 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2025;

(iv) the Series 2015 taxable bonds are subject to redemption at any time, so long as the Corporation makes certain make-whole redemption payments; and (v) the Series 2017 MHHEFA Bonds maturing on or after May 15, 2027 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2027.

The Corporation maintains a $250.0 revolving credit agreement provided by a group of banks. The facility was renewed for a three-year term in January 2019 and expires in January 2022. The facility is evidenced by an obligation issued under the Master Trust Indenture. The outstanding balance on the facility was $129.8 as of June 30, 2019 and 2018. The facility includes certain covenants, including a requirement to maintain Days Cash on Hand of 70 days, measured semi-annually as of each June 30 and December 31, and a Debt Service Coverage ratio of 1.25, measured quarterly on a rolling four quarters basis. In addition, the Corporation is required to maintain a minimum credit rating of Baa2 or its equivalent from Standard and Poor's and Moody's Investors Service.

In addition, the Corporation maintains a $30.0 letter of credit facility, provided by a single lender, which is also evidenced by an obligation issued under the Master Trust Indenture. This facility is principally used to securitize certain regulatory obligations under various insurance programs and has terms and conditions similar to the revolving credit agreement. The facility was renewed for a three-year term in January 2019 and expires in January 2022; however, the standby letters of credit issued under the facility can be canceled at the bank's option each year. As of June 30, 2019 and 2018, standby letters of credit issued pursuant to the facility were $17.4 and $15.9, respectively. No amounts have been drawn by the beneficiaries under the standby letters of credit.

Financing costs are amortized over the estimated duration of the related debt using the effective interest method.

(8) Retirement Liabilities

The Corporation has two qualified defined benefit pension plans (MedStar Health, Inc. Pension Equity Plan (PEP) and MedStar Health, Inc. Cash Balance Retirement Plan (CBRP)) covering substantially all full-time employees hired before 2005. MedStar St. Mary's Hospital also has a defined benefit plan that substantially covers all employees of MedStar St. Mary's Hospital who were eligible prior to the plan being frozen. Participation in all plans has been closed to new entrants and all plans are frozen to future benefit accruals.

Benefits under the plans are substantially based on years of service and the employees' career earnings. The Corporation contributes to the plans based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations. Effective July 1, 2000, employees of the Transferred Businesses (note 16) became participants in one of the Corporation's pension plans and are reflected in the pension information provided below.

The Corporation's investment policies are established by MedStar Health, Inc.'s Investment Committee, which is comprised of members of the Board of Directors, other community leaders, and management. Among its responsibilities, the Investment Committee is charged with establishing and reviewing asset allocation strategies, monitoring investment manager performance, and making decisions to retain and

terminate investment managers. Assets of each of the Corporation's pension plans are managed in a similar fashion, as the Corporation's investments and assets whose use is limited, by the same group of investment managers. The Corporation has incorporated an IPS into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. As of June 30, 2019 and 2018, management believes that all investments were being managed in a manner consistent with the IPS.

The following table illustrates the actual allocations of the Corporation's primary pension plans' investment portfolio as of June 30:

	2019	2018
Cash	1 %	1 %
Publicly traded equities – domestic	27	28
Publicly traded equities – international	6	7
Fixed income securities	16	15
Institutional funds with RDFV	9	9
Alternative investments:		
Commingled equity funds	13	13
Inflation hedging equity, commodity, fixed income fund	4	4
Hedge funds	22	21
Private equities	2	2
Total	100 %	100 %

The tables below present the Corporation's pension plans' investable assets as of June 30 aggregated by the three level valuation hierarchy and separately identify investments reported at NAV:

2019		Level 1	Level 2	NAV	Total
Assets:					
Cash and cash equivalents	$	40.5	—	—	40.5
U.S. Treasury bonds		66.6	—	—	66.6
U.S. agency mortgage backed securities		38.9	—	—	38.9
Corporate bonds		—	65.4	—	65.4
All other fixed income securities		2.2	12.9	—	15.1
Equity mutual funds and ETF's		131.0	—	—	131.0
Institutional funds with RDFV		—	101.8	—	101.8
Common stocks		242.8	—	—	242.8
Alternative investments:					
Commingled funds		—	—	140.7	140.7
Inflation hedging equity, commodity, fixed income fund		—	—	45.1	45.1
Private equity		—	—	23.4	23.4
Hedge funds:					
Custom hedge fund		—	—	52.2	52.2
Other hedge funds		—	—	184.2	184.2
Total assets	$	522.0	180.1	445.6	1,147.7

