# Christiana Care Health System and Affiliates

**Consolidated Financial Statements and Consolidating Supplemental Schedules**
**June 30, 2021 and 2020**

# Christiana Care Health System and Affiliates
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## Report of Independent Auditors

To the Board of Directors
of Christiana Care Health System and Affiliates

We have audited the accompanying consolidated financial statements of Christiana Care Health System and Affiliates (the "System"), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the System'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 System'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.

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***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christiana Care Health System and Affiliates as of June 30, 2021 and 2020, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The condensed consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The condensed consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the condensed consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The condensed consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual entities and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual entities.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
September 23, 2021

# Christiana Care Health System and Affiliates
## Consolidated Balance Sheets
## June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 506,672,453 | $ 515,431,278 |
| Short-term investments | 191,331,183 | 247,613,445 |
| Patient accounts receivable, net | 332,780,574 | 282,226,804 |
| Assets limited as to use | 534,927 | 49,854,384 |
| Other current assets | 80,475,543 | 82,418,521 |
| Total current assets | 1,111,794,680 | 1,177,544,432 |
| Assets limited as to use | 26,961,704 | 27,686,094 |
| Long-term investments | 2,383,185,982 | 1,802,167,672 |
| Property and equipment, net | 1,237,722,709 | 1,242,133,508 |
| Other assets | 161,805,162 | 82,810,557 |
| Total assets | $ 4,921,470,237 | $ 4,332,342,263 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Current portion of long-term debt | $ 6,964,776 | $ 56,660,577 |
| Current portion of finance lease liabilities | 5,173,149 | 5,238,832 |
| Accounts payable and accrued expenses | 416,733,102 | 331,237,481 |
| Advances from third party payors | 226,498,764 | 275,315,430 |
| Total current liabilities | 655,369,791 | 668,452,320 |
| Long-term debt, net of current portion | 357,471,276 | 366,568,616 |
| Finance leases, net of current portion | 115,899,246 | 120,745,753 |
| Pension and postretirement benefits | 181,304,881 | 191,547,090 |
| Other liabilities | 115,687,256 | 104,887,819 |
| Total liabilities | 1,425,732,450 | 1,452,201,598 |
| Net assets | | |
| Without donor restrictions | 3,427,506,497 | 2,819,368,848 |
| With donor restrictions | | |
| Purpose and time restricted | 32,143,974 | 27,126,804 |
| Perpetual in nature | 36,087,316 | 33,645,012 |
| Total net assets with donor restrictions | 68,231,290 | 60,771,816 |
| Total net assets | 3,495,737,787 | 2,880,140,664 |
| Total liabilities and net assets | $ 4,921,470,237 | $ 4,332,342,263 |

The accompanying notes are an integral part of these consolidated financial statements.

# Christiana Care Health System and Affiliates
## Consolidated Statements of Operations and Changes in Net Assets
## Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Operating revenues and other support** | | |
| Net patient service revenue | $ 2,390,747,147 | $ 1,989,423,676 |
| Other revenue | 169,308,312 | 117,620,863 |
| Net assets released from donor restrictions used for operations | 6,432,647 | 6,325,286 |
| Total operating revenues and other support | 2,566,488,106 | 2,113,369,825 |
| Operating expenses | | |
| Salaries and employee benefits | 1,462,786,971 | 1,350,461,982 |
| Supplies and other expenses | 779,839,924 | 677,234,007 |
| Interest expense | 13,098,088 | 7,413,183 |
| Depreciation expense | 125,802,435 | 112,450,248 |
| Total operating expenses | 2,381,527,418 | 2,147,559,420 |
| Operating (loss) income | 184,960,688 | (34,189,595) |
| **Nonoperating revenues, gains, and losses** | | |
| Investment return, net | 511,956,588 | 142,283,346 |
| Contribution received in acquisition of Affinity Health Alliance, Inc. | - | 92,724,484 |
| Other nonoperating (losses), revenues, and gains | (19,452,646) | (12,309,386) |
| Settlement charge | (51,739,432) | - |
| Special termination benefit charge | (39,219,989) | - |
| Total nonoperating revenues, gains, and losses | 401,544,521 | 222,698,444 |
| Excess of revenues over expenses | $ 586,505,209 | $ 188,508,848 |

(continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.

# Christiana Care Health System and Affiliates
## Consolidated Statements of Operations and Changes in Net Assets
## Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Change in net assets without donor restrictions** | | |
| Excess of revenues over expenses | $ 586,505,209 | $ 188,508,848 |
| Net assets released from donor restrictions used for purchase of property and equipment | 2,315,839 | 9,492,801 |
| Other changes in pension and postretirement liabilities | 19,316,601 | (68,417,452) |
| Increase in net assets without donor restrictions | 608,137,649 | 129,584,198 |
| **Change in net assets with donor restrictions** | | |
| Contributions | 6,376,534 | 10,093,620 |
| Contribution received in acquisition of Affinity Health Alliance, Inc. | - | 3,063,684 |
| Investment return, net | 7,599,108 | 2,078,231 |
| Net assets released from donor restrictions | (8,748,486) | (15,818,087) |
| Change in value of assets | 2,232,318 | (33,669) |
| Increase (Decrease) in net assets with donor restrictions | 7,459,474 | (616,221) |
| Increase in net assets | 615,597,123 | 128,967,978 |
| **Net assets** | | |
| Beginning of year | 2,880,140,664 | 2,751,172,687 |
| End of year | $ 3,495,737,787 | $ 2,880,140,664 |

The accompanying notes are an integral part of these consolidated financial statements.

# Christiana Care Health System and Affiliates
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 615,597,123 | $ 128,967,978 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Contribution received in Affinity acquisition | - | (95,788,168) |
| Depreciation and amortization | 123,427,343 | 111,638,295 |
| Net realized and unrealized (gains) losses on investments | (496,147,014) | (113,446,537) |
| Restricted contributions received | (3,371,908) | (10,598,069) |
| Other changes in pension and postretirement benefits | (19,316,601) | 68,417,452 |
| (Increase) decrease in | | |
| Patient accounts receivable | (50,553,770) | 44,820,676 |
| Other current assets | 1,942,978 | (9,496,734) |
| Other assets | 10,601,364 | (15,413,069) |
| Increase (decrease) in | | |
| Accounts payable, accrued salaries, and other accrued expenses | 72,421,298 | 9,172,269 |
| Advances from third party payers | (48,816,666) | 275,315,430 |
| Pension and postretirement benefits | 10,727,569 | 36,189,728 |
| Other liabilities | (3,641,209) | 57,806,273 |
| Net cash provided by operating activities | 212,870,507 | 487,585,524 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (112,546,878) | (163,486,837) |
| Proceeds from sale of investments and assets limited as to use | 1,472,356,666 | 1,197,446,915 |
| Purchase of investments and assets limited as to use | (1,450,901,853) | (1,205,471,619) |
| Purchase of other third party investments | (36,951,500) | - |
| Cash received from Affinity acquisition | - | 9,577,892 |
| Loan made to third party | (39,050,000) | (3,700,000) |
| Net cash used in investing activities | (167,093,565) | (165,633,649) |
| **Cash flows from financing activities** | | |
| Net borrowings under line of credit agreement | (49,824,057) | 50,000,000 |
| Proceeds from issuance of long-term debt | - | 264,915,000 |
| Repayment of long-term debt | (6,527,408) | (242,254,227) |
| Payment of debt issuance costs | - | (1,130,609) |
| Principal payments under finance leases | (4,066,914) | (2,018,515) |
| Restricted contributions received | 3,371,908 | 10,598,069 |
| Securities lending | 2,510,704 | (1,117,422) |
| Net cash provided by (used in) financing activities | (54,535,767) | 78,992,296 |
| Net increase (decrease) in cash and cash equivalents | (8,758,825) | 400,944,171 |
| **Cash and cash equivalents** | | |
| Beginning of year | 515,431,278 | 114,487,107 |
| End of year | $ 506,672,453 | $ 515,431,278 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest, net of amounts capitalized | $ 12,427,493 | $ 1,723,215 |
| Accrued property and equipment acquisitions | 5,400,925 | 14,245,684 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Description of the Organization

Christiana Care Health System (the “System”) is the parent organization of Christiana Care Health Services, Inc. (“Health Services”), Christiana Care Health Initiatives (“Health Initiatives”), Christiana Care Home Health and Community Services, Inc. (“Home Health”) and Christiana Care Health Plans, Inc. (“Health Plans”).

The System is a not-for-profit Delaware corporation whose primary activity is to accept donations and engage in fundraising activities for the benefit of the Christiana Care affiliates.

Health Services, a Delaware not-for-profit corporation, owns and operates: Christiana Hospital, Wilmington Hospital, Eugene DuPont Preventive Medicine and Rehabilitation Institute, a free-standing emergency department, a physician network, residency training programs, and numerous ambulatory and physician office locations. Health Services’ primary activity is to provide healthcare services to the residents of Delaware and the surrounding counties in Maryland, Pennsylvania, and New Jersey.

Health Services acquired Affinity Health Alliance, Inc. (“Affinity”) on January 1, 2020. Affinity, a Maryland not-for-profit corporation, primarily owns and operates: Union Hospital of Cecil County, Inc., an acute care hospital facility, Union Hospital of Cecil County Foundation, Inc. which supports the hospital through donations and fundraising activities, and Union Hospital of Cecil County Health Services, Inc., which provides other health-related services to the residents of Cecil County and the surrounding areas through various physician office locations. Affinity also owns and operates an Open MRI & Imaging Center as a subsidiary of its for-profit stock corporation, Union Hospital of Cecil County Ventures, Inc. and provides radiation oncology services under Union Hospital of Cecil County Oncology, Inc.

Health Services has a wholly owned subsidiary, Christiana Care Insurance Company, Ltd (“Captive”), which is incorporated under the laws of the Cayman Islands. The primary purpose of the Captive is to direct issue primary medical professional liability and primary general liability insurance coverage to Health Services. Union Hospital of Cecil County, a wholly owned subsidiary of Affinity, obtained its professional and general liability insurance from Freestate Healthcare Insurance Company, Ltd., a Cayman Islands company (“Freestate”) prior to March 1, 2021. Legacy professional and general liabilities under Freestate will remain as run-off liabilities as a result of Union Hospital of Cecil County’s insurance coverage by the Captive effective March 1, 2021. The Captive insures Union Hospital of Cecil County with a retroactive date of August 1, 1985 under the same retrospectively rated primary policy coverage provided to Health Services. This is discussed further at Note 13.

Health Initiatives, a not-for-profit corporation, provides health services primarily in physician office locations.

Home Health is a not-for-profit health care agency which provides professional healthcare and other services in the home and community.

Health Plans, a Delaware not-for-profit corporation, offered managed care products for the Medicaid and commercial markets, until its exit from the insurance business in 2005. Although Health Plans continues to maintain its status as a licensed insurance company, it remains an inactive subsidiary.

