

Calvert Health System, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Consolidating Information**

Years Ended June 30, 2018 and 2017



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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Calvert Health System, Inc. and Subsidiaries (the "System") which comprise the consolidated statements of financial position as of June 2018 and 2017, and the related consolidated statements of operations and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calvert Health System, Inc. and Subsidiaries as of June 2018 and 2017, and their consolidated operations, changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 consolidating schedules on pages 33 - 39 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in unrestricted net assets, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Such information and the other supplementary information on page 40 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 2018 information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

**Tysons, Virginia
October 18, 2018**

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,364,524	\$ 30,652,064
Short-term investments	89,678	83,087
Patient accounts receivable, net of allowance for uncollectible accounts of \$5,224,129 in 2018 and \$6,533,274 in 2017	13,540,293	16,379,744
Inventories	2,324,160	2,515,362
Prepaid expenses and other assets	3,883,886	4,041,857
Assets limited as to use, current	<u>989,587</u>	<u>984,328</u>
Total current assets	49,192,128	54,656,442
Investments and other assets:		
Investments	118,944,247	110,453,183
Investments in affiliated enterprises	4,854,338	4,635,843
Assets limited as to use	6,177,749	5,107,607
Property and equipment, net	76,960,289	73,793,939
Insurance recoverable	4,047,912	4,498,490
Other assets	<u>1,586,892</u>	<u>1,688,545</u>
Total assets	<u>\$ 261,763,555</u>	<u>\$ 254,834,049</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,938,231	\$ 17,588,263
Current portion of long-term debt	2,177,865	2,116,636
Current portion of capital lease obligation	826,979	197,202
Accrued pension cost	11,230,219	-
Advances from third party payers	<u>4,437,880</u>	<u>4,477,329</u>
Total current liabilities	35,611,174	24,379,430
Long-term debt, less current portion, net of unamortized debt issuance costs	58,603,224	60,889,858
Long-term capital lease obligation	2,495,041	363,993
Accrued pension cost	-	7,873,098
Professional liability	4,721,111	5,149,323
Other long-term liabilities	<u>971,774</u>	<u>745,474</u>
Total liabilities	<u>102,402,324</u>	<u>99,401,176</u>
Net assets:		
Unrestricted, general	152,585,199	150,149,781
Unrestricted, board designated	3,788,055	3,610,483
Unrestricted, noncontrolling interest in subsidiary	(89,879)	(231,073)
Temporarily restricted	2,602,546	1,428,372
Permanently restricted	<u>475,310</u>	<u>475,310</u>
Total net assets	<u>159,361,231</u>	<u>155,432,873</u>
Total liabilities and net assets	<u>\$ 261,763,555</u>	<u>\$ 254,834,049</u>

See accompanying notes.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue:		
Patient service revenue (net of contractual adjustments and discounts)	\$ 152,143,231	\$ 152,505,652
Provision for bad debts	<u>(772,523)</u>	<u>(4,019,927)</u>
Net patient service revenue less provision for bad debts	151,370,708	148,485,725
Rental revenue	298,906	289,027
Other operating revenue	<u>4,125,782</u>	<u>4,847,598</u>
Total operating revenue	<u>155,795,396</u>	<u>153,622,350</u>
Expenses:		
Salaries and wages	70,260,114	70,955,773
Employee benefits	14,064,754	16,227,185
Supplies	26,274,222	25,859,296
Purchased services	6,528,897	7,938,108
Professional fees	6,694,628	6,263,488
Depreciation and amortization	11,600,244	10,503,441
Interest	2,581,147	2,538,551
Other	<u>16,916,343</u>	<u>16,807,768</u>
Total operating expenses	<u>154,920,349</u>	<u>157,093,610</u>
Income (loss) from operations	875,047	(3,471,260)
Nonoperating gains (losses):		
Investment income	13,431,362	3,769,494
Income from equity investments	1,143,494	784,267
Loss on building renovation	(2,425,039)	-
(Loss) gain on pension settlement/curtailment	<u>(523,519)</u>	<u>1,927,121</u>
Total nonoperating gains, net	<u>11,626,298</u>	<u>6,480,882</u>
Excess of revenue over expenses	12,501,345	3,009,622
Net assets released from restrictions for capital acquisitions	55,500	458,594
Contributions from noncontrolling interest holders	32,895	32,895
Pension-related changes	(1,864,354)	4,920,416
Net unrealized (losses) gains on marketable investments	<u>(8,014,377)</u>	<u>6,588,331</u>
Increase in unrestricted net assets	<u>\$ 2,711,009</u>	<u>\$ 15,009,858</u>

See accompanying notes.

Calvert Health System, Inc and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2018 and 2017

	<u>Unrestricted</u>	<u>Noncontrolling Interest</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2016	\$ 138,712,188	\$ (237,655)	\$ 1,236,378	\$ 475,310	\$ 140,186,221
Excess of revenue over expenses (expenses over revenue)	3,035,935	(26,313)	-	-	3,009,622
Transfer of net assets	44,800	-	(44,800)	-	-
Contributions	-	-	1,248,146	-	1,248,146
Net assets released from restrictions for capital acquisitions	458,594	-	(458,594)	-	-
Net assets released from restrictions to fund operating programs	-	-	(705,879)	-	(705,879)
Contributions from noncontrolling interest in subsidiary	-	32,895	-	-	32,895
Investment income on restricted net assets	-	-	50,311	-	50,311
Pension-related changes	4,920,416	-	-	-	4,920,416
Net unrealized gains on marketable investments	6,588,331	-	102,810	-	6,691,141
Balance, June 30, 2017	153,760,264	(231,073)	1,428,372	475,310	155,432,873
Excess of revenue over expenses (expenses over revenue)	12,393,046	108,299	-	-	12,501,345
Transfer of net assets	43,175	-	(43,175)	-	-
Contributions	-	-	2,141,423	-	2,141,423
Net assets released from restrictions for capital acquisitions	55,500	-	(55,500)	-	-
Net assets released from restrictions to fund operating programs	-	-	(944,167)	-	(944,167)
Contributions from noncontrolling interest in subsidiary	-	32,895	-	-	32,895
Investment income on restricted net assets	-	-	241,436	-	241,436
Pension-related changes	(1,864,354)	-	-	-	(1,864,354)
Net unrealized losses on marketable investments	(8,014,377)	-	(165,843)	-	(8,180,220)
Balance, June 30, 2018	<u>\$ 156,373,254</u>	<u>\$ (89,879)</u>	<u>\$ 2,602,546</u>	<u>\$ 475,310</u>	<u>\$ 159,361,231</u>

See independent auditors' report.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 3,928,358	\$ 15,246,652
Adjustments to reconcile to net cash from operating activities:		
Provision for bad debts	1,511,498	4,013,459
Depreciation and amortization	11,600,244	10,503,441
Amortization of debt issuance costs	66,111	62,027
Loss on building renovation	2,425,039	-
Donations restricted for capital acquisition	(254,948)	(559,004)
Equity in earnings of affiliated enterprises	(1,143,494)	(784,267)
Investment income on restricted assets	(241,436)	(50,311)
Realized net gains on investments	(10,944,196)	(1,923,604)
Unrealized net losses (gains) on investments	8,180,220	(6,691,141)
Loss (gain) on pension settlement/curtailment	523,519	(1,927,121)
Pension-related changes	1,864,354	(4,920,416)
Change in:		
Patient accounts receivable	2,066,928	(3,816,085)
Inventories	191,202	(133,078)
Prepaid expenses and other assets	326,253	687,832
Accounts payable, accrued expenses & other liabilities	77,855	(2,229,960)
Net cash provided by operating activities	<u>20,177,507</u>	<u>7,478,424</u>
Cash flows from investing activities:		
Purchases of investments	(143,649,898)	(46,253,035)
Sales of investments	137,972,641	45,032,293
Net increase in assets limited as to use	(1,486,850)	(627,997)
Purchases of property and equipment	(13,575,460)	(12,684,193)
Net cash used in investing activities	<u>(20,739,567)</u>	<u>(14,532,932)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(2,291,516)	(2,465,085)
Payments on capital leases	(855,348)	-
Donations received restricted for capital acquisitions	254,948	559,004
Net distributions from investees	925,000	600,000
Investment income on restricted assets	241,436	50,311
Net cash used in financing activities	<u>(1,725,480)</u>	<u>(1,255,770)</u>
Net decrease in cash and cash equivalents	(2,287,540)	(8,310,278)
Cash and cash equivalents, beginning of year	<u>30,652,064</u>	<u>38,962,342</u>
Cash and cash equivalents, end of year	<u>\$ 28,364,524</u>	<u>\$ 30,652,064</u>
Supplemental disclosure of noncash investing and financing activities:		
Capital lease obligations issued for equipment	<u>\$ 3,616,173</u>	<u>\$ 645,388</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Nature of Business

Organization

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

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

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

CHV is a for-profit corporation that owns and manages investments in certain health care related entities, including Calvert Medical Management, LLC (CMM), Calvert Surgery Center, LLC (CSC), an imaging center, and a physical therapy and sports rehabilitation center. CMM is a medical service organization that supports CHMG’s operations. CSC holds a 25% interest in Prince Frederick Surgery Center, LLC (PFSC).