2018		Level 1	Level 2	NAV	Total
Assets:					
Cash and cash equivalents	$	45.1	—	—	45.1
U.S. Treasury bonds		60.9	—	—	60.9
U.S. agency mortgage backed securities		34.5	—	—	34.5
Corporate bonds		—	65.7	—	65.7
All other fixed income securities		3.3	11.7	—	15.0
Equity mutual funds and ETF's		148.3	—	—	148.3
Institutional funds with RDFV		—	103.1	—	103.1
Common stocks		250.0	—	—	250.0
Alternative investments:					
Commingled funds		—	—	141.0	141.0
Inflation hedging equity, commodity, fixed income fund		—	—	48.2	48.2
Private equity		—	—	21.0	21.0
Hedge funds:					
Custom hedge fund		—	—	51.2	51.2
Other hedge funds		—	—	182.5	182.5
Total assets	$	542.1	180.5	443.9	1,166.5

(Continued)

For the years ended June 30, 2019 and 2018, there were no significant transfers between Levels 1 and 2.

The general investment strategies, fund structures, and valuation methods related to the pension plans' investments are largely the same as those included in the Corporation's primary investment portfolio and discussed further in note 3. The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2019:

	Fund 1	Custom Hedge Fund Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	68% monthly – quarterly 32% quarterly – annually	Quarterly	Quarterly
Required notice	70 days	within 95 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10 %	up to 10%	10 %	10 %

The following summarizes the status of contributions to the private equity vehicles held as of June 30, 2019:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$ 9.0	95.0 %	5.0 %
Fund 2	8.5	96.1	3.9
Fund 3	8.5	92.4	7.6
Fund 4	5.0	71.0	29.0
Fund 5	5.0	96.0	4.0
Fund 6	5.0	88.0	12.0
Total	$ 41.0		

The Corporation has established a long-term investment return target of 7.75% for both the PEP and CBRP in 2019 and 2018, respectively. These assumptions are based on historical returns achieved in the investment portfolios and represent the return that can reasonably be expected to be generated on a similarly structured portfolio in the future.

The Corporation recognizes the funded status of defined benefit pension plans in the consolidated balance sheets and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits and transition assets or obligations. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation of the plan. The measurement date for the plans is June 30.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of June 30, 2019 and 2018. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected future lifetime for active employees with frozen benefits.

	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets as of:	
		June 30, 2019	June 30, 2018
Net actuarial loss	$ 30.3	1,012.2	829.1

The following table sets forth the plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 1,450.6	1,481.0
Interest cost	61.4	57.8
Plan amendments	—	0.1
Actuarial loss (gain)	130.4	(26.6)
Benefits paid	(58.9)	(61.7)
Benefit obligation at end of year	1,583.5	1,450.6
Change in plan assets:		
Plan assets at fair value at beginning of year	$ 1,166.5	1,076.7
Actual return on plan assets	13.8	78.1
Company contributions	26.3	73.4
Benefits paid	(58.9)	(61.7)
Plan assets at fair value at end of year	1,147.7	1,166.5
Funded status/net amount recognized	$ (435.8)	(284.1)

The amounts recognized in the consolidated financial statements consist of the following as of June 30:

		2019	2018
Pension assets (included in other assets)	$	0.7	5.9
Pension liabilities		(436.5)	(290.0)

The Corporation has estimated $25.3 for its defined benefit contributions for the fiscal year ending June 30, 2020.