**Acquisition of Affinity**

Services acquired Affinity by means of an inherent contribution where no consideration was transferred by Health Services. Health Services accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired, and liabilities assumed were measured at fair value as of the Affinity acquisition date. The results of the operations of Affinity have been included in the accompanying consolidated financial statements since the Affinity acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Affinity acquisition date:

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 9,577,892 |
| Patient accounts receivable, net | 17,795,691 |
| Other current assets | 7,475,877 |
| Long-term investments | 61,272,792 |
| Property and equipment, net | 87,035,567 |
| Other assets | 9,108,491 |
| Total assets acquired | 192,266,310 |
| **Liabilities** | |
| Accounts payable and accrued expenses | 12,766,150 |
| Advances from third party payors | 3,166,333 |
| Long-term debt | 56,885,210 |
| Other liabilities | 23,660,449 |
| Total liabilities assumed | 96,478,142 |
| Excess of assets acquired over liabilities assumed | $ 95,788,168 |
| Net assets acquired | |
| Net assets without donor restrictions | $ 92,724,484 |
| Net assets with donor restrictions | 3,063,684 |
| Excess of assets acquired over liabilities assumed | $ 95,788,168 |

The following table summarizes amounts attributable to Affinity that are reflected in the System's consolidated statement of operations and changes in net assets as of June 30, 2021 is comprised of the following:

| | |
|---|---|
| Total operating revenues and other support | $ 181,209,768 |
| Total excess of revenues over expenses | 16,146,932 |

Similarly, amounts attributable to Affinity that are reflected in the System's consolidated statement of operations and changes in net assets from the acquisition date through June 30, 2020 is comprised of the following:

| | |
|---|---|
| Total operating revenues and other support | $ 83,363,832 |
| Total deficiency of revenues over expenses | (3,977,225) |

### 2. Summary of Significant Accounting Policies

**Basis of Presentation**

The System's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**Principles of Consolidation**

The consolidated financial statements include the assets, liabilities, net assets, revenues, and expenses of the System and all wholly owned subsidiaries after the elimination of all significant intercompany transactions and balances.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the System's consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The System evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, net realizable value of patient accounts receivables, the valuation of certain investments, actuarially determined pension and postretirement benefits, and medical and professional liability and other self insurance reserves.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less. At June 30, 2021 and 2020, the System had cash balances in financial institutions which exceed federal depository insurance limits and therefore, bears a risk of loss. However, management believes that the credit risk related to these deposits is minimal, as it has not experienced such losses on these funds.

**Patient Accounts Receivable**

Patient accounts receivable are reported at the amounts that reflect the consideration to which the System expects to be entitled in exchange for providing patient care, as further described in Note 4. Patient accounts receivable consists of amounts owed by various governmental agencies, insurance companies, and patients. The System manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts that the System receives for the treatment of patients covered by governmental programs and third-party payors, as well as directly from patients, are subject to both explicit and implicit price concessions. The System estimates these price concessions using contractual agreements, discount policies, and historical experience. The System writes off amounts that have been deemed uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

### Inventories

Inventories primarily consist of medical and surgical supplies and pharmaceuticals. Inventories are valued at the lower of cost (determined by the first-in, first-out method) or market (defined as net realizable value).

### Investments and Assets Limited as to Use

Investments and assets limited as to use are measured at fair value in the balance sheets based on the methodology described in Note 6. Investment income or loss (consisting of realized and unrealized gains and losses on investments, interest, and dividends) are included in the excess of revenues over expenses unless the income or loss is restricted by donors.

Managed funds represent subscriptions in funds-of-funds and managed equity common funds utilized to diversify the portfolio of the System. As a practical expedient, the System estimates the fair value of managed funds using the reported net asset value (NAV). The System has assessed factors such as the managed funds' compliance with fair value reporting standards, price transparencies and valuation procedures, the ability to redeem at NAV at the measurement date, and existence of redemption restrictions at the measurement dates. The System is required to provide written notice of at least 90 calendar days prior to a calendar quarter-end to redeem managed funds-of-funds. Managed equity common funds are subject to redemption on a monthly basis. Requests accepted in the prior month, subject to terms, are redeemed on the first of the subsequent month. There are no lock-up provisions.

Investment income or loss generated by trading securities is classified within nonoperating revenues, gains, and losses within the consolidated statement of operations and changes in net assets. The System considers the activity of the investment portfolio and the associated cash receipts and cash purchases resulting from purchases and sales of investments classified as trading securities as an investing activity and classifies this activity accordingly within the consolidated statement of cash flows.

Assets limited as to use include (i) assets held by trustees under an indenture agreement, and (ii) designated assets set aside by the Board of Directors ("Board").

### Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives: Buildings and building improvements 15-40 years, land improvements 10 years, equipment 4-15 years. Leasehold improvements are depreciated using the lesser of the lease term or the useful life of the improvement. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statement of operations and changes in net assets as an operating expense. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions at fair value as of the date of the gift and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. 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.

**Leases**

Lease agreements, which primarily include the System's rental of facilities, are evaluated to determine whether they are operating or finance leases in accordance with Accounting Standards Codification 842, Leases ("ASC 842"). The System evaluates whether a contract is or contains a lease at the inception of the contract. Upon lease commencement, the date on which a lessor makes the underlying asset available to the System for use, the System classifies the lease as either an operating or finance lease. Most of the System's facility and equipment leases are classified as operating.

For both operating and finance leases, the System recognizes a right-of-use asset and lease liability at lease commencement. A right-of-use asset represents the System's right to use an underlying asset for the lease term while the lease liability represents an obligation to make lease payments arising from a lease which are measured on a discounted basis. The System elected the short-term lease exemption for its leases, and accordingly, leases with terms of 12 months or less are not recorded on the consolidated balance sheet.

Lease liabilities are measured at the present value of the remaining fixed lease payments at lease commencement. As the System's leases do not specify an implicit rate, the System uses its incremental borrowing rate, which coincides with the lease term at the commencement of a lease, in determining the present value of its remaining lease payments. The System's leases may also specify extension or termination clauses. These options are factored into the measurement of the lease liability when it is reasonably certain that the System will exercise the option. Right-of-use assets are measured at an amount equal to the initial lease liability, plus any prepaid lease payments (less any incentives received, such as reimbursement for leasehold improvements) and initial direct costs, at the lease commencement date.

For the System's operating leases, rent expense, a component of supplies and other expenses on the consolidated statement of operations, is recognized on a straight-line basis over the lease term. The straight-line rent expense is reflective of the interest expense on the lease liability using the effective interest method and the amortization of the right-of-use asset. For the System's finance leases, interest expense on the lease liability is recognized using the effective interest method. Amortization expense related to the right-of-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

The System makes payments, which are not fixed at lease commencement, for property taxes, insurance, and common area maintenance related to its facility leases. These variable lease payments, which are expensed as incurred, are included as a component of supplies and other expenses on the consolidated statement of operations.

**Impairment of Long-Lived Assets**
Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The System's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No significant impairment charges were recorded in the years ended June 30, 2021 and June 30, 2020.

**Securities Lending**
The System engages in securities lending whereby certain securities in its portfolio are loaned to other parties generally for a short period of time. The System receives collateral equal to 100% of the market value of securities borrowed. The System records the fair value of the collateral received as a component of both other current assets and other current liabilities as the System is obligated to return the collateral upon the return of the borrowed securities. Other current assets and liabilities include $2,524,518 and $13,814 of collateral investments at June 30, 2021 and 2020, respectively.

**Bond Issuance Costs**
Bond Issuance costs are recorded as a direct deduction from long-term debt and represent the cost of issuing long-term debt. Such costs are being amortized over the life of the applicable indebtedness using the interest method.

**Investments Held in Trust**
The System is entitled to beneficial interests in perpetual trusts at various percentages, which are maintained by outside trustees. The System's share of the market value of the trusts is recorded in net assets with donor restrictions and is updated on an annual basis. The change in value of the assets is recorded within net assets with donor restrictions. The periodic income distributions received from the trustees are recorded as increases in either net assets without restrictions or net assets with donor restrictions, based on the donors' intentions.

**Compensated Paid Leave**
The System records a liability in accounts payable and accrued expenses for amounts due to employees for future paid leave which are attributable to services performed in the current and prior periods.

**Net Assets**
The System reports its net assets as either net assets without donor restrictions or net assets with donor restrictions. Net assets without donor restrictions include undesignated amounts as well as amounts designated by the Board for a specific purpose. Net assets with donor restrictions are those assets whose use has been limited by donors to a specific purpose or maintained by the System in perpetuity.

Net assets that are perpetual in nature include gifts, trusts, pledges, income, and gains that are required by donor imposed restrictions to be maintained in perpetuity. Investment return derived from net assets that are perpetual in nature may be spent for general or specific purposes in accordance to donor imposed restrictions, based on the amounts appropriated for expenditure annually by Health Services' endowment spending policy.

Net assets that are donor restricted for a purpose include gifts, pledges, income, and gains for which donor imposed restrictions have not yet been met. Such restrictions are purpose restrictions imposed by donors, which are normally released upon the incurrence of expenditures that fulfill those donor specified purposes.

**Donor Restricted Contributions**
Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of operations and changes in net assets as net assets released from donor restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

**Excess of Revenues Over Expenses**
The consolidated statement of operations and changes in net assets includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and other changes in pension and postretirement liabilities.

**Tax Status**
The System and its affiliates, except for Health Plans and Union Hospital of Cecil County Ventures, Inc., are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

In 1999, Health Plans reorganized, forming a taxable entity under the Internal Revenue Code. Union Hospital of Cecil County Ventures, Inc., is a for-profit stock corporation. Its purpose is to engage in business or transactions which will benefit the activities and goals of its affiliates through its wholly owned subsidiaries, Triangle Health Alliance, LLC and Open MRI & Imaging Center, LLC.

## 3. CARES Act

In the United States, the coronavirus outbreak began in late January 2020, and on March 13, 2020, President Donald Trump declared a national emergency. In response to the pandemic, the $2 trillion stimulus bill, known as CARES (Coronavirus Aid, Relief, and Economic Security) Act was passed by Congress on March 25, 2020 and signed into law on March 27, 2020. In further extension of the CARES Act, the Consolidated Appropriations Act (2021) was passed by Congress on December 21, 2020 and signed into law on December 27, 2020. The legislation provides over $2.3 trillion in funding, $900 billion of which is allocated to COVID-19 relief.

The CARES Act and the Coronavirus Response and Consolidated Appropriations Act provided emergency assistance and health care response assistance for individuals, families, and businesses. The CARES Act implemented a variety of programs to address issues related to the onset of the COVID-19 pandemic. The Consolidated Appropriations Act continued many of these programs by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic.

**Provider Relief Funds**
The Provider Relief Fund supports healthcare providers in the battle against the COVID-19 pandemic. Through the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act (PPPCHE), the federal government has allocated $178 billion in payments to be distributed through the Provider Relief Fund (PRF). Qualified providers of health care, services, and support may receive Provider Relief Fund payments for healthcare-related expenses or lost revenue due to COVID-19. These distributions do not need to be repaid to the US government, assuming providers comply with the terms and conditions.