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

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

Principles of consolidation

At June 30, 2018 and 2017, the System’s consolidated financial statements include the accounts of the Hospital and its wholly owned or controlled subsidiaries, CHV, CHMG, Holding Co. I and Holding Co. II. All material intercompany transactions are eliminated.

2. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The System classifies net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions; accordingly, net assets of the System and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the System or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the System. Generally, the donors of these assets permit the System to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Contributions with no donor-imposed restrictions are recognized as revenues in the period received as increases in unrestricted net assets. Contributions with donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets unless such contributions are expended in the same fiscal year, in which case they are recorded as unrestricted contributions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction and reclassified between the applicable classes of net assets. In accordance with applicable accounting standards, assets that have been released to support the System's operating programs are reported as a component of other operating revenue in the accompanying consolidated statements of operations, whereas assets that are released for the acquisition of property and equipment are reported as a direct increase to unrestricted net assets in the accompanying consolidated statements of changes in net assets.

Income and realized net gains or losses on investments are reported as:

- Increases or decreases in permanently restricted net assets if the terms of the gift or the System's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- Increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; or
- Increases or decreases in unrestricted net assets in all other cases.

Use of estimates

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

Calvert Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Cash and cash equivalents

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

Short-term investments

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

Inventories

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

Investments

Investments in fixed maturity and equity securities are recorded at fair value. Investment income, realized gains and losses and unrealized gains and losses on available-for-sale securities are reported in the accompanying consolidated statements of operations and other changes in unrestricted net assets unless restricted by the donor, in which case they are reported as an addition to, or deduction from, the appropriate donor-restricted net asset balance.

As of June 30, 2018 and 2017, \$1,061,452 and \$828,561 of the investments balance, respectively, are available to fund an executive severance and deferred compensation plan that has been established to provide benefits to the System's executive management team. These amounts are recorded as noncurrent liabilities in the accompanying consolidated statements of financial position as of June 30, 2018 and 2017.

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

Investments in affiliated enterprises

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

Assets limited as to use

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

Property and equipment

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

Calvert Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Other assets

Other assets consist of insurance recoverables and long-term other amounts receivable. Long-term other amount receivable include a promissory note that was entered into between the Hospital and PFSC on July 1, 2015 in the amount of \$1,800,000. Terms and conditions of the promissory note include a fixed rate of 3.75%, eighty-three fixed monthly payments that commenced on August 1, 2015 and a final balloon payment due on July 1, 2022. The long-term portion of the outstanding principal amounted to \$1,422,703 and \$1,524,355 at June 30, 2018 and 2017, respectively.

Third-party advances

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

Consolidated statements of operations

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

Excess of revenue over expenses

The consolidated statements of operations and other changes in unrestricted net assets report excess of revenue over expenses. Changes in unrestricted net assets which are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets.

Net patient service revenue and patient accounts receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, after contractual adjustments and discounts. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Hospital has not changed its charity care or uninsured discount policies during 2018 and 2017, although, as described further below, identification of charity services under the existing policy was improved during 2018. Patient accounts receivable include charges for amounts due from Medicare, Maryland Medical Assistance (Medicaid), Blue Cross, commercial insurers, and self-pay patients. Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts allowed by third-party payers, and are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Contractual adjustments and provision for uncollectible self-pay amounts are included in the determination of net patient service revenue as reported in the accompanying consolidated statements of operations and other changes in unrestricted net assets. Rates charged are based primarily on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered.

Calvert Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Hospital grants credit without collateral to its patients, most of whom are local residents insured under third-party payer agreements. Accounts receivable are reported at their net realizable value from third-party payers, patients, residents and others for services rendered. Allowances are provided for third-party payers based on estimated reimbursement rates. Allowances are also provided for bad debts on an estimate of uncollectible accounts. Allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections. Management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payer category. The results of this analysis are then used to make modifications to the allowances for uncollectible patient accounts receivable. Write-off of uncollectible accounts is determined on a case-by-case basis after a review of the circumstances surrounding individual patient accounts.

Charity care and other community services

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

The cost of charity care provided by the Hospital amounted to approximately \$5,547,000 and \$2,695,000 in 2018 and 2017, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect costs calculated pursuant to the methodology established by the HSCRC and, therefore, the cost of charity services noted above for the Hospital is equivalent to its established rates for those services. For any charity services rendered by the System other than the regulated services of the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the System's non-Hospital affiliates. During 2018, the Hospital made improvements in identifying patients that qualify for charity care resulting in an increase in charity care allowance and a decrease in bad debt allowance from the prior year presentation.

The Hospital receives monthly payments from the HSCRC or submits monthly payments with respect to an Uncompensated Care Fund (UCC) established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals as determined by the HSCRC. The Hospital contributed \$2,008,450 and \$1,798,720 for 2018 and 2017, respectively, to the UCC as required by the HSCRC. The Hospital did not receive any payments from the UCC in 2018 or 2017.

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

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

The HSCRC requires all Maryland hospitals to complete and submit a Community Benefit Report annually on December 15th for the preceding fiscal year. The Hospital's Community Benefit Report for the year ended June 30, 2017 reported \$17,126,333 (unaudited) in community benefit services.

Calvert Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Other operating revenue

Other operating revenue of the System includes “meaningful use” incentive, cafeteria income, grant income, and revenue from instructional classes and other operating programs. Under the provisions of the American Recovery and Reinvestment Act of 2009, incentive payments are available to certain healthcare providers that can demonstrate “meaningful use” of certified electronic health records technology. The System recognizes these incentive payments when it is reasonably assured that they will successfully demonstrate compliance with meaningful use criteria. The System recognized approximately \$2,700 and \$750 of these incentive payments for the years ended June 30, 2018 and 2017, respectively. These payments are subject to settlement and audit in future years.

Tax-exempt status

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

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

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

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

Subsequent events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, the date the consolidated financial statements were issued.

Reclassification of prior year presentation

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

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which provides a principle-based approach for recognizing revenues through a five-step process. The ASU is effective for the System in fiscal year 2019. The guidance allows for either a full retrospective or a modified retrospective transition method.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Under the new guidance, equity investments (except those accounted for under the equity method of accounting, or that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized in operations. The amendments in this ASU are effective for the System in fiscal year 2019 and should be applied using a retrospective approach as of the beginning of the earliest comparative period presented in the financial statements in the year of adoption.

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

In August 2016, FASB issued ASU 2016-14, *Not-For-Profit Entities, Presentation of Financial Statements of Not-for Profit Entities*. Under the new guidance, financial statements and noted disclosures requirements for not-for-profit (NFP) entities include the following:

1. Present on the face of the statement of financial position net assets with and without donor restrictions.
2. Improved disclosures for NFP entities that choose to present an operating measure.
3. Requirement to present information about its expenses by their nature and function either in the statement of activities, a separate statement, or in the notes to the financial statements.
4. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
5. Enhanced disclosures that provide quantitative and qualitative information about liquidity management.

The amendments in ASU 2016-14 are effective for the System in fiscal year 2019.

The System is currently evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows. At the present time, management has not yet determined what the effects of adopting the previously mentioned ASUs will have on its consolidated financial statements.

3. Investments in Affiliated Enterprises

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

	<u>2018</u>		<u>2017</u>	
	<u>Investment</u>	<u>Income</u>	<u>Investment</u>	<u>Income</u>
Equity:				
Calvert Medical Imaging Center	\$ 1,249,276	\$ 816,928	\$ 1,357,348	\$ 749,879
NRH/CPT Regional Rehab, LLC	(4,257)	9,478	(13,736)	17,438
Chesapeake-Potomac Healthcare Alliance, LLC	3,273,505	316,323	2,957,182	43,734
Prince Frederick Surgery Center, LLC	305,996	765	305,231	(26,784)
Cost:				
Freestate Healthcare Insurance Company, LTD	20,452	-	20,452	-
Maryland eCare, LLC	9,366	-	9,366	-
	<u>\$ 4,854,338</u>	<u>\$ 1,143,494</u>	<u>\$ 4,635,843</u>	<u>\$ 784,267</u>

An overview of these organizations is presented below. Because CHV's investment in Calvert Medical Imaging Center (CMIC) represents approximately 26% and 29% of the reported investment balance in affiliates as of June 30, 2018 and 2017, respectively, and the Hospital's investment in Chesapeake-Potomac Healthcare Alliance (the Alliance) represents approximately 67% and 64% of the reported investment balance in affiliates as of June 30, 2018 and 2017, respectively, summarized financial information for CMIC and the Alliance is also presented below.