Expected fiscal year benefit payments for all defined benefit plans is as follows:

2020	$	83.8
2021		81.2
2022		84.4
2023		88.3
2024		88.0
2025–2029		451.2
	$	876.9

Net periodic pension income for the years ended June 30 is as follows:

		2019	2018
Interest cost on projected benefit obligation	$	61.4	57.8
Return on plan assets		(89.3)	(87.4)
Amortization of prior year plan amendments		(0.5)	(0.5)
Recognized actuarial loss		24.8	23.9
Net periodic pension income	$	(3.6)	(6.2)

(Continued)

The assumptions used in determining net periodic pension expense and accrued pension costs shown above are as follows:

	2019	2018
Discount rates for obligations at year end:		
MedStar Health, Inc. Pension Equity Plan	3.75 %	4.35 %
MedStar Health, Inc. Cash Balance Retirement Plan	3.65	4.35
MedStar St. Mary's Hospital Pension Plan	3.40	4.10
Discount rates for pension cost:		
MedStar Health, Inc. Pension Equity Plan – July 1 – June 30	4.35 %	4.05 %
MedStar Health, Inc. Cash Balance Retirement Plan – July 1 – June 30	4.35	3.95
MedStar St. Mary's Hospital Pension Plan – July 1 – June 30	4.10	3.75
Expected long-term rate of return on plan assets – PEP and CBRP	7.75 %	7.75 %
Expected long-term rate of return on plan assets – MedStar St. Mary's Hospital	7.50	7.50

Mortality assumptions for the plans are periodically updated to reflect the most recently published general industry mortality tables.

The Corporation also has various contributory, tax deferred annuity and savings plans with participation available to certain employees. The Corporation matches employee contributions up to 3.0% of compensation in certain plans. The Corporation contributed approximately $41.2 and $37.1 during the years ended June 30, 2019 and 2018, respectively.

(9) Business and Credit Concentrations

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

A summary of net patient service revenue by major category of payor for the years ended June 30 is as follows:

	2019	2018
Medicare and Medicare HMO	36 %	37 %
Medicaid and Medicaid HMO	16	15
Carefirst Blue Cross Blue Shield	19	19
Other commercial and managed care payors	23	23
Self-pay	6	6
	100 %	100 %

A summary of net patient receivables by major category of payor as of June 30 is as follows:

	2019	2018
Medicare and Medicare HMO	22 %	23 %
Medicaid and Medicaid HMO	19	19
Carefirst Blue Cross Blue Shield	14	14
Other commercial and managed care payors	39	37
Self-pay	6	7
	100 %	100 %

Certain Maryland-based hospital charges are subject to review and approval by the Health Services Cost Review Commission (HSCRC). The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (CMS). This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. In January 2014, CMS approved Maryland's waiver for a five year period beginning January 1, 2014 for inpatient and outpatient hospital services. The waiver tied hospital per capita revenue growth to the state's economic growth of 3.58% and required growth in Medicare spending per beneficiary in Maryland to be 0.5% below the national average. The waiver also imposed quality measures and encouraged population health management.

Under the Maryland HSCRC rate methodology, amounts payable for services to Maryland hospital patients under the Medicare and Medicaid insurance programs are computed at 94% of regulated charges. This discount amount does not include managed care organization (MCO) granted discounts for medical education. Hospital patients under the Blue Cross and approved HMO insurance programs are computed at 98% of regulated charges. Maryland accounts receivable from these third-party payors have been adjusted to reflect the difference between charges and the payable amounts.

In connection with the waiver, the HSCRC introduced the Global Budget Revenue (GBR) model, which covers the Corporation's seven Maryland hospitals. This model moves 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. The model removes the financial incentive from increasing volume and provides incentive to work with partners to provide care in the appropriate setting. Additionally, the GBR model has the potential of including both prospective and retrospective rate adjustments.

In 2018, Maryland entered into a new ten-year waiver with CMS to include total cost of care benchmarks and savings, which took effect January 1, 2019, and will be re-evaluated at the end of five years. The new waiver is intended to shift care into lower cost settings, improve care coordination, and align incentives among various healthcare providers.

The Budget Control Act of 2011 mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. As part of this legislation, a 2% reduction in Medicare spending, known as Sequestration, was implemented beginning April 1, 2013 and the Corporation's Medicare payments subsequent to that date were reduced by the mandatory 2%. It is not possible to determine how future congressional actions to reduce the federal deficit in order to end Sequestration will impact the Corporation's revenues.