As part of the CARES Act, the System received $105,343,060 in relief funding during fiscal 2021 and $63,649,414 in fiscal 2020, which is recorded in other operating revenue on the consolidated statement of operations. The System accounted for the relief funding under the contribution model of accounting in ASC 958 Not-for-Profit Entities. Thus, the System recognized revenue when both the conditions and restrictions associated with the relief funding were met. Other operating revenue was recognized as the System incurred a loss of revenues attributable to COVID-19. The System has conformed to provider relief fund reporting requirements, based on net expenses and lost revenues that can be documented to support the funds received.

In June 2021, the U.S. Department of Health and Human Services (HHS) issued updated reporting requirements for the CARES Act provider relief funding with the flexibility in calculating lost revenues. The updated requirements require the System to first identify healthcare related expenses attributable to COVID-19 that another source has not reimbursed. Second, to the extent that provider relief payment amounts have not been fully expended on healthcare related expenses attributed to COVID-19, the funds received may be applied to patient care lost revenues. As one of the options for calculating lost revenue, the System chose to take the difference between budgeted (approved prior to March 27, 2020) and actual patient care revenues.

**Medicare Accelerated and Advance Payments Program**
In accordance with the CARES Act, Centers for Medicare & Medicaid Services (CMS) temporarily expanded its current Accelerated and Advance Payment Program for Medicare providers. Under this program, qualified healthcare providers received advance or accelerated payments from CMS. The System received $270,871,215 of advanced payments under this program. These payments were received in April 2020.

Repayment of amounts received under the Accelerated and Advance Payment Program are due over an 18 month period after the advanced payments were issued. Failure to repay the advanced payments when due results in interest charges on the outstanding balance owed. CMS has the ability to recoup the advanced payments through future Medicare claims billed by the System’s hospitals, beginning one year after the advanced payment was issued.

As of June 2021, of the advances, $47,019,506 has either been repaid to or recouped by CMS leaving a remaining balance of $223,851,708 reflected in current liabilities under Advances from Third Party on the consolidated balance sheet.

**Employer Payroll Tax Deferral**
In April 2020, the System began deferring payment on its share of payroll taxes owed, as allowed by the CARES Act through December 31, 2020. The System is able to defer half of its share of payroll taxes owed until December 31, 2021, with the remaining half due on December 31, 2022. As of June 30, 2021, the System deferred $40,120,402 of payroll taxes. Accordingly, half of the deferral amounting to $20,060,201 is recorded in current liabilities, and the other half amounting to $20,060,201 in other liabilities on the consolidated balance sheet.

## 4. Revenue Recognition and Accounts Receivable

### Net Patient Service Revenue

The System's revenues generally relate to contracts with patients in which the System's performance obligations are to provide health care services to the patients. Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including government programs and commercial insurance companies), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from a facility. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Generally, performance obligations satisfied over time relate to patients in our hospitals or physician practices receiving health care services. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when there are no further services required for the patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided to our patients and customers in a retail setting (for example, pharmaceuticals), and the System does not believe it is required to provide additional goods or services to the patient. Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the practical expedient and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for the services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the System's policies, and/or implicit price concessions provided to uninsured or underinsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as the System has a large volume of similar contracts with similar classes of patients. Management's judgement to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. The System reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare outpatient services are paid at a prospectively determined rate. Medicare physician services are paid based upon established fee schedules. Additionally, Medicare provides reimbursement for direct graduate medical education, certain allied health professional training, and organ procurement on the basis of cost. This cost, and data influencing add-on payments for uncompensated care and indirect medical education, is determined based upon information contained in the annual Medicare cost report submission. The System is reimbursed for these cost related items and the applicable add-ons included in the Medicare cost report at a tentative rate. Final settlements are determined after audits of the cost report data by the fiscal intermediary. For services provided under Medicaid, inpatient acute services are paid prospectively based upon two primary case rates, with adjustment for outliers. Medicaid outpatient services are paid at a prospectively determined rate. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge and discounts from established charges.

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 in the near term. Cost report settlements under reimbursement agreements with Medicare that result in retroactive adjustments due to audits, reviews or investigations are considered variable and are included 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 the System's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. The 2021 and 2020 net patient service revenue increased $3,189,350 and $1,276,369, respectively, because of tentative settlements, final settlements, and final appeals for years that are no longer subject to audits, reviews, and investigations, as well as other changes in estimates. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured and underinsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the results of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported in operating expenses in the statements of operations and changes in net assets and was not significant for the years ended June 30, 2021 and 2020.

The composition of net patient service revenues by payor for the years ended June 30, 2021 and June 30, 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Medicare | $ 785,987,137 | $ 673,971,081 |
| Medicaid | 355,761,917 | 297,029,424 |
| Commercial insurance | 1,148,503,320 | 920,612,011 |
| Self-pay and other | 100,494,773 | 97,811,160 |
| | $ 2,390,747,147 | $ 1,989,423,676 |

Revenue from patients' deductibles and coinsurance is included in the preceding categories based on the primary payor and is transferred to self-pay after consideration is received from the primary payor. Self-pay and other, which includes auto insurance, worker's compensation, pending Medicaid, and other commercial insurance payers, are grouped together.

The System has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

**Other Revenue**
Other revenue consists primarily of CARES Act provider relief funding, research and grant revenue, retail pharmacy revenue, revenue from services agreements, rental revenue, and cafeteria revenue.

For the majority of its grants, the System has determined that there is no exchange back to the granting agency. Therefore, the System accounts for these grants under the contribution model of accounting in ASC Topic 958, which is outside the scope of ASC 606, and revenue is recognized as expenses for these grants are incurred.

The System's retail pharmacies offer a full inventory of standard, specialty, and over-the-counter medications, and retail pharmacy revenue is recognized as prescriptions are filled. Revenue from service agreements with third parties is recognized when performance obligations under the terms of the respective contract are satisfied.

The remaining amount of other revenue is primarily generated from rental agreements and the System's cafeterias. The System recognizes rental income on a straight-line basis over the lease term in accordance with ASC Topic 842, *Leases*. The System's cafeterias offer food and beverage products to our visitors and employees, and revenue is recognized when the goods are exchanged. The composition of other revenue for the years ended June 30, 2021 and June 30, 2020 are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| Provider relief funding | $ 105,343,060 | 62.2 % | $ 63,649,414 | 54.1 % |
| Research and grant revenue | 22,978,745 | 13.6 | 18,661,300 | 15.9 |
| Retail pharmacy revenue | 15,082,554 | 8.9 | 15,184,983 | 12.9 |
| Service agreements | 15,549,521 | 9.2 | 14,040,730 | 11.9 |
| Rental, cafeteria, & other revenue | 10,354,432 | 6.1 | 6,084,436 | 5.2 |
| Other revenue | $ 169,308,312 | 100.0 % | $ 117,620,863 | 100.0 % |

## 5. Charity Care and Community Benefit

In accordance with the System's mission to improve the health of Delaware and the surrounding counties of Maryland, Pennsylvania, and New Jersey, the System provides care to patients regardless of their ability to pay. The System provides care to these patients, who meet certain criteria under the System's charity care policy, without charge or at amounts less than its established rates. Criteria for charity care considers the patient's family income, net worth, and other factors. Because the System does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue.

Direct and indirect costs for charity care services amounted to $19.9 million and $21.8 million in 2021 and 2020, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients.

The System also offers discounts for uninsured patients who do not qualify for the charity care program and provides flexible, long-term payment plans for patients. In addition, the System also provides services to beneficiaries of public programs and various other community health services intended to improve the health of communities in which it operates.

The System uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care, which includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.
- Unpaid cost of Medicare, which represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.

- Community benefit programs consist of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings, and other community services.

## 6. Investments, Assets Limited as to Use, and Investment Income

The composition of investments and assets limited as to use at June 30, 2021 and 2020 is set forth in the following table. Investments and assets limited as to use are stated at fair value.

| | 2021 | 2020 |
|---|---|---|
| Short-term investments | $ 191,331,183 | $ 247,613,445 |
| Assets limited as to use | | |
| Externally designated by bond trustee | | |
| Escrow funds | 534,927 | 49,854,384 |
| Internally designated by Board of Directors | | |
| Infant mortality | 10,572,162 | 11,912,792 |
| Harrington VIP/VICP fund | 9,433,065 | 10,197,015 |
| Translational cancer research | 6,956,477 | 5,576,287 |
| Total assets limited as to use | 27,496,631 | 77,540,478 |
| Long-term investments | | |
| Without donor restrictions | 2,330,670,533 | 1,758,749,486 |
| Purpose restricted | 17,745,041 | 12,042,336 |
| Perpetual in nature | 34,770,408 | 31,375,850 |
| Total long-term investments | 2,383,185,982 | 1,802,167,672 |
| Total investments and assets limited as to use | $ 2,602,013,796 | $ 2,127,321,595 |

Within the consolidated statement of operations and changes in net assets, investment return without donor restrictions for June 30, 2021 and 2020 is comprised of the following:

| | 2021 | 2020 |
|---|---|---|
| Interest and dividend income | $ 25,323,699 | $ 30,545,613 |
| Net realized gains | 168,223,754 | 71,872,968 |
| Net unrealized gains | 318,409,135 | 39,864,765 |
| | $ 511,956,588 | $ 142,283,346 |

Similarly, investment return with donor restrictions for June 30, 2021 and 2020 is comprised of the following:

| | 2021 | 2020 |
|---|---|---|
| Interest and dividend income | $ 317,302 | $ 335,758 |
| Net realized gains | 2,552,091 | 1,119,443 |
| Net unrealized gains | 4,729,715 | 623,030 |
| | $ 7,599,108 | $ 2,078,231 |

Investment return is shown net of the related expenses on the consolidated statement of operations and changes in net assets.

The System adheres to applicable accounting guidance for fair value measurements and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The System applies the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include money market funds, debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. Governments and agency securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Level 2 assets include equity and debt securities with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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

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

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2021 and 2020 there were no transfers between Levels 1, 2, and 3.

The System has certain long-term investments that are presented at Net Asset Value. The underlying assets are invested in high quality, public institutional funds subject to the same board investment policy as the rest of the long-term investment portfolio, these assets are located in pooled investments. The Funds are valued monthly. The funds that would ultimately be realized upon sale are subject to market change over the maximum 100 day liquidity period.