Calvert Health System, Inc. and Subsidiaries
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Calvert Medical Imaging Center

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

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

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 4,013,932</u>	<u>\$ 4,751,822</u>
Total liabilities	<u>\$ 1,516,974</u>	<u>\$ 2,040,721</u>
Partners' capital	<u>2,496,958</u>	<u>2,711,101</u>
Total liabilities and partners' capital	<u>\$ 4,013,932</u>	<u>\$ 4,751,822</u>
Total revenue	<u>\$ 9,202,592</u>	<u>\$ 7,533,558</u>
Net income	<u>\$ 1,877,287</u>	<u>\$ 1,462,640</u>

NRH/CPT Regional Rehab, LLC

CHV invested in NRH/CPT Regional Rehab, LLC (NRH/CPT) for the purpose of providing comprehensive and coordinated physical therapy and rehabilitation services in St. Mary's and Charles counties. CHV maintains a 15% interest in NRH/CPT.

Chesapeake-Potomac Healthcare Alliance, LLC

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

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

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 15,446,587</u>	<u>\$ 14,079,760</u>
Total liabilities	<u>\$ 1,886,958</u>	<u>\$ 1,964,164</u>
Members' equity	<u>13,559,629</u>	<u>12,115,596</u>
Total liabilities and members' equity	<u>\$ 15,446,587</u>	<u>\$ 14,079,760</u>
Total revenue	<u>\$ 14,174,102</u>	<u>\$ 13,076,121</u>
Net income	<u>\$ 948,967</u>	<u>\$ 131,202</u>

Calvert Health System, Inc. and Subsidiaries
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Freestate Healthcare Insurance Company, LTD

Freestate Healthcare Insurance Company, LTD is a captive insurance company formed in the Cayman Islands. It is owned by five Maryland hospitals. Freestate provides insurance coverage to its shareholders for professional liability and comprehensive general liability (see Note 9).

Maryland eCare, LLC

Maryland eCare, LLC is a joint venture formed by six Maryland hospitals to provide remote monitoring technology with clinical decision support and physician/nursing services for their use in intensive care units and other clinical areas within their respective hospitals. The Hospital maintains a 6.90% interest in this joint venture at June 30, 2018 and 2017.

Prince Frederick Surgery Center, LLC

Prince Frederick Surgery Center, LLC (PFSC) operates a surgical center in Prince Frederick Maryland. It was formed initially as a joint venture by five physicians in May 2009. On July 1, 2015, CSC acquired a 25% interest in PFSC.

4. Investments

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

	<u>2018</u>	<u>2017</u>
Equity mutual funds	\$ 39,288,916	\$ 30,921,727
Fixed maturity mutual funds	23,448,508	20,988,872
Exchange traded funds	-	24,976,852
Guaranteed investment account	207,801	158,302
Corporate and municipal bonds	46,363,235	25,058,240
U.S. government issues	-	4,622,914
Agency securities	-	498,786
CMO and asset backed securities	-	282,302
Alternative investments	<u>9,725,465</u>	<u>3,028,275</u>
	119,033,925	110,536,270
Less - short-term investments	<u>89,678</u>	<u>83,087</u>
Long-term investments	<u>\$ 118,944,247</u>	<u>\$ 110,453,183</u>

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

	<u>2018</u>	<u>2017</u>
Internally designated for capital acquisition and scholarships:		
Cash and cash equivalents	\$ 2,758,460	\$ 2,380,263
Net pledges receivable	537,097	-
Equity mutual funds	2,044,529	3,711,672
Fixed income mutual funds	<u>1,827,250</u>	<u>-</u>
	<u>\$ 7,167,336</u>	<u>\$ 6,091,935</u>

Calvert Health System, Inc. and Subsidiaries
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Assets held by a trustee under the indenture agreement for debt service consist of the following funds at June 30:

	<u>2018</u>	<u>2017</u>
Held by trustee under indenture agreement:		
Cash and cash equivalents	<u>\$ 989,587</u>	<u>\$ 984,328</u>

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

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

<u>Investment Income</u>	<u>Year Ended June 30, 2018</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Interest and dividends	\$ 2,815,476	\$ 24,960	\$ -	\$ 2,840,436
Realized gains	10,944,196	216,476	-	11,160,672
Investment expenses	<u>(328,310)</u>	<u>-</u>	<u>-</u>	<u>(328,310)</u>
	<u>\$ 13,431,362</u>	<u>\$ 241,436</u>	<u>\$ -</u>	<u>\$ 13,672,798</u>
Unrealized losses	<u>\$ (8,014,377)</u>	<u>\$ (165,843)</u>	<u>\$ -</u>	<u>\$ (8,180,220)</u>

<u>Investment Income</u>	<u>Year Ended June 30, 2017</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Interest and dividends	\$ 1,994,011	\$ 21,331	\$ -	\$ 2,015,342
Realized gains	1,923,604	28,980	-	1,952,584
Investment expenses	<u>(148,121)</u>	<u>-</u>	<u>-</u>	<u>(148,121)</u>
	<u>\$ 3,769,494</u>	<u>\$ 50,311</u>	<u>\$ -</u>	<u>\$ 3,819,805</u>
Unrealized gains	<u>\$ 6,588,331</u>	<u>\$ 102,810</u>	<u>\$ -</u>	<u>\$ 6,691,141</u>

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

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Calvert Health System, Inc. and Subsidiaries

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The FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU removes certain disclosures and the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value (NAV) per share practical expedient provided by Topic 820, *Fair Value Measurement*. The Hospital implemented this standard in fiscal year 2018 and retrospectively applied the changes to the fiscal year 2017 disclosures. Accordingly, as a result of the retrospective application of this guidance, certain amounts previously reported for fiscal year 2017, have been properly amended, as applicable. The impact of this adoption is the exclusion of investments measured at NAV within the fair value hierarchy table presented in this note and expanded disclosure around the redemption restrictions associated with NAV investments.

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

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

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

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

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

The System's investments include investments in limited partnerships and other alternative investments, which are made in accordance with the System's investment policies. The limited partnerships acquire, hold, invest, manage, dispose of, and otherwise deal in and with securities of all kinds and descriptions. Publicly traded securities are generally valued by reference to closing market prices on one or more national securities exchange or generally accepted pricing services selected by the fund managers of the limited partnership. Securities not valued by such pricing services will be valued upon bid quotations obtained from independent dealers in the securities. The equity in earnings or losses from these investments is recorded as a component of investment income in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

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

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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

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The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds:				
Diversified emerging markets	\$ 3,583,801	\$ -	\$ -	\$ 3,583,801
Foreign large blends	5,452,242	-	-	5,452,242
Foreign large growth	4,801,535	-	-	4,801,535
Foreign small/mid value	2,056,020	-	-	2,056,020
Large growth	7,372,037	-	-	7,372,037
Large value	40,569	-	-	40,569
Large blend	74,634	-	-	74,634
Mid cap value	34,492	-	-	34,492
Mid cap blend	28,599	-	-	28,599
Small value	2,096,620	-	-	2,096,620
Small blend	5,360,904	-	-	5,360,904
World stock	20,275	-	-	20,275
Moderate allocation	3,711,672	-	-	3,711,672
Fixed maturity mutual funds:				
Intermediate term bond	11,651,304	-	-	11,651,304
Inflation-protected bond	91,152	-	-	91,152
World bond	28,806	-	-	28,806
Short-term	9,217,610	-	-	9,217,610
Exchange traded funds	24,976,851	-	-	24,976,851
Corporate bonds	20,131,212	-	-	20,131,212
Municipal bonds	4,927,028	-	-	4,927,028
Agency securities	498,786	-	-	498,786
CMO and asset backed securities	282,302	-	-	282,302
U.S. government issues (Maturity 1 - 10 years)	4,622,914	-	-	4,622,914
Guaranteed investment account	<u>158,302</u>	<u>-</u>	<u>-</u>	<u>158,302</u>
Total assets in fair value hierarchy	<u>\$111,219,667</u>	<u>\$ -</u>	<u>\$ -</u>	111,219,667
Cash and cash equivalents				2,380,263
Investments measured at NAV (a)				<u>3,028,275</u>
Investments at fair value				<u>\$116,628,205</u>

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

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Notes to Consolidated Financial Statements

The System includes total restricted and unrestricted hedge fund alternative investments as of June 30, 2018 and 2017 are as follows:

The fund invests in a diversified portfolio of underlying hedge funds. The underlying funds use a variety of investment strategies and have restrictions on redemptions. The fund may use leverage and has a secured credit line available which had an outstanding balance owed at December 31, 2016. Liquidity restrictions include quarterly at net asset value with 65-days' notice. Payments are subject to holdback until after the annual audit if more than 95% of the capital account is redeemed. As of June 30, 2018 and 2017 the fund balance was to \$0 and \$3,028,275, respectively.