Through its MFC subsidiary, the Corporation enters into Fee-For-Service and capitation agreements with independent health professionals and organizations to provide covered services to eligible enrollees where such services cannot be provided by its employed physicians or controlled entities. This subsidiary participates in an annual rate setting process with the State of Maryland. During the process, the revenues and expenses for all members are evaluated to ensure adequate funding is provided to deliver contracted services.

MFC's contract with the District's Medicaid program expired September 30, 2017. As a large healthcare provider in the District, the Corporation continues to provide medical care at our facilities for many of these Medicaid participants who are now enrolled in other managed care organizations. In June 2018, MFC notified CMS that it would not renew its contracts for participation in the Medicare Advantage program effective January 1, 2019.

Annually, as of December 31, MFC is required to be in compliance with risk-based capital statutory funding requirements, and as of the most recent measurement period, MFC is in compliance.

(10) Certain Significant Risks and Uncertainties

As a healthcare provider, the Corporation is subject to certain significant inherent risks, including the following:

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

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

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues and the Corporation's operations are subject to a variety of other federal, state and local regulatory requirements. In addition, changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation. Similarly, failure by the Corporation to maintain required regulatory approvals and licenses and/or changes in related regulatory requirements could have a significant adverse effect.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Management periodically reviews recorded amounts receivable from or payable to third-party payors and may adjust these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit. During 2019 and 2018, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled, by third-party payors, which resulted in gains of approximately $12.1 and $27.6, respectively. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year that the adjustment becomes known. Although certain other prior year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements.

The healthcare industry is subject to numerous laws and regulations from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as the physician self-referral law (Stark Law). The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, but cannot reasonably predict any particular outcomes or operational or financial effects from these matters at this time. The Corporation will continue to monitor all government inquiries and respond appropriately.

Recent government initiatives have focused on curtailing fraud, waste, and abuse in government-funded healthcare programs. To this end, the federal government and many states, have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Corporation's hospitals and providers have periodically received audit requests from Medicare and Medicaid audit contractors, as well as the Office of Inspector General of the U.S. Department of Health & Human Services. These audit requests have targeted, among other things, medical necessity of inpatient admissions and provider documentation and coding practices. The Corporation's hospitals and providers have cooperated with each of these audit requests and implemented a program to track and manage their effect.

As a result of federal healthcare reform legislation, rules and regulations, substantial changes are occurring in the United States healthcare system. These include numerous provisions affecting the delivery of

healthcare services, the financing of healthcare costs, reimbursement to healthcare providers, the privacy and security of health information, and the legal obligations of health insurers, providers and employers.

In June 2008, the Corporation received a U.S. Department of Health and Human Services, Office of Inspector General subpoena requesting documents relating to the contractual arrangements between a private cardiology group and MUMH and, in one instance, MFSMC. In March 2019, the Corporation, MUMH, and MFSMC executed a formal settlement agreement with the U.S. Department of Justice under which the Corporation paid the government a settlement amount of $35.0, which was consistent with the Corporation's recorded accrual as of June 30, 2018, in exchange for full releases covering the conduct at issue as well as the dismissal of the civil actions underlying the government investigations. There was no admission of wrongdoing under the settlement and no corporate integrity agreement was required.

(11) Self-Insurance Programs

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

		2019	2018
Professional and general liability	$	312.4	322.9
Employee health		25.2	24.4
Workers' compensation		33.4	31.4
Total self-insurance liabilities		371.0	378.7
Less current portion		(98.4)	(95.5)
Total self-insurance liabilities, net of current portion	$	272.6	283.2

The Corporation's self-insurance program for professional and general liability is responsible for the following exposures as of June 30, 2019:

(a) For professional liability during the fiscal years ended June 30, 2019 and 2018, for all MedStar entities except MMMC and MSMH, the Corporation is responsible for the first $5.0 exposure for each and every claim plus an additional exposure above the first $5.0 self-insured retention referred to as an "inner aggregate."

For the period January 1, 2017 to December 31, 2018, the inner aggregate exposes the Corporation up to $3.0 per claim with an aggregate of $6.0 above the $5.0 per claim self-insured retention for all claims incurred for each 12-month period ended December 31. Effective January 1, 2018, the inner aggregate exposes the Corporation up to $4.0 per claim with an aggregate of $8.0 above the $5.0 per claim self-insured retention for all claims incurred.