The following table presents the financial instruments carried at fair value as of June 30, 2021 in accordance with the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments and assets limited as to use | | | | |
| Money market funds | $ 231,233,493 | $ - | $ - | $ 231,233,493 |
| U.S. Government and agency securities | 97,065,645 | - | - | 97,065,645 |
| Corporate and other debt securities | - | 630,807,247 | - | 630,807,247 |
| Equity securities | 835,899,575 | 226,127,762 | - | 1,062,027,337 |
| Investment held by others | - | - | 10,943,541 | 10,943,541 |
| Total investments and assets limited as to use | 1,164,198,713 | 856,935,009 | 10,943,541 | 2,032,077,263 |
| Total assets at fair value | $ 1,164,198,713 | $ 856,935,009 | $ 10,943,541 | 2,032,077,263 |
| Other investments measured at net asset value | | | | 569,936,533 |
| Total assets at fair value | | | | $ 2,602,013,796 |

The following table illustrates the change in Level 3 assets:

| | Investments Held by Others |
|---|---|
| **Fair value at June 30, 2020** | $ 8,711,223 |
| Contributions | - |
| Change in value of assets | 2,232,318 |
| **Fair value at June 30, 2021** | $ 10,943,541 |

The following table presents the financial instruments carried at fair value as of June 30, 2020 in accordance with the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments and assets limited as to use | | | | |
| Money market funds | $ 282,511,268 | $ - | $ - | $ 282,511,268 |
| U.S. Government and agency securities | 56,516,540 | 2,032,954 | - | 58,549,494 |
| Corporate and other debt securities | - | 533,506,857 | - | 533,506,857 |
| Equity securities | 661,316,179 | 164,146,297 | - | 825,462,476 |
| Investment held by others | - | - | 8,711,223 | 8,711,223 |
| Total investments and assets limited as to use | 1,000,343,987 | 699,686,108 | 8,711,223 | 1,708,741,318 |
| Total assets at fair value | $ 1,000,343,987 | $ 699,686,108 | $ 8,711,223 | 1,708,741,318 |
| Other investments measured at net asset value | | | | 418,580,277 |
| Total assets at fair value | | | | $ 2,127,321,595 |

The following table illustrates the change in Level 3 assets:

| | Investments Held by Others |
|---|---|
| **Fair value at June 30, 2019** | $ 8,460,320 |
| Contributions | 284,572 |
| Change in value of assets | (33,669) |
| **Fair value at June 30, 2020** | $ 8,711,223 |

## 7. Property and Equipment

A summary of property and equipment at June 30, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Land and land improvements | $ 84,520,523 | $ 83,445,370 |
| Buildings and building improvements | 1,807,657,706 | 1,705,074,200 |
| Equipment | 937,017,365 | 904,623,233 |
| | 2,829,195,594 | 2,693,142,803 |
| Accumulated depreciation | (1,655,531,518) | (1,531,006,895) |
| | 1,173,664,076 | 1,162,135,908 |
| Construction-in-progress | 64,058,633 | 79,997,600 |
| | $ 1,237,722,709 | $ 1,242,133,508 |

Depreciation expense amounted to $125,802,435 and $112,450,248 in 2021 and 2020, respectively. In 2021 and 2020, the System incurred total interest costs of $14,944,749 and $10,102,248, respectively, of which $3,363,459 in 2021 and $5,738,604 in 2020 has been capitalized. There were no significant disposals of property and equipment for the year ended June 30, 2021. For the year ended June 30, 2020, the System incurred $4,299,406 to dispose of the original parking garage structure at Wilmington Hospital. At June 30, 2021 construction contracts of $77,498,706 exist primarily for various expansion and other facility improvements. The remaining commitment on these contracts was $8,720,700.

## 8. Other Current Assets and Other Assets

Other Current Assets at June 30, 2021 and 2020 consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Inventories | $ 40,635,535 | $ 40,220,809 |
| Prepaid expenses | 22,105,660 | 24,413,345 |
| Other | 17,734,348 | 17,784,367 |
| | $ 80,475,543 | $ 82,418,521 |

Other Assets at June 30, 2021 and 2020 consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Right-of-use-assets | $ 39,164,561 | $ 36,201,687 |
| Other receivables | 69,514,799 | 24,458,299 |
| Other | 53,125,802 | 22,150,571 |
| | $ 161,805,162 | $ 82,810,557 |

## 9. Net Assets With Donor Restrictions

Net assets with donor restrictions and funds limited by donors to a specific purpose or maintained by the System in perpetuity.

Net assets with donor restrictions are available for the following purposes at June 30, 2021 and 2020.

| | 2021 | 2020 |
|---|---|---|
| Health care services | $ 4,993,805 | $ 4,063,552 |
| Purchases of buildings and equipment | 4,473,952 | 6,622,002 |
| Education, research and other operational needs | 22,676,217 | 16,441,250 |
| | $ 32,143,974 | $ 27,126,804 |

Net assets with donor restrictions that are perpetual in nature consist of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Investments held in perpetuity | $ 25,143,775 | $ 24,933,789 |
| Investments held in trust by others | 10,943,541 | 8,711,223 |
| | $ 36,087,316 | $ 33,645,012 |

## 10. Endowments

The Systems' endowment consists of twenty-four donor restricted endowment funds and three board-designated endowment funds for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. In accordance with the Systems' spending policy, annual distributions are 5% of the fiscal year-end value of the endowment pool calculated on a 36-month trailing average of the market value.

The System has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets that are perpetual in nature, (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as net assets that are perpetual in nature is classified as net assets that are purpose restricted until those amounts are appropriated for expenditure on an annual basis by the Board of the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment net asset composition by type of fund as of June 30, 2021 and 2020:

| | 2021 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| **Endowment funds** | | | |
| Donor restricted | $ - | $ 42,884,593 | $ 42,884,593 |
| Board designated | 26,961,704 | - | 26,961,704 |
| Total endowment funds | $ 26,961,704 | $ 42,884,593 | $ 69,846,297 |

| | 2020 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| **Endowment funds** | | | |
| Donor restricted | $ - | $ 36,606,960 | $ 36,606,960 |
| Board designated | 27,686,094 | - | 27,686,094 |
| Total endowment funds | $ 27,686,094 | $ 36,606,960 | $ 64,293,054 |

Changes in endowment net assets for the year ended June 30, 2021 and 2020:

| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| **Endowment net assets at June 30, 2020** | $ 27,686,094 | $ 36,606,960 | $ 64,293,054 |
| Investment return, net | 1,606,006 | 7,599,108 | 9,205,114 |
| Contributions | | 209,987 | 209,987 |
| Appropriation of endowment assets for expenditure | (2,330,396) | (1,531,462) | (3,861,858) |
| **Endowment net assets at June 30, 2021** | $ 26,961,704 | $ 42,884,593 | $ 69,846,297 |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Endowment net assets at June 30, 2019** | $ 30,023,062 | $ 38,142,788 | $ 68,165,850 |
| Investment return, net | 467,331 | 2,078,231 | 2,545,562 |
| Contributions | - | 2,751,754 | 2,751,754 |
| Appropriation of endowment assets for expenditure | (2,804,299) | (6,365,813) | (9,170,112) |
| **Endowment net assets at June 30, 2020** | $ 27,686,094 | $ 36,606,960 | $ 64,293,054 |

Description of amounts classified as net assets with donor restrictions (endowments only):

| | 2021 | 2020 |
|---|---|---|
| **Endowment funds restricted for specific purpose** | | |
| Restricted for health care services | $ 3,804,160 | $ 3,253,300 |
| Restricted for building and maintenance | 837,713 | 1,034,614 |
| Restricted for program support | 13,098,946 | 7,385,257 |
| **Endowment funds held in perpetuity** | | |
| Restricted for salary support | 11,643,364 | 11,526,060 |
| Restricted for program support | 13,500,410 | 13,407,729 |
| Total endowment funds classified as net assets with donor restrictions | $ 42,884,593 | $ 36,606,960 |

**Endowment Funds With Deficits**
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor restricted endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. There were no deficits of this nature reported in net assets with donor restrictions as of June 30, 2021 and June 30, 2020.

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

### 11. Debt

Long-term debt at June 30, 2021 and 2020 consisted of the following:

| | Interest Rates | Final Maturity | 2021 | 2020 |
|---|---|---|---|---|
| **Line of Credit** | Variable | 2022 | $ 175,943 | $ 50,000,000 |
| **DHFA Series 2020 Revenue Bonds** | | | | |
| 2020A | 4.0% to 5.0% | 2049 | 247,255,000 | 247,255,000 |
| 2020B | 1.64% to 1.79% | 2023 | 13,290,000 | 17,660,000 |
| **MHHEFA Series 2014 Revenue Bonds** | 3.42% | 2039 | 29,998,000 | 30,118,000 |
| **MHHEFA Series 2012 Revenue Bonds** | | | | |
| 2012A | 3.34% | 2022 | 1,128,125 | 2,225,264 |
| 2012B-2 | 2.75% | 2022 | 500,537 | 987,326 |
| **Town of Elkton, Maryland Series 2012 Revenue Bonds** | | | | |
| 2012A | 2.73% | 2036 | 6,961,992 | 7,332,299 |
| 2012-B1 | 2.73% | 2036 | 4,067,359 | 4,283,700 |
| 2012C | 2.73% | 2031 | 9,000,000 | 9,000,000 |
| | | | 312,376,956 | 368,861,589 |
| Unamortized premium (discount) | | | 54,287,487 | 56,775,770 |
| Debt issuance costs | | | (2,228,391) | (2,408,166) |
| Current maturities | | | (6,964,776) | (56,660,577) |
| | | | $ 357,471,276 | $ 366,568,616 |

In 2020, Health Services borrowed $50,000,000 on a line of credit with PNC bank. These funds were used as needed to support working capital needs. The line was renewed and paid off in 2021 but remains open and available to the organization. In 2021, Delaware Center for Maternal and Fetal Medicine borrowed $577,000 on a line of credit with WSFS bank. These funds were used as needed to support operations. To date, $401,057 has been repaid.

In 2020, the System issued $247,255,000 aggregate principal amount of Series 2020A fixed rate revenue bonds and $17,660,000 aggregate principal amount of Series 2020B fixed rate revenue bonds through the Delaware Health Facilities Authority (DHFA). A portion of the proceeds were used to retire the Series 2008A, 2008B, 2010B, 2010C, 2010D, and 2010E revenue bonds. Remaining proceeds are being used towards the construction costs of the Women and Children's tower at Christiana Hospital and the visitor parking garage at Wilmington Hospital.

In 2020, Health Services placed funds into escrow to pay the principal balance of the 2010A fixed rate revenue bonds in 2021 as well as interest payments to that date. The liability for the 2010A bond principal balance and corresponding escrow asset amount were removed from the consolidated balance sheet in 2020 as they were legally defeased. The 2010A bonds were retired during 2021.

Affinity had a remaining balance of $55,229,108 in revenue bonds at the time it was acquired, as detailed below.

In 2014, Affinity issued $30,778,000 Series 2014 fixed rate revenue bonds through the Maryland Health and Higher Educational Facilities Authority (MHHEFA). The proceeds were used to retire older bonds and finance certain capital projects. The balance at acquisition date was $30,178,000.

In 2012, Affinity issued $9,924,000 of Series 2012A and $4,007,000 of Series 2012B-2 fixed rate revenue bonds through the Maryland Health and Higher Educational Facilities Authority (MHHEFA). The proceeds were used to retire older bonds and finance certain capital projects. The balance at acquisition date was $3,974,916.

In 2012, Affinity Health issued $10,000,000 Series 2012A, $5,842,336 Series 2012-B1, $2,820,000 Series 2012B-2, and $9,000,000 Series 2012B-2 fixed rate revenue bonds through the Town of Elkton, Maryland. The proceeds were used to retire older bonds. The balance at acquisition date was $21,076,192. Scheduled maturities are as follows:

| | | |
|---|---|---|
| 2022 | $ | 6,964,776 |
| 2023 | | 6,838,377 |
| 2024 | | 6,978,481 |
| 2025 | | 7,206,491 |
| 2026 | | 7,513,294 |
| Thereafter | | 276,875,537 |
| | $ | 312,376,956 |

## 12. Employee Benefit Plans

**Pension Plan**

Health Services sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 13, 2006. Employees hired after that date are participants in a defined contribution plan. Contributions to the pension plan are based on the minimum amount required by the Employee Retirement Income Security Act of 1974.