The fund invests in the Master Fund which is in underlying hedge funds. The underlying funds use a variety of investment strategies with distressed/structured products being the largest. The fund owned more than 50% of the Master Fund at December 31, 2017 and 2016. Liquidity restrictions include quarterly at net asset value with 95-days' notice. As of June 30, 2018 and 2017 the fund balance was to \$9,725,465 and \$0, respectively.

5. Pledges Receivable

During 2017, the Foundation commenced a capital campaign. Contributions from the campaign are being used to fund the Hospital's expansion project to build a three-story addition to its existing facility. At June 30, 2018 pledges receivables were \$898,161 less an allowance for uncollectible pledges of \$89,816 and a discount of \$271,248. The discount rate used was 2.73%.

Anticipated collection of the pledges receivable at June 30, 2018 is as follows:

2019	\$	234,121
2020		233,648
2021		190,319
2022		146,202
2023		<u>93,871</u>
		898,161
Less allowance for uncollectible accounts		(89,816)
Less discount		<u>(271,248)</u>
Total	\$	<u>537,097</u>

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Purchases of building and equipment	\$ 1,618,305	\$ 518,128
Health education	706,012	720,344
Health care services	<u>278,229</u>	<u>189,900</u>
	<u>\$ 2,602,546</u>	<u>\$ 1,428,372</u>

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Permanently restricted net assets at June 30 are restricted to:

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is expendable to support health education	<u>\$ 475,310</u>	<u>\$ 475,310</u>

7. Property and Equipment

A summary of property and equipment at June 30 follows:

	<u>2018</u>	<u>2017</u>
Land improvements	\$ 2,872,829	\$ 2,722,276
Buildings	34,729,044	38,579,332
Building improvements	45,940,752	45,630,002
Fixed equipment	4,501,820	3,383,209
Movable equipment	<u>82,154,301</u>	<u>94,203,822</u>
	170,198,746	184,518,641
Less - accumulated depreciation and amortization	<u>107,866,316</u>	<u>120,119,236</u>
	62,332,430	64,399,405
Land	6,016,980	6,015,980
Construction in progress	<u>8,610,879</u>	<u>3,378,554</u>
Property and equipment, net	<u>\$ 76,960,289</u>	<u>\$ 73,793,939</u>

In September 2017, the Hospital held a ground breaking ceremony for a new capital expenditures project related to the building of a three-story addition to the existing facility. The two main objectives of the project are to expand the number of private patient rooms in the Hospital and to create an 18-room dedicated observation unit. The total project cost was approved for \$51,583,000 and it will be funded internally from operating cash and investments. In September 2017, the Hospital entered into an agreement for building contractor services for the three-story addition, renovation of second and third floor nursing units and other interior renovations. Under the agreement, the Hospital is obligated to pay the building contractor a contract sum of \$28,553,000. As of June 30, 2018, approximately \$4,558,800 has been paid to the contractor. If the Hospital were to terminate the agreement, it would be liable for payment of materials and supplies committed to that date along with reasonable overhead and profit. The project is expected to take approximately three years to complete.

Interest cost incurred on borrowed funds during the period of construction of capital assets is a capitalized as a component of the cost of acquiring those assets. Interest capitalized for the years ended June 30, 2018 and 2017 amounted to \$173,935 and \$0, respectively.

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$11,600,244 and \$10,503,441, respectively.

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

8. Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2012 Revenue Bonds); maturing in varying amounts from September 1, 2012 to June 1, 2027; interest due monthly at a fixed rate of 3.16% per annum until July 24, 2022 at which time the interest rate shall be adjusted.	\$ 12,432,321	\$ 13,653,299
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2013 Revenue Bonds); maturing in varying amounts from July 1, 2014 to July 1, 2038; interest due semi-annually at rates ranging from 3.0% to 5.18%; (4.0% at June 30 2018 and 2017).	30,430,000	30,660,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2015 Revenue Bonds); maturing in varying amounts from October 1, 2015 to September 1, 2035; interest due monthly at a fixed rate of 2.7% per annum.	<u>18,662,469</u>	<u>19,503,007</u>
	61,524,790	63,816,306
Less - current portion	<u>2,177,865</u>	<u>2,116,636</u>
	59,346,925	61,699,670
Less – unamortized debt issuance costs	655,249	715,237
Less - unamortized original issue discount	<u>88,452</u>	<u>94,575</u>
	<u>\$ 58,603,224</u>	<u>\$ 60,889,858</u>

Series 2012 Revenue Bonds

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

The Obligated Group for the 2012 Revenue Bonds is composed of the Hospital and the System. The financing was completed through SunTrust Bank and is a tax exempt issuance. Terms of the financing agreement included an initial fixed rate of 2.6% per annum until July 24, 2022, at which time the interest rate shall be adjusted and the 2012 Revenue Bonds are subject to mandatory purchase unless SunTrust Bank agrees to extend such period, the Obligated Group obtains another purchaser, or the Authority, at the request of the Obligated Group, converts the interest mode applicable to the 2012 Revenue Bonds to another interest mode for which a purchaser can be found. Terms of the financing agreement also included a requirement that the interest rate be increased as a result of a decrease in the maximum federal corporate income tax rate. With the passage of The Tax Cuts and Jobs Act of 2017, effective January 1, 2018 the maximum federal corporate income tax rate decreased from 35% to 21% resulting in an increase of the fixed rate from 2.6% to 3.16%. The 2012 Revenue Bonds mature on June 1, 2027. The required day's cash on hand is 90 days and the required debt service coverage ratio is 1.25.

Series 2013 Revenue Bonds

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

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The Obligated Group for the 2013 Revenue Bonds is composed of the Hospital and the System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in its receipts, revenues, rental income and other amounts received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is not required to maintain a debt service reserve fund. The Series 2013 Revenue Bonds also place limits on the incurrence of additional borrowings. The required debt service coverage ratio is 1.10. Series 2013 bonds maturing on or after July 1, 2024 are subject to redemption prior to maturity beginning on July 1, 2023 at the option of the Authority upon the direction of the Hospital.

Series 2015 Revenue Bonds

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

The Obligated Group for the 2015 Revenue Bonds is composed of the Hospital and the System. The financing was completed through The Columbia Bank and is a tax exempt issuance. Terms of the financing agreement include a fixed rate of 2.7% for ten years with an amortization schedule of twenty years. The Obligated Group is not required to maintain a debt service reserve fund.

Principal payments due under all debt instruments as of June 30, 2018 are as follows:

2019	\$ 2,177,865
2020	2,417,949
2021	2,488,777
2022	2,559,191
2023	2,636,243
Thereafter	<u>49,244,765</u>
Total	<u>\$ 61,524,790</u>

Interest paid on indebtedness by the System was \$2,404,110 and \$3,268,821 in 2018 and 2017, respectively.

9. Employee Retirement Plans

The Hospital's retirement program consists of a qualified defined benefit plan (DB plan) and a defined contribution plan (DC plan).

Defined Benefit Plan

The Hospital had a qualified non-contributory DB plan covering employees who were employed by the Hospital prior to January 1, 2008. Effective January 1, 2008, employees hired or rehired were not eligible to participate in the DB plan. The Hospital instituted a "hard freeze" on December 31, 2016. The DB plan remains operational and will continue to pay distributions to Hospital employees as they separate, request a distribution or until the DB plan is terminated; however no additional benefits will accrue. Effective September 24, 2017 a plan termination was approved by the Hospital Board of Directors.

The Hospital used a June 30 measurement date for its DB plan in 2018 and 2017.