For MMMC and MSMH, during the period January 1, 2017 to December 31, 2018, the Corporation is responsible for the first $2.0 exposure for each claim (not subject to the inner aggregate structures

noted above). Effective January 1, 2018, the Corporation is responsible for the first $5.0 exposure for each claim (not subject to the inner aggregate structures noted above).

(b) For fiscal years ended June 30, 2019 and 2018, for general liability, the Corporation is responsible for the first $3.0 exposure for each claim (for MMMC and MSMH, the first $2.0 exposure for each claim). General liability claims are not subject to the inner aggregate excess retention as described above.

(c) Commercial excess re-insurance has been purchased above the self-insured retentions described above in multiple layers and in twin towers; one tower for professional liability and one tower for general liability. Effective January 1, 2016, each tower has 10 layers of excess re-insurance which provides coverage of up to $175.0 per claim and $175.0 annual aggregate. The Corporation maintains reinsurance contracts with various “A” rated commercial insurance companies.

The professional and general liabilities as of June 30, 2019 and 2018 have been discounted at a rate of 1.75%. The workers’ compensation liabilities as of June 30, 2019 and 2018 have been discounted at a rate of 1.50%.

Assets available to fund these liabilities are held in separate accounts (see note 2). Contributions required to fund professional and general liability, employee health benefits and workers’ compensation programs are determined by the plans’ administrators based on appropriate actuarial assumptions. The professional and general liability programs are administered through an offshore wholly owned captive insurance company, Greenspring Financial Insurance, LTD.

(12) Endowment Net Assets

The Corporation’s endowments consist of individual donor restricted funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the 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 Corporation classifies as net assets with donor restrictions (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 Corporation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of the Corporation

(7) The investment policies of the Corporation

(b) Endowment Net Assets

Donor restricted endowment funds within net assets with donor restrictions whose use is restricted into perpetuity were $44.8 and $43.4 as of June 30, 2019 and 2018, respectively. Investment returns and other income from these endowment funds whose use is restricted as to time or purpose were $6.4 and $6.6 as of June 30, 2019 and 2018, respectively.

(c) Underwater Endowments

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. No material deficiencies existed at June 30, 2019 and 2018.

(d) Investment Strategies

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

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

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

(13) Income Taxes

The Corporation and the majority of its subsidiaries are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes under Section 501(a) of the Code. The Corporation’s tax-exempt businesses generate nominal amounts of unrelated business income subject to income tax. For corporate income tax purposes, the Corporation has two consolidated groups of for-profit, taxable entities. The parent companies of these groups are Parkway Ventures, Inc. and MedStar Enterprises, Inc.

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On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017. The legislation significantly changed U.S. tax law by, among other things, lowering the corporate income tax rates from 35% to 21%, effective January 1, 2018. The legislation also amended the law for net operating loss (NOL) such that in tax years ending after December 31, 2017, a corporation's NOLs can no longer be carried back; however they can be carried forward indefinitely (removing the 20 year limitation). For tax years beginning after December 31, 2017, an 80% limitation of NOL use against taxable income applies. As a result of the legislation, NOLs generated in the June 30, 2019 tax year can no longer be carried back, can be carried forward indefinitely, and are subject to the 80% limitation. The Corporation has reasonably estimated the effects of the 2017 legislation and recorded amounts impacting the financial statements as of June 30, 2019.

The Corporation's taxable subsidiaries have approximately $230.5 of net operating loss (NOL) carryforwards as of June 30, 2019, which expire in varying periods through 2036, available to offset future taxable income. This NOL carryforward represents $48.4 of deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. During the year ended June 30, 2019, the Corporation did not record an adjustment to its ending net deferred tax asset. The relevant deferred tax balances have been revalued to reflect the new federal statutory rate of 21% plus the effective state tax rate. As of June 30, 2019 and 2018, the Corporation's deferred tax assets are fully offset by a valuation allowance. The current tax provisions for the years ended June 30, 2019 and 2018 were not significant.