Retirement benefits are paid based principally on years of service and salary. Pension plan assets consist primarily of corporate bonds, notes, and U.S. government obligations. As purchases and sales of pension plan assets take place, cash may sit overnight in money market funds.

During fiscal 2021, Health Services offered enhanced retirement benefits under the Voluntary Early Retirement Program (VERP) to eligible participants in the defined benefit pension plan. This resulted in Special Termination Benefits for the elected participants and Settlement charges due to accelerated lump sum payments. Remeasurements have been performed due to these events and have been incorporated into the actuarial assumptions as of June 30, 2021. There were no significant impacts due to the COVID-19 pandemic based on the actuarial analysis.

### Postretirement Benefits

Health Services provides postretirement health care benefits to eligible employees and their dependents. The following table sets forth the components of the benefit obligations, plan assets, and funding status of the Plans based on actuarial valuations performed as of June 30, 2021 and June 30, 2020:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of year | $ 1,150,102,181 | $ 988,921,664 | $ 92,595,129 | $ 83,664,144 |
| Service cost | 30,904,854 | 30,169,359 | 1,322,359 | 1,299,241 |
| Interest cost | 25,286,065 | 31,180,012 | 2,142,467 | 2,643,143 |
| Actuarial loss | (5,923,980) | 166,324,148 | 772,512 | 8,215,960 |
| Settlements | (222,634,087) | - | - | - |
| Special termination benefit charge | 39,219,989 | - | - | - |
| Retiree contributions | - | - | 531,557 | 385,440 |
| Benefits paid | (12,009,219) | (66,493,002) | (4,253,045) | (3,612,799) |
| Benefit obligation at end of year | $ 1,004,945,803 | $ 1,150,102,181 | $ 93,110,979 | $ 92,595,129 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 1,049,443,528 | $ 981,445,345 | $ - | $ - |
| Actual return on Plan assets (net of expenses) | (35,121,305) | 134,491,185 | - | - |
| Employer contributions | 132,000,000 | - | 3,721,488 | 3,227,359 |
| Retiree contributions | - | - | 531,557 | 385,440 |
| Settlements | (222,634,087) | - | - | - |
| Benefits paid | (12,009,219) | (66,493,002) | (4,253,045) | (3,612,799) |
| Fair value of plan assets at end of year | $ 911,678,917 | $ 1,049,443,528 | $ - | $ - |
| **Reconciliation of funded status to net amount recognized in the balance sheet** | | | | |
| Amounts recorded as accrued liabilities | $ (93,266,886) | $ (100,658,653) | $ (93,110,979) | $ (92,595,129) |
| Funded status | | | | |
| Current liabilities | $ - | $ - | $ (6,425,161) | $ (4,771,984) |
| Noncurrent liabilities | (93,266,886) | (100,658,653) | (86,685,818) | (87,823,145) |
| Accrued liability | (93,266,886) | (100,658,653) | (93,110,979) | (92,595,129) |
| Amounts recorded within net assets without donor restrictions | | | | |
| Net prior service (credit) | | - | (5,036,967) | (11,033,356) |
| Actuarial loss | 235,874,225 | 258,780,799 | 22,157,838 | 23,911,537 |
| Net amount recognized at year end | $ 142,607,339 | $ 158,122,146 | $ (75,990,108) | $ (79,716,948) |
| **Accumulated benefit obligation** | $ 865,653,520 | $ 1,006,496,204 | $ - | $ - |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Weighted-average assumptions used to determine benefit obligations at June 30** | | | | |
| Discount rate | 2.500 % | 2.375 % | 2.500 % | 2.375 % |
| Rate of compensation increase | 3.000 % | 2.00% FY21, 3.00% thereafter | N/A | N/A |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Components of net periodic benefit cost** | | | | |
| Service cost | $ 30,904,854 | $ 30,169,359 | $ 1,322,359 | $ 1,299,241 |
| Interest cost | 25,286,065 | 31,180,012 | 2,142,467 | 2,643,143 |
| Expected return on plan assets | (21,310,759) | (38,646,330) | - | - |
| Amortization of prior service cost (credit) | - | - | (5,996,389) | (5,996,389) |
| Recognized actuarial loss | 22,506,642 | 15,830,272 | 2,526,211 | 1,420,380 |
| Net periodic benefit cost | 57,386,802 | 38,533,313 | (5,352) | (633,625) |
| Special termination benefit charge | 39,219,989 | - | - | - |
| Settlement charge | 50,908,016 | - | - | - |
| Net pension cost | 147,514,807 | 38,533,313 | (5,352) | (633,625) |
| **Other changes in pension liability recognized in net assets without donor restrictions** | | | | |
| Net actuarial loss | 50,508,084 | 70,479,293 | 772,512 | 8,215,960 |
| Recognition due to settlement | (50,908,016) | - | - | - |
| Amortization of (gain) | (22,506,642) | (15,830,272) | (2,526,211) | (1,420,380) |
| Amortization of prior service credit | - | - | 5,996,389 | 5,996,389 |
| Total recognized in net assets without donor restrictions | (22,906,574) | 54,649,021 | 4,242,690 | 12,791,969 |
| Total recognized in net benefit cost and net assets without donor restrictions | $ 124,608,233 | $ 93,182,334 | $ 4,237,338 | $ 12,158,344 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year** | | | | |
| Discount rate | 2.375%/2.25%[1]/2.875%[2] | 3.250 % | 2.375 % | 3.250 % |
| Expected return on plan assets | 2.375%/2.25%[1]/2.875%[2] | 4.250 % | N/A | N/A |
| Rate of compensation increase | 2.00% FY21, 3.00% thereafter | 3.000 % | N/A | N/A |

1 Rates as of remeasurement date 9/30/2020 and 12/31/2020.

2 Rates as of remeasurement date 3/31/2021.

Health Services expects to recognize $16,673,781 of loss amortization as a component of net pension cost during the year ended June 30, 2022. There is no prior service cost/(credit) amortization and no transition obligation/(asset) amortization as these have been fully amortized.

Health Services expects to recognize $1,994,835 of loss amortization, $(5,036,967) prior service (credit) amortization, and no transition asset or obligation amortization as components of net postretirement benefit cost during the year ending June 30, 2022.

Other components of net periodic pension cost, which are presented in other nonoperating losses, revenues, and gains on the consolidated statement of operations and changes in net assets, were $26,481,948 and $8,363,954 as of June 30, 2021 and 2020, respectively. Other components of net periodic postretirement benefit cost, which are presented in other nonoperating losses, revenues, and gains on the consolidated statement of operations and changes in net assets, were $(1,327,711) and $(1,932,866) as of June 30, 2021 and 2020, respectively. In addition, Health Services recognized Special Termination Benefits charges of $39,219,989 and Settlement charges of $50,908,016 within nonoperating losses, revenues, and gains and changes in net assets due to the VERP program in fiscal 2021.The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

Health Services utilizes published long-term high-quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, Health Services considers indices of various durations to reflect the timing of future benefit payments.

**Plan Assets**

Pension plan weighted target and actual average asset allocations at June 30, 2021 and 2020 were comprised of 100% fixed income securities.

The investment policy incorporates a liability-driven investment approach that focuses on the funded status of the Plan and seeks to match the duration of the assets with that of the liabilities. As such, the investment portfolio allocation is comprised of 100% long duration fixed income securities. The Plan's financial condition is monitored on an ongoing basis by means of an annual funding review, an annual independent actuarial valuation, and quarterly investment portfolio reviews.

The following table represents the Plan's financial instruments as of June 30, 2021, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 30,392,012 | $ - | $ - | $ 30,392,012 |
| U.S.Government and agency securities | 348,849,669 | 12,455,805 | - | 361,305,474 |
| Corporate and other debt securities | - | 519,979,431 | - | 519,979,431 |
| Equity securities | 2,000 | - | - | 2,000 |
| Total assets at fair value | $ 379,243,681 | $ 532,435,236 | $ - | $ 911,678,917 |

The following table represents the Plan's financial instruments as of June 30, 2020, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 12,708,867 | $ - | $ - | $ 12,708,867 |
| U.S.Government and agency securities | 302,409,820 | 8,323,637 | - | 310,733,457 |
| Corporate and other debt securities | - | 725,999,415 | - | 725,999,415 |
| Equity securities | 1,789 | - | - | 1,789 |
| Total assets at fair value | $ 315,120,476 | $ 734,323,052 | $ - | $ 1,049,443,528 |

**Contributions**

During fiscal 2021, Health Services made contributions to the pension plan of $132,000,000 and expects to contribute approximately $28,000,000 during the fiscal year ending June 30, 2022. The System offered a Voluntary Early Retirement Program (VERP) during the fiscal year 2021, providing enhanced retirement benefits to those eligible participants who elect to participate in the VERP. There were several waves of elections, resulting in the recognition of Special Termination Benefits. On July 15th, 2021, the Plan distributed $32,892,741 to the 45 employees who retired in June 2021. This funding completes the final round of the VERP.

Health Services made contributions to the postretirement benefit plan of $3,721,488 during fiscal 2021 and expects to contribute approximately $6,425,161 during the fiscal year ending June 30, 2022. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

### Estimated Future Benefit Payments

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

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| 2022 | $ 72,108,075 | $ 6,425,161 |
| 2023 | 42,616,710 | 6,654,587 |
| 2024 | 46,715,295 | 6,034,079 |
| 2025 | 52,310,906 | 5,974,767 |
| 2026 | 57,038,562 | 5,343,180 |
| 2027-2031 | 317,372,598 | 26,323,708 |

The annual rate of increase assumed in the per capita cost of covered health care benefits was 6.45% and 6.75% for the Pre-65 and Post 64 participants, respectively, for determining June 30, 2021 obligations and will be used for Fiscal 2022 Net Benefit Cost. The rates are assumed to decrease gradually to 4.98% for both participant groups in fiscal year 2039 and remain at that level thereafter.

| | 1-Percentage Point Increase | 1-Percentage Point Decrease |
|---|---|---|
| Effect on total service and interest cost | $ 36,475 | $ (34,283) |
| Effect on postretirement benefit obligation | 540,501 | (513,229) |

### Defined Contribution Retirement Plan

Health Services sponsors a defined contribution retirement plan for all employees hired after August 13, 2006. Under the plan, Health Services contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Health Services, which includes Affinity Health Alliance, for the year ended June 30, 2021 and 2020 was $22,800,871 and $17,129,610, respectively.

### Deferred Compensation Plan

Health Services maintains a Tax-Deferred Annuity Plan for all employees. Under the Plan, Health Services accumulates employee contributions which are transferred to and invested by various trustees. Health Services contributes 50% of the employee contributions up to a maximum of 3% of an employee's salary. During fiscal 2021, Health Services suspended the employer contribution of this plan for a period of time due to the pandemic and was later reinstated. Contributions for the years ended June 30, 2021 and 2020 were $13,538,131 and $19,211,180, respectively.