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

	<u>2018</u>	<u>2017</u>
Benefit obligation at beginning of year	\$ 41,189,740	\$ 45,291,188
Service cost	-	639,545
Interest cost	1,582,897	1,695,495
Actuarial loss (gain)	262,717	(1,776,320)
Benefits paid	(2,597,615)	(2,289,094)
Gain due to curtailment	-	(2,371,074)
	<u> </u>	<u> </u>
Benefit obligation at end of year	<u>\$ 40,437,739</u>	<u>\$ 41,189,740</u>

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

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at beginning of year	\$ 33,316,642	\$ 30,540,347
Actual return on plan assets	(1,511,507)	3,310,389
Employer contributions	-	1,755,000
Actual benefits paid	(2,597,615)	(2,289,094)
	<u> </u>	<u> </u>
Fair value of plan assets at end of year	<u>\$ 29,207,520</u>	<u>\$ 33,316,642</u>

In accordance with current standards, the Hospital recognized the full extent of the underfunded (a liability) status of the DB plan as a current liability in the accompanying consolidated financial statements, and the underfunded status is measured as the difference between the fair value of the DB plan assets and the projected benefit obligation. As of June 30, 2018 and 2017, the DB plan's projected benefit obligation exceeded the fair value of the DB plan's assets by \$11,230,219 and \$7,873,098 respectively. The DB plan's accumulated benefit obligation was \$40,437,739 and \$41,189,740 as of June 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Service cost	\$ -	\$ 639,545
Interest cost	1,582,897	1,695,495
Expected return on plan assets	(1,685,398)	(2,003,313)
Amortization of prior service cost	-	(146,555)
Recognized net actuarial loss	<u>1,071,749</u>	<u>1,539,622</u>
	<u> </u>	<u> </u>
Preliminary periodic benefit cost	969,248	1,724,794
Settlement loss/(curtailment gain)	<u>523,519</u>	<u>(1,927,121)</u>
	<u> </u>	<u> </u>
	<u>\$ 1,492,767</u>	<u>\$ (202,327)</u>

Calvert Health System, Inc. and Subsidiaries
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The following table sets forth the weighted average assumptions used to determine benefit obligations as of June 30:

	<u>2018</u>	<u>2017</u>
Discount rate	4.36%	3.96%
Rate of compensation increase	N/A	N/A

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

	<u>2018</u>	<u>2017 (After December 31, 2017)</u>	<u>2017 (Before December 31, 2017)</u>
Discount rate	3.96%	3.86%	4.55%
Expected return on plan assets	5.25%	6.50%	6.50%
Rate of compensation increase	0.00%	0.00%	0.00%

Cumulative amounts recognized in unrestricted net assets as of June 30 consist of:

	<u>2018</u>	<u>2017</u>
Net loss	<u>\$ 14,621,628</u>	<u>\$ 12,757,274</u>

The investment of DB plan assets is guided by the pension investment policy. DB plan assets are invested to ensure that the DB plan has the ability to pay all benefit and expense obligations when due, to maximize return within prudent levels of risk for DB assets and to maintain a funding cushion for unexpected developments. The target weighted-average asset allocation of DB investments in mutual funds is 60% equities and 40% debt securities and cash. Mutual fund investments in equity securities primarily include investments in large-cap and mid-cap companies. Fixed maturity securities primarily include corporate bonds. Mutual funds (fixed maturity and equity) are valued by observable market quotations.

The guaranteed deposit account is valued at contract value, (which includes contributions made, adjusted for interest earned, participant withdrawals, and administrative expenses) which approximates fair value. There were no significant transfer between the indicated levels during 2018 and 2017.

The fair values of the Hospital's DB plan assets at June 30, 2018, by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Short-term investments	<u>\$ 29,207,520</u>	<u>\$ -</u>	<u>\$ 29,207,520</u>

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

The fair values of the Hospital's DB plan assets at June 30, 2017, by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Short-term investments	\$ 72,533	\$ -	\$ 72,533
Equity mutual funds:			
Large blend	13,055,321	-	13,055,321
Intermediate-term bond	10,290	-	10,290
Mid-cap blend	2,001	-	2,001
Small blend	1,984	-	1,984
Fixed income mutual funds:			
Foreign large blend	3,091	-	3,091
Guaranteed deposit account	-	2,824	2,824
	<u>\$ 13,145,220</u>	<u>\$ 2,824</u>	<u>\$ 13,148,044</u>

The Hospital expects to contribute \$12,000,000 to the DB plan for the fiscal year ending June 30, 2019. The following benefit payments are expected to be paid due to management's authorization to terminate the DB plan:

2019 \$ 20,728,000

Defined Contribution Plan

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

The employer total annual contributions to the DC plan were \$1,519,767 and \$899,665 during the years ended June 30, 2018 and 2017, respectively.

10. Malpractice Insurance

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

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands. The Hospital maintains a 20% shareholder interest in Freestate. The Hospital decided to become a shareholder of Freestate when the Hospital's insurance company elected not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital believes that becoming a shareholder of a captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its owners and their affiliates for professional liability claims and comprehensive general liability of \$1,000,000 for each and every claim. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. The Hospital has \$10,000,000 of additional insurance in the aggregate through such reinsurance arrangements. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2018. If the financial condition of Freestate were to materially deteriorate in the future,

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Additional claims may be asserted against the Hospital arising from services provided through June 30, 2018. The ultimate outcome of these matters cannot be determined at this time.

As of June 30, 2018 and 2017, the System recorded insurance recoverables and related professional claims liability of \$4,047,912 and \$4,498,490, respectively, in long-term assets and liabilities, respectively, in the accompanying consolidated statements of financial position. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately \$673,199 and \$650,833 in long-term liabilities as of June 30, 2018 and 2017, respectively. Management believes this estimate is adequate to provide for all professional liability claims that have been incurred through June 30, 2018 but not reported to its insurance carriers.

11. Maryland Health Services Cost Review Commission

Patient service revenue is recorded at rates established by the HSCRC. Effective July 1, 2016, the Hospital entered into a Global Budget Revenue (GBR) agreement with the HSCRC. The GBR agreement will renew each year for a one-year period unless it is cancelled by the HSCRC or by the Hospital. The GBR agreement provides the Hospital with a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payer mix and uncompensated care, change in population and quality incentives. Approximately 90% of the total operating revenue of the Hospital is subject to the GBR system.

12. Concentration of Credit and Business Risk

The System provides health care services to residents located primarily in Calvert, St. Mary's, southern Anne Arundel and Charles counties. The System generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, health maintenance organizations and commercial insurance policies).

At June 30, the System had patient accounts receivable from third-party payers and others as follows:

	<u>2018</u>		<u>2017</u>	
Medicare	\$ 5,194,446	23.7%	\$ 6,844,068	25.7%
Medicaid (including managed care)	2,698,046	12.3%	3,287,094	12.3%
Blue Cross	2,683,131	12.3%	3,373,603	12.7%
Commercial and other	1,761,746	8.1%	1,902,354	7.1%
Managed care	3,684,082	16.8%	4,210,119	15.8%
Self-pay	<u>5,861,791</u>	<u>26.8%</u>	<u>7,030,592</u>	<u>26.4%</u>
	<u>21,883,242</u>	<u>100.0%</u>	26,647,830	<u>100.0%</u>
Less - contractual adjustments	(3,118,820)		(3,734,812)	
Less – allowance for uncollectible accounts	<u>(5,224,129)</u>		<u>(6,533,274)</u>	
	<u>\$ 13,540,293</u>		<u>\$ 16,379,744</u>	

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Patient service revenue, by payer class, consisted of the following for years ended June 30:

	<u>2018</u>		<u>2017</u>	
Medicare	\$ 77,083,577	38.2%	\$ 76,674,594	38.3%
Medicaid (including managed care)	29,980,310	14.9%	29,951,446	15.0%
Blue Cross	41,042,791	20.3%	39,405,110	19.7%
Commercial and other	8,356,958	4.1%	8,255,613	4.1%
Managed care	40,431,151	20.0%	41,415,585	20.7%
Self-pay	<u>4,942,404</u>	<u>2.5%</u>	<u>4,504,038</u>	<u>2.2%</u>
	201,837,191	<u>100.0%</u>	200,206,386	<u>100.0%</u>
Less - contractual adjustments	(44,078,647)		(44,953,760)	
Less - charity care	(5,615,314)		(2,746,974)	
Less - provision for bad debts	<u>(772,523)</u>		<u>(4,019,927)</u>	
	<u>\$151,370,707</u>		<u>\$148,485,725</u>	

13. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 128,732,554	\$ 130,082,281
General and administrative	<u>26,187,795</u>	<u>27,011,329</u>
	<u>\$ 154,920,349</u>	<u>\$ 157,093,610</u>

14. Lease Obligations

The System is obligated under various operating leases for several office facilities and equipment. Total office rent and equipment lease expense was \$3,739,914 and \$3,453,563 for the years ended June 30, 2018 and 2017, respectively, and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in unrestricted net assets. The future minimum lease payments expected to be made to non-affiliated parties under noncancelable operating leases are as follows for the years ending June 30:

2019	\$ 3,603,904
2020	3,190,921
2021	3,222,099
2022	2,714,117
2023	<u>2,268,904</u>
	<u>\$ 14,999,945</u>

Calvert Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

2019	\$ 668,980
2020	497,963
2021	483,372
2022	380,174
2023	<u>167,602</u>
	<u>\$ 2,198,091</u>

Rental income totaling \$298,906 and \$289,027 has been recognized in the accompanying consolidated statements of operations and other changes in unrestricted net assets for the years ended June 30, 2018 and 2017, respectively.