(14) Charity Care and Other Community Benefits

MedStar Health is committed to ensuring that patients within the communities it serves who lack financial resources have access to necessary hospital services. MedStar Health and its healthcare facilities serve the emergency health care needs of everyone who visits the facilities regardless of a patient's ability to pay for care; and assist those patients who are admitted through the admissions process for nonurgent and urgent, medically necessary care who cannot pay for the care they receive.

In meeting this commitment, MedStar Health's facilities work with uninsured patients to gain an understanding of each patient's financial resources prior to admission (for scheduled services) or prior to billing (for emergency services). Based on this information and patient eligibility, the Corporation's facilities assist uninsured and certain underinsured patients that meet medical hardship criteria who reside within the communities served. This assistance is provided in one or more of the following ways:

- Assist with enrollment in publicly funded entitlement programs (e.g., Medicaid and Medicare programs).
- Assist with consideration of funding that may be available from other charitable organizations.
- Provide charity care and financial assistance according to applicable guidelines, including considerations for patients that may be underinsured and for those that may be suffering from a medical hardship.
- Provide financial assistance for payment of facility charges using a sliding scale based on patient family income and financial resources.
- Offer periodic payment plans to assist patients with financing their healthcare services.

Eligibility criteria for financial assistance consider patient's household income in relation to the federal poverty guidelines and the equity value of real property and/or other assets. By definition, free care is available to uninsured patients in households between 0% and 200% of the federal poverty line. Reduced cost-care is based on a sliding-scale and is available to uninsured patients in households between 200% and 400% of the federal poverty line. The Corporation's hospitals utilize a cost to charge ratio methodology to convert charity care to cost. The estimated cost of services provided is determined based on the relationship of total operating costs to gross charges. Total operating costs for purposes of this ratio exclude costs associated with community benefit activities. Total gross patient charges are then offset with any related reimbursements. The Corporation provided $44.2 and $35.1 of charity care at cost during the years ended June 30, 2019 and 2018, respectively, based on the cost to charge ratio.

In addition to charity care, the Corporation also funds costs of services provided to persons covered by publicly funded programs and numerous programs designed to benefit the healthcare interests of the communities it serves. Examples of these programs are health professions education, community health services, and research to advance care. The costs associated with these programs are recorded in the appropriate operating expense categories. In 2018, the most current period for which the Corporation's community benefits report is available, the total cost of these programs, including charity care services provided and certain other implicit price concessions, was approximately $344.2.

(15) Leases

The Corporation is obligated under various real estate and operating leases with initial terms of one year or more. Aggregate future minimum payments as of June 30, 2019 are as follows:

2020	$	88.4
2021		75.1
2022		65.1
2023		50.4
2024		41.6
2025 and thereafter		128.8
	$	449.4

Certain leases include provisions allowing the minimum rental payments to be adjusted annually for increases in operating costs and, in some cases, real estate taxes attributable to leased property. Total rental expense for all operating leases amounted to approximately $93.4 and $94.2 during the years ended June 30, 2019 and 2018, respectively.

(16) Agreements with Georgetown University

In 2000, the Corporation and Georgetown University (the University) signed certain definitive agreements whereby the Corporation received substantially all of the assets owned by the University that constitutes the MGUH, the Community Practice Network, the Faculty Practice Group and certain office buildings and a parking lot on the campus (collectively referred to as the Transferred Businesses). These agreements became effective July 1, 2000 and transferred control of the identified physical plant and other real property assets of the Transferred Businesses to the Corporation for use as an academic medical center for a minimum of ninety-eight years. At the end of the one hundred and fifty year lease term (including a fifty-two year renewal), the University shall convey all leased assets, excluding the underlying land, to the Corporation for a nominal amount and enter into a rent-free ground lease for the Corporation’s use.

The Corporation also entered into an Academic Affiliation and Operations Agreement (Affiliation Agreement) with the University in 2000. Under this agreement, the University makes payments to the Corporation determined by multiplying the University School of Medicine’s (SOM) total undergraduate tuition revenue by 36% for providing teaching services. The Corporation recognized $13.8 and $13.5 of tuition revenue during the years ended June 30, 2019 and 2018, respectively.