### Home Health Pension Plan

Home Health sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 26, 2007. Employees hired after that date are participants in a defined contribution plan. Generally, benefits under the Plan are based on the employee's compensation and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Employees are on a graduated vesting scale and become fully vested after seven years of service.

The following tables set forth the components of the benefit obligation, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2021 and June 30, 2020:

| | 2021 | 2020 |
|---|---|---|
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | $ 45,025,261 | $ 40,234,334 |
| Service cost | 1,073,041 | 1,121,059 |
| Interest cost | 1,061,194 | 1,275,439 |
| Actuarial loss (gains) | 53,095 | 5,078,953 |
| Settlements | (3,312,358) | - |
| Benefits paid | (917,684) | (2,684,524) |
| Benefit obligation at end of year | $ 42,982,549 | $ 45,025,261 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | $ 41,959,976 | $ 39,662,902 |
| Actual return on plan assets (net of expenses) | (399,562) | 4,981,598 |
| Employer contributions | 4,300,000 | - |
| Settlements | (3,312,358) | - |
| Benefits paid | (917,684) | (2,684,524) |
| Fair value of plan assets at end of year | $ 41,630,372 | $ 41,959,976 |
| **Reconciliation of funded status to net amount recognized in the balance sheet** | | |
| Amounts recorded as accrued liabilities | | |
| Noncurrent liabilities | $ (1,352,177) | $ (3,065,292) |
| Accrued liability | (1,352,177) | (3,065,292) |
| Amounts recorded within net assets without donor restrictions | | |
| Actuarial loss | 10,355,480 | 11,008,188 |
| Net amount recognized at year end | $ 9,003,303 | $ 7,942,896 |
| **Accumulated benefit obligation** | $ 38,688,433 | $ 40,923,194 |

| | Pension Benefits | |
|---|---|---|
| | 2021 | 2020 |
| **Weighted-average assumptions used to determine benefit obligations at June 30** | | |
| Discount rate | 2.500 % | 2.375 % |
| Rate of compensation increase | 3.000 % | 2.00% for FY2021, 3.00% thereafter |

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Components of net periodic benefit cost** | | | | |
| Service cost | $ | 1,073,041 | $ | 1,121,059 |
| Interest cost | | 1,061,194 | | 1,275,439 |
| Expected return on plan assets | | (928,149) | | (1,601,018) |
| Recognized actuarial loss | | 1,202,098 | | 892,081 |
| Amortization of prior service (credit) | | - | | (170,167) |
| Net periodic benefit cost | | 2,408,184 | | 1,517,394 |
| Settlement charges | | 831,416 | | - |
| Net pension cost | | 3,239,600 | | 1,517,394 |
| **Other changes in pension liability recognized in net assets without donor restrictions** | | | | |
| Net actuarial (gain) | | 1,380,806 | | 1,698,376 |
| Recognition due to settlement | | (831,416) | | - |
| Amortization of (gain) | | (1,202,098) | | (892,081) |
| Amortization of prior service credit | | - | | 170,167 |
| Total recognized in net assets without donor restrictions | | (652,708) | | 976,462 |
| Total recognized in net benefit cost and net assets without donor restrictions | $ | 2,586,892 | $ | 2,493,856 |

| | Pension Benefits | |
|---|---|---|
| | 2021 | 2020 |
| **Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year** | | |
| Discount rate | 2.375%/2.875%[1]/2.50%[2] | 3.250 % |
| Expected return on plan assets | 2.375%/2.875%[1]/2.50%[2] | 4.250 % |
| Rate of compensation increase | 2.00% for FY2021, 3.00% thereafter | 3.000 % |

1 Rates as of remeasurement date 3/31/2021.

2 Rates as of remeasurement date 6/30/2021.

Home Health expects to recognize $1,026,410 of loss amortization, no prior service cost amortization and no amortization of transition asset or obligation as components of net pension cost during the year ending June 30, 2022. Other components of net periodic pension cost, which are presented in other nonoperating losses, revenues, and gains on the Home Health statement of operations and changes in net assets, were $1,335,143 and $396,337 as of June 30, 2021 and 2020, respectively. In addition, Home Health recognized Settlement charges of $831,416 within nonoperating losses, revenues, and gains and changes in net assets due to the VERP program in fiscal 2021.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

Home Health utilizes published long-term high-quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, Home Health considers indices of various durations to reflect the timing of future benefit payments.

### Plan Assets

Pension plan weighted target and actual average asset allocations at June 30, 2021 and June 30, 2020 were comprised of 100% fixed income securities.

The investment policy incorporates a liability-driven investment approach that focuses on the funded status of the Plan and seeks to match the duration of the assets with that of the liabilities. As such, the investment portfolio allocation is comprised of 100% long duration fixed income securities. The Plan's financial condition is monitored on an ongoing basis by means of an annual funding review, an annual independent actuarial valuation, and quarterly investment portfolio reviews.

The following table represents the Plan's financial instruments as of June 30, 2021, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 1,068,724 | $ - | $ - | $ 1,068,724 |
| U.S. Government and agency securities | 5,767,733 | - | - | 5,767,733 |
| Corporate and other debt securities | - | 34,793,915 | - | 34,793,915 |
| | $ 6,836,457 | $ 34,793,915 | $ - | 41,630,372 |
| Equity managed funds measured at net asset value | | | | - |
| Total assets at fair value | | | | $ 41,630,372 |

The following table represents the Plan's financial instruments as of June 30, 2020, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 333,749 | $ - | $ - | $ 333,749 |
| U.S. Government and agency securities | 8,597,455 | - | - | 8,597,455 |
| Corporate and other debt securities | - | 33,028,772 | - | 33,028,772 |
| | $ 8,931,204 | $ 33,028,772 | $ - | 41,959,976 |
| Equity managed funds measured at net asset value | | | | - |
| Total assets at fair value | | | | $ 41,959,976 |

### Contributions

During fiscal 2021, Home Health made contributions to the pension plan of $4,300,000 and expects to contribute approximately $1,100,000 during the fiscal year ending June 30, 2022. The actual pension plan contribution depends on interest rates, pension plan asset values, and legislated funding requirements.

### Estimated Future Benefit Payments

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

| | |
|---|---|
| 2022 | $ 2,326,951 |
| 2023 | 2,267,127 |
| 2024 | 2,404,475 |
| 2025 | 2,572,479 |
| 2026 | 2,713,563 |
| Thereafter | 13,477,381 |

**Defined Contribution Retirement Plan**

Home Health began a defined contribution plan for all employees hired on or after August 26, 2007. Eligible employees in Home Health's noncontributory defined benefit pension plan also had the one time choice to switch to the defined contribution retirement plan effective January 1, 2008. Under the plan, Home Health contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Home Health for the year ended June 30, 2021 and 2020 was $599,999 and $656,047, respectively.

**Deferred Compensation Plan**

Home Health maintains a Tax-Deferred Annuity Plan (the "Plan") for all employees. Under the Plan, Home Health accumulates employee contributions which are transferred to and invested by the trustee. Home Health is not required to make additional contributions on behalf of employees and did not make any contributions in 2021 or 2020.

## 13. Self-Insurance Liabilities

The System maintains self-insurance programs for worker's compensation, medical professional liability, and general liability claims coverage. Risk retention for the primary medical professional and primary general liabilities are insured under a retrospectively rated policy through an alternative risk finance program via the Captive as Christiana Care Insurance Company, Ltd ("CCIC"), a wholly owned subsidiary of Christiana Care Health Services, Inc. domiciled in the Cayman Islands. CCIC provides for indemnification to the System resulting from medical malpractice and general liability exposures in Delaware, Maryland, New Jersey, and Pennsylvania. The primary policy as of June 30, 2021 provides for a self-insured retention of $4 million per medical incident or occurrence and an annual shared aggregate of $35 million. In addition, a buffer policy provides medical professional liability coverage of $2 million per medical incident or occurrence in excess of $4 million with a $2 million aggregate. For exposures specific to Pennsylvania, an additional buffer policy provides coverage for $3 million in excess of $1 million per medical incident. An excess umbrella liability coverage under a claims-made policy is established through full reinsurance with commercial carriers providing a total of $60 million limits of liability above the primary coverage. Reinsurance premiums are determined by the commercial carriers. Effective May 1, 2021, CCIC also provides coverage under a claims-made deductible reimbursement policy to the System for professional and general liability related to Christiana Care Home Health and Community Service, Inc., executive risk, property, and cyber liabilities through third party carriers of $1 million per occurrence with $1 million in aggregate. Premiums under the retrospectively rated policy is recognized over the policy term and accrued for asserted and unasserted claims whether reported or unreported per actuarially determined projections at the 75% confidence level based upon loss experience.

Union Hospital of Cecil County, a wholly owned subsidiary of Affinity, obtained its professional and general liability insurance from Freestate Healthcare Insurance Company, Ltd., a Cayman Islands company ("Freestate") prior to March 1, 2021. Freestate was incorporated as of January 1, 2005 as a chartered captive insurance company for a group of not-for-profit hospitals in the State of Maryland. Freestate is governed by a Board of Directors selected by the shareholders. Freestate's primary insurance is under the terms of a claims-made insurance policy and has limits of liability of $1 million per claim and no aggregate limit per policy year. Freestate's excess liability coverage insures individual occurrence limits of $15 million and an annual aggregate limit of $15 million. Legacy professional and general liabilities under Freestate will remain as run-off liabilities in Freestate because of Union Hospital of Cecil County's departure from the group captive effective March 1, 2021. CCIC insures Union Hospital of Cecil County effective March 1, 2021 with a retroactive date of August 1, 1985 under the same retrospectively rated primary policy coverage provided to the System.

Actuarially determined undiscounted projections for medical malpractice and worker's compensation claims at June 30, 2021 and 2020 amounted to $80,201,370 and $67,887,610, respectively and represent the value of claims that will be settled in the future based on anticipated payout patterns. The current portion of the accruals of $19,323,499 and $15,779,764 at June 30, 2021 and 2020, respectively, is recorded as a component of accounts payable and other accrued expenses on the consolidated balance sheet. A subsequent claim in excess of policy limits was reflected within both medical malpractice liabilities and reinsurance recoveries of $3.5 million as the claim is fully reinsured under the excess umbrella liability coverage. The subsequent event did not impact the actuarial analysis as of June 30, 2021.

## 14. Commitments and Contingencies

**Litigation**
Christiana Care Health Services, Christiana Care Home Health and Community Services, and Union Hospital of Cecil County are defendants in several matters of litigation all in the ordinary course of conducting business. Management believes the ultimate outcome of these matters will not have a material effect on Christiana Care's financial position or the results of operations.

**Commitments**
In fiscal 2017, Christiana Care Health Services entered into a seven-year agreement with a vendor to provide healthcare IT software and solutions. Payments under this commitment will total $163,674,466. At June 30, 2021, the remaining commitment is $57,970,473, of which $21,387,349 will be paid in fiscal 2022.