15. Capital Leases

The Hospital is the lessee of equipment under a two capital leases expiring in February 2020 and July 2022. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under the capital lease is included in depreciation expense for the year ended June 30, 2018.

Following is a summary of property held under the capital leases as of June 30, 2018:

Information services equipment	\$ 4,261,561
Accumulated amortization	<u>(684,311)</u>
	<u>\$ 3,577,250</u>

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

	<u>Principal</u>	<u>Interest</u>
2019	\$ 826,979	\$ 144,661
2020	871,365	110,257
2021	757,053	67,869
2022	798,183	26,738
2023	<u>68,440</u>	<u>302</u>
	<u>\$ 3,322,020</u>	<u>\$ 349,827</u>

16. Certain Risks and Uncertainties

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

Calvert Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

In connection with the new waiver, the HSCRC introduced new revenue arrangements, including the Global Budget Revenue (GBR) model. This new model for Maryland hospitals moves payment to hospitals from each individual service to a total revenue for each hospital or a combination of hospitals to provide hospitals flexibility in the objectives of better care for individuals, higher levels of overall population health, and improved health care affordability. It removes the financial incentive from increasing volume and provides incentive to work with partners to provide care in the appropriate setting.

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

Changes in Federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the System. The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws (STARK law and regulation). The System’s compliance with these laws and regulations is subject to ongoing internal monitoring as well as periodic governmental review and inquiries, and the System has responded appropriately to any such compliance matters. The System is aware of certain asserted and unasserted compliance matters, and from time to time, the System may agree to resolve certain compliance matters with the government. The System will continue to monitor its compliance and all related government inquiries and respond appropriately, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As result there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

As a result of pending federal healthcare reform legislation, substantial changes may occur in the healthcare system. Such legislation potentially includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers.

17. Fair Value of Financial Instruments

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, investments, patient accounts receivable, assets limited as of use, accounts payable and accrued expenses, and third-party advances approximate the related fair values. The composition and related fair values of assets limited as to use and investments are disclosed in Note 4. The fair value of the System's outstanding long-term obligations as of June 30, 2018 and 2017 was approximately \$64,191,000 and \$67,434,000, respectively.

18. Endowment

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

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

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

In accordance with SPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the System and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the System
7. The investment policies of the System

From time to time, the fair value of assets associated with the endowment fund may decline below the level that the donor or SPMIFA required the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018 and 2017.

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

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

The endowment's net asset composition as of June 30, 2018 and 2017 and the changes therein, all of which are reported as permanently restricted net assets, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment, June 30, 2018	\$ <u>-</u>	\$ <u>658,302</u>	\$ <u>475,310</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ -	\$ 625,884	\$ 475,310
Investment return:			
Net appreciation (realized and unrealized)	-	75,593	-
Other changes:			
Released from restriction	43,175	(43,175)	-
Used for designated purposes	<u>(43,175)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>658,302</u>	\$ <u>475,310</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment, June 30, 2017	\$ <u>-</u>	\$ <u>625,884</u>	\$ <u>475,310</u>

Changes in endowment net assets for the fiscal Year June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ -	\$ 517,563	\$ 475,310
Investment return:			
Net appreciation (realized and unrealized)	-	153,121	-
Other changes:			
Released from restriction	44,800	(44,800)	-
Used for designated purposes	<u>(44,800)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>625,884</u>	\$ <u>475,310</u>

Supplementary Consolidating Information

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Financial Position
June 30, 2018

	CalvertHealth Medical Center	CalvertHealth Foundation	Consolidating and Eliminating Entries	Consolidated CalvertHealth Medical Center
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,615,151	\$ 261,164	\$ -	\$ 16,876,315
Short-term investments	89,678	-	-	89,678
Patient accounts receivable, net	12,339,093	-	-	12,339,093
Inventories	2,211,109	-	-	2,211,109
Prepaid expenses and other assets	3,426,443	8,968	-	3,435,411
Assets limited as of use, current	989,587	-	-	989,587
Total current assets	35,671,061	270,132	-	35,941,193
Investments	971,774	-	-	971,774
Investments in wholly owned subsidiaries	5,987,458	-	(5,987,458) ⁽²⁾	- ⁽²⁾
Investments in affiliated enterprises	3,303,324	-	-	3,303,324
Assets limited as of use	219,759	5,957,990	-	6,177,749
Property and equipment, net	74,761,065	-	-	74,761,065
Insurance recoverable	4,047,912	-	-	4,047,912
Other assets	1,437,703	-	-	1,437,703
Total assets	\$ 126,400,056	\$ 6,228,122	\$ (5,987,458)	\$ 126,640,720
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	\$ 15,268,015	\$ -	\$ -	\$ 15,268,015
Intercompany accounts	(5,741,323)	240,664	-	(5,500,659)
Current portion of long-term debt	2,177,865	-	-	2,177,865
Current portion of capital lease obligation	826,979	-	-	826,979
Accrued pension cost	11,230,219	-	-	11,230,219
Advances from third-party payors	4,437,880	-	-	4,437,880
Total current liabilities	28,199,635	240,664	-	28,440,299
Long-term debt, net	58,603,224	-	-	58,603,224
Long-term capital lease obligation	2,495,041	-	-	2,495,041
Professional liability	4,721,111	-	-	4,721,111
Other long-term liabilities	971,774	-	-	971,774
Total liabilities	94,990,785	240,664	-	95,231,449
Net assets:				
Unrestricted - General	24,543,360	253,331	(253,331) ⁽²⁾	24,543,360 ⁽²⁾
Unrestricted - Board designated	3,788,055	2,788,055	(2,788,055) ⁽²⁾	3,788,055 ⁽²⁾
Temporarily restricted	2,602,546	2,470,762	(2,470,762) ⁽²⁾	2,602,546 ⁽²⁾
Permanently restricted	475,310	475,310	(475,310) ⁽²⁾	475,310 ⁽²⁾
Total net assets	31,409,271	5,987,458	(5,987,458)	31,409,271
Total liabilities and net assets	\$ 126,400,056	\$ 6,228,122	\$ (5,987,458)	\$ 126,640,720

See independent auditors' report.

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Operations and Other Changes in Unrestricted Net Assets
Year Ended June 30, 2018

	CalvertHealth Medical Center	CalvertHealth Foundation	Consolidating and Eliminating Entries	Consolidated CalvertHealth Medical Center
Revenue:				
Patient service revenue (net of contractual adjustments and discounts)	\$ 135,151,292	\$ -	\$ -	\$ 135,151,292
Provision for bad debts	(597,564)	-	-	(597,564)
Net patient service revenue less provision for bad debts	134,553,728	-	-	134,553,728
Other operating revenue	3,219,293	978,069	(219,774) ⁽⁶⁾⁽⁷⁾	3,977,588
Total operating revenue	137,773,021	978,069	(219,774)	138,531,316
Expense:				
Salaries & wages	57,456,547	-	-	57,456,547
Employee benefits	12,576,682	-	-	12,576,682
Supplies	20,688,329	-	-	20,688,329
Purchased services	5,589,392	-	-	5,589,392
Professional fees	6,482,537	-	-	6,482,537
Depreciation and amortization	11,199,315	-	-	11,199,315
Interest	2,581,112	-	-	2,581,112
Other	15,333,062	1,024,169	(219,774) ⁽⁶⁾⁽⁷⁾	16,137,457
Total operating expenses	131,906,976	1,024,169	(219,774)	132,711,371
Income (loss) from operations	5,866,045	(46,100)	-	5,819,945
Nonoperating gains:				
Investment income	123,559	280,222	-	403,781
Income from equity investments	274,979	-	41,344 ⁽⁴⁾	316,323
Loss from building renovation	(2,425,039)	-	-	(2,425,039)
Loss on pension settlement	(523,519)	-	-	(523,519)
Total nonoperating gains	(2,550,020)	280,222	41,344	(2,228,454)
Excess of revenue over expenses	3,316,025	234,122	41,344	3,591,491
Transfer of net assets:				
Net assets released from restrictions	55,500	-	-	55,500
Equity transfers	(3,000,000)	-	-	(3,000,000)
Pension-related changes	(1,864,354)	-	-	(1,864,354)
Net unrealized gains on investments	-	(97,894)	-	(97,894)
Increase in unrestricted net assets	<u>\$ (1,492,829)</u>	<u>\$ 136,228</u>	<u>\$ 41,344</u>	<u>\$ (1,315,257)</u>