In June 2017, the Corporation and the University entered into a refreshed and extended partnership agreement to expand the partnership across MedStar, provide enhanced clinical and academic alignment for the next 50 years, and support the construction of a new surgical pavilion at MGUH. As part of the new agreement, an Asset Purchase Agreement (2017 APA) between the Corporation and the University, which amended and extended several existing agreements, went into effect for the fiscal year ended June 30, 2017. Additionally, the Corporation signed a Conditional Pledge Agreement and amended the existing lease agreement to include an additional parcel of land for construction of the new surgical pavilion.

The following are components of the 2017 transaction:

- Under the terms of the 2017 APA, the Corporation acquired the right to use the University’s trade name and trademarks system-wide for a period of 50 years in connection with the following service lines: oncology, neurology, cardiac, rehabilitation, behavioral health/psychiatry, orthopedics, radiology and neurosurgery. In exchange for these rights, the Corporation will pay the University a total of $200.0, payable in equal installments over 20 years. As a result of this transaction, during the fourth quarter of fiscal year 2017, the Corporation recorded an intangible asset of approximately $135.0 in goodwill and other intangible assets, net and a corresponding liability for the same amount in other long-term liabilities. Amortization of the intangible asset is recorded on a straight-line basis over the 50-year term.
- Under an amendment to the existing agreement, the Affiliation Agreement was extended through June 30, 2066 and the original gain-sharing provision was eliminated. Commencing after the close of the 6th year of the amended agreement, the Corporation shall pay the University an annual gain-sharing payment based on the Corporation’s audited consolidated earnings from operations margin for the prior fiscal year. No payment shall be required for a fiscal year if in the prior fiscal year the Corporation’s consolidated earnings from operations margin is less than 1.5%.
- To support the purpose and operations of the University’s School of Medicine (SOM), including research, academics, and the training of medical students, the Corporation also entered into a 50-year Conditional Pledge Agreement with the University. For the fiscal years ended June 30, 2019 and 2018,

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the SOM met all of the annual conditions, and as a result, the Corporation made payments of $12.9 and $12.7, respectively, to the University, which were recorded in other nonoperating activities, net within the consolidated statements of operations and changes in net assets.

Additionally, MGUH and the University are parties to a fixed fee shared services agreement, under which the University provides the following services to MGUH: utilities, telephone/IT services, transportation services and library services. Expenses charged for all shared services were $11.8 and $12.0 for the years ended June 30, 2019 and 2018, respectively.

(17) Commitments and Contingencies

The MWHC campus is subject to the lien of a Permitted Encumbrance in the amount of $21.5 to the United States government. This encumbrance was created in the deed of the hospital property from the United States government to MWHC in February 1960. There is no repayment date for this lien stated in the deed. Under enabling legislation, repayment could be required after a determination that the property is no longer required for hospital services or the property is disposed of, in which event all or a portion of the lien may be payable to the government. This lien is subordinated to the Deed of Trust on the MWHC campus.

(18) Functional Expenses

The Corporation considers integrated health services, research and management and general to be its primary functional categories for purposes of expense classification. Management and general include information systems, general corporate management, advertising and marketing. The functional breakdown of expenses incurred by the Corporation for the years ended June 30, 2019 and 2018 are as follows:

	Program activities				
2019	**Integrated health services**	**Research**	**Fundraising**	**Management and general**	**Total**
Personnel	$ 2,610.0	28.2	7.2	567.6	3,213.0
Supplies	824.4	0.8	0.2	10.7	836.1
Purchased services and other	854.6	14.0	4.5	368.4	1,241.5
Interest	10.2	-	-	36.2	46.4
Depreciation and amortization	112.6	1.9	-	87.1	201.6
	$ 4,411.8	44.9	11.9	1,070.0	5,538.6

2018	Program activities: Integrated health services	Program activities: Research	Program activities: Fundraising	Management and general	Total
Personnel	$ 2,478.1	26.5	7.4	525.8	3,037.8
Supplies	792.3	0.7	0.3	12.2	805.5
Purchased services and other	952.1	12.0	4.0	379.6	1,347.7
Interest	8.7	-	-	37.5	46.2
Depreciation and amortization	110.6	1.7	-	93.6	205.9
	$ 4,341.8	40.9	11.7	1,048.7	5,443.1

(19) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2019 and through October 2, 2019. The Corporation did not have any events that were required to be recognized or disclosed.