In fiscal 2020, Christiana Care Health Services entered into a partnership with a third party and established ChristianaCare-GoHealth Urgent Care, LLC. The purpose of the partnership was to operate various urgent care centers, and it is accounted for as an equity method investment for Christiana Care Health Services. As part of this arrangement, Christiana Care Health Services entered into a credit agreement and guaranty agreement with ChristianaCare-GoHealth Urgent Care, LLC totaling $44,500,000 through fiscal year 2030. As of June 30, 2021, the loan receivable from the partnership was $42,750,000.

## 15. Concentrations of Credit Risk

The financial instruments which potentially subject the System to concentrations of credit risk consist primarily of cash, cash equivalents, investments, and accounts receivable.

Included in accounts receivable are amounts related to the services performed for individuals, as well as under various contractual agreements with third-party payors. Management believes its concentration of credit risk, with respect to accounts receivable, is limited by a large customer base. The net patient account receivables payor mix for year ended June 30, 2021 is comprised of Commercial 50.3%, Medicaid 16.0%, Medicare 21.5%, and Self pay and other 12.2%.

## 16. Liquidity and Availability

As of June 30, 2021, and June 30, 2020, the System has the following financial assets available for general expenditure within one year of the balance sheet date:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 280,290,758 | $ 240,115,848 |
| Short-term investments | 191,331,183 | 247,613,445 |
| Patient accounts receivable, net | 332,780,574 | 282,226,804 |
| Other current assets | 32,003,461 | 17,701,059 |
| Investments | 2,330,670,533 | 1,758,749,485 |
| | $ 3,167,076,509 | $ 2,546,406,641 |

The above assets are available for general expenditure within one year in the normal course of operations. The System defines general expenditure as an operating expense. Cash and cash equivalents above exclude cash received in advances from third party payors. Other current assets in the table above relate to nonpatient accounts receivables that the System expects to collect within one year. Assets limited as to use are comprised of board designated funds, which can be released by the Board and become available for general expenditure. In addition to the table above, assets limited to use as of June 30,2021 and June 30, 2020 are $26,961,704 and $27,686,094, respectively. The System has long-term investments that could be made available for general expenditure within the next year, if needed.

The System invests cash in excess of daily requirements in either money market funds, short-term investments, or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due.

As of June 30, 2021, the System was in compliance with financial bond covenants.

### 17. Functional Expenses

The System provides general health care services to patients within its geographic region. Expenses related to providing these services for the year ended June 30, 2021 consisted of the following:

| | Healthcare Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| **Expenses** | | | | |
| Salaries and employee benefits | $ 1,185,574,920 | $ 276,944,966 | $ 267,085 | $ 1,462,786,971 |
| Supplies and other expenses | 590,891,678 | 184,128,958 | 4,819,288 | 779,839,924 |
| Interest expense | 9,608,681 | 3,489,407 | - | 13,098,088 |
| Depreciation | 66,898,190 | 58,903,492 | 753 | 125,802,435 |
| Total expenses | $ 1,852,973,469 | $ 523,466,823 | $ 5,087,126 | $ 2,381,527,418 |

Expenses related to providing these services for the year ended June 30, 2020 consisted of the following:

| | Healthcare Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| **Expenses** | | | | |
| Salaries and employee benefits | $ 1,122,697,655 | $ 227,635,160 | $ 129,167 | $ 1,350,461,982 |
| Supplies and other expenses | 493,943,322 | 177,523,054 | 5,767,631 | 677,234,007 |
| Interest expense | 5,425,167 | 1,988,016 | - | 7,413,183 |
| Depreciation | 58,721,549 | 53,728,355 | 344 | 112,450,248 |
| Total expenses | $ 1,680,787,693 | $ 460,874,585 | $ 5,897,142 | $ 2,147,559,420 |

The consolidated statement of operations and changes in net assets reports certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization and interest and other occupancy costs, are allocated to a function based on a square footage. IT expenses are allocated based on a percentage of services provided to each function.

### 18. Leases

The System has various operating and finance leases for office facilities and certain equipment with noncancelable terms expiring at various dates through 2040. The leases may have one or more renewal options, with terms to be determined at the time of renewal. The exercise of such lease renewal options is at the sole discretion of the System.

The components of lease costs are as follows:

| | 2021 |
|---|---|
| Operating lease cost | $ 12,474,373 |
| Finance lease cost | |
| Amortization of right-of-use-assets | 6,525,397 |
| Interest on lease liabilities | 3,824,208 |
| Total finance lease cost | 10,349,605 |
| Short-term lease cost | 3,080,567 |
| Variable lease cost | 6,185,746 |
| Sublease income | (846,654) |
| Total lease cost | $ 31,243,637 |

Supplemental consolidated balance sheet information related to leases is as follows:

| | Classification | 2021 |
|---|---|---|
| Assets | | |
| Operating lease | Other Assets | $ 38,891,653 |
| Finance lease | Property and equipment, net | 108,797,314 |
| Total leased assets | | $ 147,688,967 |
| Liabilities | | |
| Current liabilities | | |
| Operating lease | Accounts payable and accrued expenses | $ 11,260,414 |
| Finance lease | Current portion of finance lease liabilities | 5,173,149 |
| Noncurrent liabilities | | |
| Operating lease | Other liabilities | 29,172,320 |
| Finance lease | Finance leases, net of current portion | 115,899,246 |
| Total leased liabilities | | $ 161,505,129 |

Supplemental cash flow information related to our leases is as follows:

| | 2021 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows for operating leases | $ 11,496,824 |
| Operating cash flows for finance leases | 5,410,098 |
| Financing cash flows for finance leases | 4,066,914 |
| Right-of-use assets obtained in exchange for lease liabilities | |
| Operating leases | 13,594,468 |
| Finance leases | 89,028 |

The weighted average remaining lease terms and discount rates were as follows:

| | **2021** |
|---|---|
| Weighted Average Remaining Lease Term (in years) | |
| Operating lease | 4.41 |
| Finance Lease | 18.01 |
| Weighted Average Discount Rate | |
| Operating lease | 3.12 |
| Finance lease | 3.26 |

Maturities of lease liabilities are approximately as follows:

| **Year ending June 30,** | **Operating Leases** | **Finance Leases** |
|---|---|---|
| 2022 | $ 12,527,825 | $ 9,346,169 |
| 2023 | 10,627,201 | 8,856,103 |
| 2024 | 6,734,270 | 8,773,417 |
| 2025 | 3,677,042 | 7,549,888 |
| 2026 | 2,954,285 | 7,880,227 |
| 2027 and thereafter | 7,803,196 | 119,693,103 |
| Total lease payments | 44,323,819 | 162,098,907 |
| Less: Interest portion | (3,891,085) | (41,026,512) |
| Total lease liabilities | $ 40,432,734 | $ 121,072,395 |

As of June 30, 2021, future minimum lease payments under noncancelable operating leases are:

| | |
|---|---|
| 2021 | $ 12,017,919 |
| 2022 | 11,969,840 |
| 2023 | 9,981,262 |
| 2024 | 6,445,987 |
| 2025 | 3,677,042 |
| Thereafter | 10,757,480 |

## 19. Subsequent Events

The System has performed an evaluation of subsequent events through September 23, 2021, which is the date the consolidated financial statements were issued. There were no events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.

# Consolidating Supplemental Schedules

# Christiana Care Health System and Affiliates
## Consolidating Balance Sheet
## June 30, 2021

| | Christiana Care Health System | Christiana Care Health Services: Christiana Care Health Services[1] | Christiana Care Health Services: Union Hospital | Christiana Care Health Initiatives | Christiana Care Home Health & Community Services | Christiana Care Health Plans | Eliminations | Christiana Care Health System & Affiliates |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents | $ 1,991,969 | $ 449,943,590 | $ 44,872,302 | $ 3,303,264 | $ 6,497,005 | $ 64,323 | $ - | $ 506,672,453 |
| Short-term investments | - | 191,331,183 | - | - | - | - | - | 191,331,183 |
| Patient accounts receivable, net | - | 314,409,931 | 12,863,481 | 309,515 | 5,197,647 | - | - | 332,780,574 |
| Assets limited as to use | - | 534,927 | - | - | - | - | - | 534,927 |
| Other current assets | 1,318,908 | 106,055,767 | 7,830,678 | 766,521 | 652,002 | - | (36,148,333) | 80,475,543 |
| Total current assets | 3,310,877 | 1,062,275,398 | 65,566,461 | 4,379,300 | 12,346,654 | 64,323 | (36,148,333) | 1,111,794,680 |
| Assets limited as to use | - | 26,961,704 | - | - | - | - | - | 26,961,704 |
| Long-term investments | - | 2,366,779,926 | 78,561,439 | - | 15,371,120 | - | (77,526,503) | 2,383,185,982 |
| Property and equipment, net | - | 1,166,061,419 | 71,439,778 | 24,550 | 196,962 | - | - | 1,237,722,709 |
| Other assets | 3,807,332 | 238,804,399 | 19,599,810 | 217,276 | 64,694 | - | (100,688,349) | 161,805,162 |
| Total assets | $ 7,118,209 | $ 4,860,882,846 | $ 235,167,488 | $ 4,621,126 | $ 27,979,430 | $ 64,323 | $ (214,363,185) | $ 4,921,470,237 |
| **Liabilities and Net Assets** | | | | | | | | |
| Current liabilities | | | | | | | | |
| Current portion of long-term debt | $ - | $ 4,615,943 | $ 2,348,833 | $ - | $ - | $ - | $ - | $ 6,964,776 |
| Current portion of finance lease liabilities | - | 4,509,597 | 663,552 | - | - | - | - | 5,173,149 |
| Accounts payable and accrued expenses | 8,319,363 | 389,118,310 | 28,560,058 | 19,380,383 | 7,499,978 | 3,343 | (36,148,333) | 416,733,102 |
| Advances from third party payors | - | 201,618,213 | 24,880,551 | - | - | - | - | 226,498,764 |
| Total current liabilities | 8,319,363 | 599,862,063 | 56,452,994 | 19,380,383 | 7,499,978 | 3,343 | (36,148,333) | 655,369,791 |
| Long-term debt, net of current portion | - | 308,415,885 | 49,055,391 | - | - | - | - | 357,471,276 |
| Finance leases, net of current portion | - | 115,286,981 | 612,265 | - | - | - | - | 115,899,246 |
| Pension and postretirement benefits | - | 179,952,704 | - | - | 1,352,177 | - | - | 181,304,881 |
| Other liabilities | - | 171,248,613 | 20,430,497 | - | 1,534,649 | - | (77,526,503) | 115,687,256 |
| Total liabilities | 8,319,363 | 1,374,766,246 | 126,551,147 | 19,380,383 | 10,386,804 | 3,343 | (113,674,836) | 1,425,732,450 |
| Net assets | | | | | | | | |
| Without donor restrictions | (6,101,335) | 3,418,353,090 | 105,230,629 | (14,759,257) | 17,446,874 | 60,980 | (92,724,484) | 3,427,506,497 |
| With donor restrictions | | | | | | | | |
| Purpose and time restricted | 3,623,192 | 31,676,194 | 3,385,712 | - | 145,752 | - | (6,686,876) | 32,143,974 |
| Perpetual in nature | 1,276,989 | 36,087,316 | - | - | - | - | (1,276,989) | 36,087,316 |
| Total net assets with donor restrictions | 4,900,181 | 67,763,510 | 3,385,712 | - | 145,752 | - | (7,963,865) | 68,231,290 |
| Total net assets | (1,201,154) | 3,486,116,600 | 108,616,341 | (14,759,257) | 17,592,626 | 60,980 | (100,688,349) | 3,495,737,787 |
| Total liabilities and net assets | $ 7,118,209 | $ 4,860,882,846 | $ 235,167,488 | $ 4,621,126 | $ 27,979,430 | $ 64,323 | $ (214,363,185) | $ 4,921,470,237 |

[1] Christiana Care Health Services excluding Union Hospital. This was reflected in consolidation in the prior year schedule.