CalvertHealth Medical Center, Inc. and Subsidiary
Consolidating Statement of Cash Flows
Year Ended June 30, 2018

	Calvert Health Medical Center	Calvert Health Foundation	Consolidating and Eliminating Entries	Consolidated Calvert Memorial Hospital
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ (97,908)	\$ 1,359,451	\$ (1,359,451) ⁽²⁾	\$ (97,908)
Adjustments to reconcile to net cash from operating activities:				
Provision for bad debts	971,849	364,690	-	1,336,539
Depreciation and amortization	11,199,315	-	-	11,199,315
Amortization of debt issuance costs	66,111	-	-	66,111
Loss on building renovation	2,425,039	-	-	2,425,039
Donations restricted for capital acquisition	-	(254,948)	-	(254,948)
Equity in earnings of wholly owned subsidiaries	41,344	-	(41,344) ⁽⁴⁾	-
Equity in earnings of affiliated enterprises	(316,323)	-	-	(316,323)
Investment income on restricted assets	-	(241,436)	-	(241,436)
Realized net gains on investments	-	(216,978)	-	(216,978)
Unrealized net losses on investments	-	263,737	-	263,737
Loss on pension curtailment	523,519	-	-	523,519
Pension-related changes	1,864,354	-	-	1,864,354
Change in:				
Patient accounts receivable	2,458,114	-	-	2,458,114
Inventories	72,873	-	-	72,873
Prepaid expenses and other assets	402,421	(8,968)	-	393,453
Accounts payable, accrued expenses & other liabilities	(1,328,014)	(313,035)	-	(1,641,049)
Net cash provided by operating activities	<u>18,282,694</u>	<u>952,513</u>	<u>(1,400,795)</u>	<u>17,834,412</u>
Cash flows from investing activities:				
Purchases of investments	(249,678)	-	-	(249,678)
Proceeds from sales of investments	26,450	-	-	26,450
Net increase in assets limited as to use	615	(1,487,465)	-	(1,486,850)
Purchases of property and equipment	(13,577,208)	-	-	(13,577,208)
Net cash used in investing activities	<u>(13,799,821)</u>	<u>(1,487,465)</u>	<u>-</u>	<u>(15,287,286)</u>
Cash flows from financing activities:				
Repayment of long-term debt	(2,291,516)	-	-	(2,291,516)
Payments on capital leases	(855,348)	-	-	(855,348)
Donations received restricted for capital acquisitions	-	254,948	-	254,948
Net distributions from (to) investees	(1,400,795)	-	1,400,795 ⁽⁵⁾	-
Investment income on restricted assets	-	241,436	-	241,436
Net cash (used in) provided by financing activities	<u>(4,547,659)</u>	<u>496,384</u>	<u>1,400,795</u>	<u>(2,650,480)</u>
Net change in cash and cash equivalents	(64,786)	(38,568)	-	(103,354)
Cash and cash equivalents, beginning of year	<u>16,679,937</u>	<u>299,732</u>	<u>-</u>	<u>16,979,669</u>
Cash and cash equivalents, end of year	<u>\$16,615,151</u>	<u>\$ 261,164</u>	<u>\$ -</u>	<u>\$ 16,876,315</u>
Supplemental disclosure of noncash investing and financing activities:				
Capital lease obligations issued for equipment	<u>\$ 3,616,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,616,173</u>

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2018

	<u>Consolidated CalvertHealth Medical Center</u>	<u>CalvertHealth Medical Group</u>	<u>Calvert Health Ventures</u>	<u>CMH Holding Company</u>	<u>CMH II Holding Company</u>	<u>Calvert Health System, Inc.</u>	<u>Consolidating and Eliminating Entries</u>	<u>Consolidated Calvert Health System, Inc.</u>
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 16,876,315	\$ 790,617	\$ 2,304,529	\$ 121,577	\$ 5,662	\$ 8,265,824	\$ -	\$ 28,364,524
Short-term investments	89,678	-	-	-	-	-	-	89,678
Patient accounts receivable, net	12,339,093	1,321,199	(119,999)	-	-	-	-	13,540,293
Inventories	2,211,109	113,051	-	-	-	-	-	2,324,160
Prepaid expenses and other assets	3,435,411	501,415	48,000	45,358	1,253	-	(147,551) ⁽¹⁾	3,883,886 ⁽¹⁾
Assets limited as to use, current	989,587	-	-	-	-	-	-	989,587
Total current assets	35,941,193	2,726,282	2,232,530	166,935	6,915	8,265,824	(147,551)	49,192,128
Investments	971,774	-	-	-	-	117,972,473	-	118,944,247
Investments in wholly owned subsidiaries	-	-	-	-	-	(323,856)	323,856 ⁽²⁾⁽⁵⁾	- ⁽²⁾⁽⁵⁾
Investments in affiliated enterprises	3,303,324	-	1,551,014	-	-	-	-	4,854,338
Assets limited as of use	6,177,749	-	-	-	-	-	-	6,177,749
Property and equipment, net	74,761,065	227,761	-	1,446,463	525,000	-	-	76,960,289
Insurance recoverable	4,047,912	-	-	-	-	-	-	4,047,912
Other assets	1,437,703	149,189	-	-	-	-	-	1,586,892
Total assets	\$ 126,640,720	\$ 3,103,232	\$ 3,783,544	\$ 1,613,398	\$ 531,915	\$ 125,914,441	\$ 176,305	\$ 261,763,555

See independent auditors' report.

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2018

(Continued)

	<u>Consolidated CalvertHealth Medical Center</u>	<u>CalvertHealth Medical Group</u>	<u>Calvert Health Ventures</u>	<u>CMH Holding Company</u>	<u>CMH II Holding Company</u>	<u>Calvert Health System, Inc.</u>	<u>Consolidating and Eliminating Entries</u>	<u>Consolidated Calvert Health System, Inc.</u>
LIABILITIES AND NET ASSETS								
Current liabilities:								
Accounts payable and accrued expenses	\$ 15,268,015	\$ 1,643,019	\$ 156,833	\$ 17,915	\$ -	\$ -	\$ (147,551) ⁽¹⁾	\$ 16,938,231 ⁽¹⁾
Intercompany accounts	(5,500,659)	5,965,198	(464,539)	-	-	-	-	-
Current portion of long-term debt	2,177,865	-	-	-	-	-	-	2,177,865
Current portion of capital lease obligation	826,979	-	-	-	-	-	-	826,979
Accrued pension cost	11,230,219	-	-	-	-	-	-	11,230,219
Advances from third-party payors	4,437,880	-	-	-	-	-	-	4,437,880
Total current liabilities	<u>28,440,299</u>	<u>7,608,217</u>	<u>(307,706)</u>	<u>17,915</u>	<u>-</u>	<u>-</u>	<u>(147,551)</u>	<u>35,611,174</u>
Long-term debt, less current portion	58,603,224	-	-	-	-	-	-	58,603,224
Long-term capital lease obligation	2,495,041	-	-	-	-	-	-	2,495,041
Professional liability	4,721,111	-	-	-	-	-	-	4,721,111
Other long-term liabilities	971,774	-	-	-	-	-	-	971,774
Total liabilities	<u>95,231,449</u>	<u>7,608,217</u>	<u>(307,706)</u>	<u>17,915</u>	<u>-</u>	<u>-</u>	<u>(147,551)</u>	<u>102,402,324</u>
Net assets:								
Unrestricted - General	24,543,360	(4,504,985)	4,181,129	1,595,483	531,915	125,914,441	323,856 ⁽²⁾⁽⁵⁾	152,585,199 ⁽²⁾⁽⁵⁾
Unrestricted - Board designated	3,788,055	-	-	-	-	-	-	3,788,055
Unrestricted - Noncontrolling interest in subsidiary	-	-	(89,879)	-	-	-	-	(89,879)
Temporarily restricted	2,602,546	-	-	-	-	-	-	2,602,546
Permanently restricted	475,310	-	-	-	-	-	-	475,310
Total net assets	<u>31,409,271</u>	<u>(4,504,985)</u>	<u>4,091,250</u>	<u>1,595,483</u>	<u>531,915</u>	<u>125,914,441</u>	<u>323,856</u>	<u>159,361,231</u>
Total liabilities and net assets	<u>\$ 126,640,720</u>	<u>\$ 3,103,232</u>	<u>\$ 3,783,544</u>	<u>\$ 1,613,398</u>	<u>\$ 531,915</u>	<u>\$ 125,914,441</u>	<u>\$ 176,305</u>	<u>\$ 261,763,555</u>

See independent auditors' report.