The accompanying notes are an integral part of these consolidating financial statements.

# Christiana Care Health System and Affiliates
## Consolidating Balance Sheet
## June 30, 2020

| | Christiana Care Health System | Christiana Care Health Services | Christiana Care Health Initiatives | Christiana Care Home Health & Community Services | Christiana Care Health Plans | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | $ 1,787,840 | $ 495,822,157 | $ 1,807,995 | $ 15,947,722 | $ 65,563 | $ - | $ 515,431,278 |
| Short-term investments | - | 247,613,445 | - | - | - | - | 247,613,445 |
| Patient accounts receivable, net | - | 276,541,894 | 831,519 | 4,853,390 | - | - | 282,226,804 |
| Assets limited as to use | - | 49,854,384 | - | - | - | - | 49,854,384 |
| Other current assets | 1,934,748 | 100,474,969 | 638,026 | 428,201 | - | (21,057,423) | 82,418,521 |
| Total current assets | 3,722,588 | 1,170,306,850 | 3,277,540 | 21,229,313 | 65,563 | (21,057,423) | 1,177,544,432 |
| Assets limited as to use | - | 27,686,094 | - | - | - | - | 27,686,094 |
| Long-term investments | 27,544 | 1,802,140,128 | - | 11,885,311 | - | (11,885,311) | 1,802,167,672 |
| Property and equipment, net | - | 1,242,009,624 | 43,214 | 80,670 | - | - | 1,242,133,508 |
| Other assets | 5,640,743 | 84,126,994 | 221,762 | 192,145 | - | (7,371,087) | 82,810,557 |
| Total assets | $ 9,390,875 | $ 4,326,269,689 | $ 3,542,516 | $ 33,387,440 | $ 65,563 | $ (40,313,821) | $ 4,332,342,263 |
| **Liabilities and Net Assets** | | | | | | | |
| Current liabilities | | | | | | | |
| Current portion of long-term debt | $ - | $ 56,660,577 | $ - | $ - | $ - | $ - | $ 56,660,577 |
| Current portion of finance lease liabilities | - | 5,238,832 | - | - | - | - | 5,238,832 |
| Accounts payable and accrued expenses | 7,626,533 | 324,305,415 | 13,324,279 | 7,035,573 | 3,103 | (21,057,423) | 331,237,481 |
| Advances from third party payors | - | 269,682,640 | 205,620 | 5,427,170 | - | - | 275,315,430 |
| Total current liabilities | 7,626,533 | 655,887,464 | 13,529,899 | 12,462,743 | 3,103 | (21,057,423) | 668,452,320 |
| Long-term debt, net of current portion | - | 366,568,616 | - | - | - | - | 366,568,616 |
| Finance leases, net of current portion | - | 120,745,753 | - | - | - | - | 120,745,753 |
| Pension and postretirement benefits | - | 188,481,797 | - | 3,065,293 | - | - | 191,547,090 |
| Other liabilities | 2,480 | 115,653,504 | - | 1,117,145 | - | (11,885,311) | 104,887,819 |
| Total liabilities | 7,629,013 | 1,447,337,134 | 13,529,899 | 16,645,181 | 3,103 | (32,942,734) | 1,452,201,598 |
| Net assets | | | | | | | |
| Without donor restrictions | (5,609,227) | 2,818,242,603 | (9,987,383) | 16,660,393 | 62,460 | - | 2,819,368,848 |
| With donor restrictions | | | | | | | |
| Purpose and time restricted | 5,310,515 | 27,044,941 | - | 81,863 | - | (5,310,515) | 27,126,804 |
| Perpetual in nature | 2,060,572 | 33,645,012 | - | - | - | (2,060,572) | 33,645,012 |
| Total net assets with donor restrictions | 7,371,087 | 60,689,953 | - | 81,863 | - | (7,371,087) | 60,771,816 |
| Total net assets | 1,761,861 | 2,878,932,556 | (9,987,383) | 16,742,256 | 62,460 | (7,371,087) | 2,880,140,664 |
| Total liabilities and net assets | $ 9,390,873 | $ 4,326,269,690 | $ 3,542,516 | $ 33,387,437 | $ 65,563 | $ (40,313,821) | $ 4,332,342,263 |

The accompanying notes are an integral part of these consolidating financial statements.

# Christiana Care Health System and Affiliates
## Condensed Consolidating Statement of Operations
## Year Ended June 30, 2021

| | | Christiana Care Health Services | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Christiana Care Health System | Christiana Care Health Services[1] | Union Hospital | Christiana Care Health Initiatives | Christiana Care Home Health & Community Services | Christiana Care Health Plans | Eliminations | Christiana Care Health System & Affiliates |
| **Operating revenues and other support** | | | | | | | | |
| Net patient service revenue | $ - | $ 2,169,972,698 | $ 173,050,343 | $ 3,288,597 | $ 44,435,509 | $ - | $ - | $ 2,390,747,147 |
| Other revenue | 307,311 | 170,736,837 | 7,935,913 | 31,179 | 163,193 | - | (9,866,121) | 169,308,312 |
| used for operations | 3,886,940 | 2,228,893 | 223,512 | - | 93,302 | - | - | 6,432,647 |
| Total operating revenues and other support | 4,194,251 | 2,342,938,428 | 181,209,768 | 3,319,776 | 44,692,004 | - | (9,866,121) | 2,566,488,106 |
| Salaries and employee benefits | - | 1,326,312,605 | 95,711,491 | 1,811,775 | 38,978,621 | - | (27,521) | 1,462,786,971 |
| Supplies and other expenses | 4,690,496 | 697,458,742 | 74,397,400 | 6,256,726 | 6,873,680 | 1,480 | (9,838,600) | 779,839,924 |
| Interest expense | - | 11,261,040 | 1,837,048 | - | - | - | - | 13,098,088 |
| Depreciation expense | - | 116,237,828 | 9,519,990 | 18,664 | 25,953 | - | - | 125,802,435 |
| Total operating expenses | 4,690,496 | 2,151,270,215 | 181,465,929 | 8,087,165 | 45,878,254 | 1,480 | (9,866,121) | 2,381,527,418 |
| Operating income | (496,245) | 191,668,213 | (256,161) | (4,767,389) | (1,186,250) | (1,480) | - | 184,960,688 |
| Investment return, net | 4,135 | 492,481,564 | 15,984,313 | - | 3,486,576 | - | - | 511,956,588 |
| Contribution received in acquisition of Affinity Health Alliance, Inc | - | - | - | - | - | - | - | - |
| Other nonoperating (losses), revenues, and gains | - | (18,531,796) | 418,780 | (4,486) | (1,335,144) | - | - | (19,452,646) |
| Settlement charge | - | (50,908,016) | - | - | (831,416) | - | - | (51,739,432) |
| Special termination benefit charge | - | (39,219,989) | - | - | - | - | - | (39,219,989) |
| Total nonoperating revenue, gains, and losses | 4,135 | 383,821,763 | 16,403,093 | (4,486) | 1,320,016 | - | - | 401,544,521 |
| Excess of revenues over expenses | $ (492,110) | $ 575,489,976 | $ 16,146,932 | $ (4,771,875) | $ 133,766 | $ (1,480) | $ - | $ 586,505,209 |

[1] Christiana Care Health Services excluding Union Hospital. This was reflected in consolidation in the prior year schedule.

The accompanying notes are an integral part of these consolidating financial statements.

# Christiana Care Health System and Affiliates
## Condensed Consolidating Statement of Operations
## Year Ended June 30, 2020

| | Christiana Care Health System | Christiana Care Health Services | Christiana Care Health Initiatives | Christiana Care Home Health & Community Services | Christiana Care Health Plans | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Operating revenues and other support** | | | | | | | |
| Net patient service revenue | $ - | $ 1,940,744,381 | $ 2,955,620 | $ 45,723,675 | $ - | $ - | $ 1,989,423,676 |
| Other revenue | 253,183 | 125,156,259 | 99,267 | 1,989,725 | - | (9,877,571) | 117,620,863 |
| Net assets released from donor restrictions used for operations | 4,077,388 | 2,242,270 | - | 5,628 | - | - | 6,325,286 |
| Total operating revenues and other support | 4,330,571 | 2,068,142,910 | 3,054,888 | 47,719,028 | - | (9,877,571) | 2,113,369,825 |
| **Operating expenses** | | | | | | | |
| Salaries and employee benefits | - | 1,310,632,522 | 1,479,264 | 38,368,072 | - | (17,875) | 1,350,461,982 |
| Supplies and other expenses | 5,811,803 | 667,633,608 | 6,471,884 | 7,170,998 | 5,410 | (9,859,696) | 677,234,007 |
| Interest expense | - | 7,413,183 | - | - | - | - | 7,413,183 |
| Depreciation expense | - | 112,407,944 | 19,488 | 22,815 | - | - | 112,450,248 |
| Total operating expenses | 5,811,803 | 2,098,087,258 | 7,970,636 | 45,561,885 | 5,410 | (9,877,571) | 2,147,559,420 |
| Operating income | (1,481,232) | (29,944,348) | (4,915,748) | 2,157,143 | (5,410) | () | (34,189,595) |
| **Nonoperating revenues, gains, and losses** | | | | | | | |
| Investment return, net | (610) | 141,307,763 | - | 976,193 | - | - | 142,283,346 |
| Contribution received in acquisition of Affinity Health Alliance, Inc | - | 92,724,484 | - | - | - | - | 92,724,484 |
| Other nonoperating (losses), revenues, and gains | - | (11,798,174) | (114,875) | (396,337) | - | - | (12,309,386) |
| Total nonoperating revenue, gains, and losses | (610) | 222,234,073 | (114,875) | 579,856 | - | - | 222,698,444 |
| Excess of revenues over expenses | $ (1,481,842) | $ 192,289,725 | $ (5,030,624) | $ 2,736,999 | $ (5,410) | $ () | $ 188,508,848 |

The accompanying notes are an integral part of these consolidating financial statements.

**Basis of Presentation**

The accompanying supplemental consolidating information includes the consolidating balance sheets and the condensed consolidating statements of operations of the individual entities of Christiana Care Health System and Affiliates (the "System"). The consolidating information is prepared on the accrual basis of accounting. All intercompany accounts and transactions between entities have been eliminated. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements. The supplemental consolidating balance sheets are presented in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements.

The supplemental condensed consolidating statements of operations are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of the changes in net assets.