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Operations and Other Changes in Unrestricted Net Assets
Year Ended June 30, 2018

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries	Consolidated Calvert Health System, Inc.
Revenue:								
Patient service revenue (net of contractual allowances and discounts)	\$ 135,151,292	\$ 16,745,728	\$ 246,211	\$ -	\$ -	\$ -	\$ -	\$ 152,143,231
Provision for bad debts	(597,564)	(175,172)	213	-	-	-	-	(772,523)
Net patient service revenue less provision for bad debts	134,553,728	16,570,556	246,424	-	-	-	-	151,370,708
Rental revenue	-	-	-	656,335	11,766	-	(369,195) ⁽³⁾	298,906 ⁽³⁾
Other operating revenue	3,977,588	593,439	492,597	-	-	547	(938,389) ⁽³⁾	4,125,782 ⁽³⁾
Total operating revenue	138,531,316	17,163,995	739,021	656,335	11,766	547	(1,307,584)	155,795,396
Expenses:								
Salaries & wages	57,456,547	12,457,205	346,362	-	-	-	- ⁽³⁾	70,260,114 ⁽³⁾
Employee benefits	12,576,682	1,418,760	69,312	-	-	-	-	14,064,754
Supplies	20,688,329	5,579,110	6,783	-	-	-	-	26,274,222
Purchased services	5,589,392	1,125,538	43,476	226,120	-	-	(455,629) ⁽³⁾	6,528,897 ⁽³⁾
Professional fees	6,482,537	212,091	-	-	-	-	-	6,694,628
Depreciation and amortization	11,199,315	197,483	311	203,135	-	-	-	11,600,244
Interest	2,581,112	-	35	-	-	-	-	2,581,147
Other	16,137,457	1,383,057	55,469	192,601	(431)	145	(851,955) ⁽³⁾	16,916,343 ⁽³⁾
Total operating expenses	132,711,371	22,373,244	521,748	621,856	(431)	145	(1,307,584)	154,920,349
Income (loss) from operations	5,819,945	(5,209,249)	217,273	34,479	12,197	402	-	875,047
Nonoperating gains (losses):								
Investment income	403,781	-	-	-	-	13,027,581	-	13,431,362
Income (loss) from equity investments	316,323	-	827,171	-	-	(4,273,104)	4,273,104 ⁽⁴⁾	1,143,494
Loss from building renovation	(2,425,039)	-	-	-	-	-	-	(2,425,039)
Loss on pension settlement	(523,519)	-	-	-	-	-	-	(523,519) ⁽⁴⁾
Total nonoperating gains (losses), net	(2,228,454)	-	827,171	-	-	8,754,477	4,273,104	11,626,298
Excess of revenue over expenses (expenses over revenue)	3,591,491	(5,209,249)	1,044,444	34,479	12,197	8,754,879	4,273,104	12,501,345
Net assets released from restrictions for capital acquisitions	55,500	-	-	-	-	-	-	55,500
Equity contributions	(3,000,000)	3,000,000	-	(215,000)	(13,000)	3,228,000	(3,000,000) ⁽⁵⁾	- ⁽⁵⁾
Contributions from noncontrolling interest holders	-	-	32,895	-	-	-	-	32,895
Pension-related changes	(1,864,354)	-	-	-	-	-	-	(1,864,354)
Net unrealized losses on marketable investments	(97,894)	-	-	-	-	(7,916,483)	-	(8,014,377)
Increase (decrease) in unrestricted net assets	\$ (1,315,257)	\$ (2,209,249)	\$ 1,077,339	\$ (180,521)	\$ (803)	\$ 4,066,396	\$ 1,273,104	\$ 2,711,009

See independent auditors' report.

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Cash Flows
Year Ended June 30, 2018

	Consolidated CalvertHealth Medical Center	CalvertHealth Medical Group	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries	Consolidated Calvert Health System, Inc.
Cash flows from operating activities:								
Increase (decrease) in net assets	\$ (97,908)	\$ (2,209,249)	\$ 1,077,339	\$ (180,521)	\$ (803)	\$ 4,066,396	\$ 1,273,104 ⁽²⁾	\$ 3,928,358 ⁽²⁾
Adjustments to reconcile to net cash from operating activities:								
Provision for bad debts	1,336,539	175,172	(213)	-	-	-	-	1,511,498
Depreciation and amortization	11,199,315	197,483	311	203,135	-	-	-	11,600,244
Amortization of debt issuance costs	66,111	-	-	-	-	-	-	66,111
Loss on building renovation	2,425,039	-	-	-	-	-	-	2,425,039
Donations restricted for capital acquisition	(254,948)	-	-	-	-	-	-	(254,948)
Equity in earnings of wholly owned subsidiaries	-	-	-	-	-	4,273,104	(4,273,104) ⁽⁴⁾	- ⁽⁴⁾
Equity in earnings of affiliated enterprises	(316,323)	-	(827,171)	-	-	-	-	(1,143,494)
Investment income on restricted assets	(241,436)	-	-	-	-	-	-	(241,436)
Realized net gains on investments	(216,978)	-	-	-	-	(10,727,218)	-	(10,944,196)
Unrealized net losses on investments	263,737	-	-	-	-	7,916,483	-	8,180,220
Loss on pension settlement	523,519	-	-	-	-	-	-	523,519
Pension-related changes	1,864,354	-	-	-	-	-	-	1,864,354
Change in:								
Patient accounts receivable	2,458,114	(391,934)	748	-	-	-	-	2,066,928
Inventories	72,873	118,329	-	-	-	-	-	191,202
Prepaid expenses and other assets	393,453	245,057	(18,946)	15,601	(360)	182,383	(490,935) ⁽¹⁾	326,253 ⁽¹⁾
Accounts payable, accrued expenses & other liabilities	(1,641,049)	1,621,159	(383,634)	12,944	-	(22,500)	490,935 ⁽¹⁾	77,855 ⁽¹⁾
Net cash provided by (used in) operating activities	17,834,412	(243,983)	(151,566)	51,159	(1,163)	5,688,648	(3,000,000)	20,177,507
Cash flows from investing activities:								
Purchases of investments	(249,678)	-	-	-	-	(143,400,220)	-	(143,649,898)
Proceeds from sales of investments	26,450	-	-	-	-	137,946,191	-	137,972,641
Net increase in assets limited as to use	(1,486,850)	-	-	-	-	-	-	(1,486,850)
Purchases of property and equipment	(13,577,208)	1,126	622	-	-	-	-	(13,575,460)
Net cash (used in) provided by investing activities	(15,287,286)	1,126	622	-	-	(5,454,029)	-	(20,739,567)
Cash flows from financing activities:								
Repayment of long-term debt	(2,291,516)	-	-	-	-	-	-	(2,291,516)
Payments on capital leases	(855,348)	-	-	-	-	-	-	(855,348)
Donations received restricted for capital acquisitions	254,948	-	-	-	-	-	-	254,948
Net distributions from (to) investees	-	-	925,000	-	-	(3,000,000)	3,000,000 ⁽⁵⁾	925,000 ⁽⁵⁾
Investment income on restricted assets	241,436	-	-	-	-	-	-	241,436
Net cash (used in) provided by financing activities	(2,650,480)	-	925,000	-	-	(3,000,000)	3,000,000	(1,725,480)
Net change in cash and cash equivalents	(103,354)	(242,857)	774,056	51,159	(1,163)	(2,765,381)	-	(2,287,540)
Cash and cash equivalents, beginning of year	16,979,669	1,033,474	1,530,473	70,418	6,825	11,031,205	-	30,652,064
Cash and cash equivalents, end of year	\$ 16,876,315	\$ 790,617	\$ 2,304,529	\$ 121,577	\$ 5,662	\$ 8,265,824	\$ -	\$ 28,364,524
Supplemental disclosure of noncash investing and financing activities:								
Capital lease obligations issued for equipment	\$ 3,616,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,616,173

See independent auditors' report.

Calvert Health System, Inc. and Subsidiaries
Description of Consolidating and Eliminating Entries
Year Ended June 30, 2018

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