



**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements and Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1-8 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 26, 2018

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 446,024	476,201
Assets limited as to use, current portion	56,484	50,940
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$219,769 and \$219,806 as of June 30, 2018 and 2017, respectively	431,665	378,148
Other	115,193	84,709
Inventories	70,776	60,883
Prepaid expenses and other current assets	46,857	36,023
Total current assets	1,166,999	1,086,904
Investments	872,145	742,949
Assets limited as to use, less current portion	1,142,707	776,387
Property and equipment, net	2,168,519	2,092,103
Investments in joint ventures	88,063	82,094
Other assets	591,030	328,867
Total assets	\$ 6,029,463	5,109,304
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 268,619	271,602
Accrued payroll and benefits	264,281	233,544
Advances from third-party payors	153,867	131,941
Lines of credit	99,300	125,000
Short-term financing	150,000	—
Other current liabilities	231,453	182,688
Long-term debt subject to short-term remarketing arrangements	58,054	28,440
Current portion of long-term debt	51,989	40,937
Total current liabilities	1,277,563	1,014,152
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,508,334	1,550,490
Other long-term liabilities	398,688	334,274
Interest rate swap liabilities	149,789	194,524
Total liabilities	3,334,374	3,093,440
Net assets:		
Unrestricted	1,952,422	1,711,329
Temporarily restricted	698,458	266,025
Permanently restricted	44,209	38,510
Total net assets	2,695,089	2,015,864
Total liabilities and net assets	\$ 6,029,463	5,109,304

See accompanying notes to consolidated financial statements.

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AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual adjustments)	\$ 4,051,478	3,669,619
Provision for bad debts	(174,137)	(184,597)
Net patient service revenue	3,877,341	3,485,022
Other operating revenue:		
State and county support	40,374	18,200
Premium revenue	357,099	268,060
Other revenue	150,856	136,408
Total unrestricted revenues, gains and other support	4,425,670	3,907,690
Operating expenses:		
Salaries, wages and benefits	2,034,755	1,811,946
Expendable supplies	758,252	704,724
Purchased services	645,194	538,698
Medical claims expense	342,721	252,118
Contracted services	275,376	226,690
Depreciation and amortization	238,166	219,749
Interest expense	55,627	57,197
Total operating expenses before nonrecurring items	4,350,091	3,811,122
Income from operations before nonrecurring items	75,579	96,568
Nonrecurring items:		
Change in fair value of contingent consideration	35,700	—
Loss on impairment	(45,794)	—
Loss from nonrecurring items	(10,094)	—
Income from operations	65,485	96,568
Nonoperating income and expenses, net:		
Unrestricted contributions	12,377	5,425
Inherent contribution – Capital Region	41,772	—
Equity in net income of joint ventures	5,489	3,856
Investment income, net	37,376	35,496
Change in fair value of investments	23,976	54,175
Change in fair value of undesignated interest rate swaps	43,071	76,797
Loss on early extinguishment of debt	—	(26,427)
Other nonoperating losses, net	(12,709)	(62,531)
Excess of revenues over expenses	\$ 216,837	183,359

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2016	\$ 1,459,280	246,265	37,065	1,742,610
Excess of revenues over expenses	183,359	—	—	183,359
Investment gains, net	—	4,519	489	5,008
State support for capital	—	23,029	—	23,029
Contributions, net	—	20,632	893	21,525
Net assets released from restrictions used for operations and nonoperating activities	—	(2,868)	—	(2,868)
Net assets released from restrictions used for purchase of property and equipment	33,038	(33,038)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	4,395	63	4,458
Change in ownership interest of joint ventures	397	1,266	—	1,663
Amortization of accumulated loss of discontinued designated interest rate swap	1,716	—	—	1,716
Change in funded status of defined benefit pension plans	34,353	—	—	34,353
Asset reclassifications at request of donor	(1,853)	1,853	—	—
Other	1,039	(28)	—	1,011
Increase in net assets	<u>252,049</u>	<u>19,760</u>	<u>1,445</u>	<u>273,254</u>
Balance at June 30, 2017	<u>1,711,329</u>	<u>266,025</u>	<u>38,510</u>	<u>2,015,864</u>
Excess of revenues over expenses	216,837	—	—	216,837
Inherent contribution – Capital Region	—	418,243	—	418,243
Investment gains, net	—	2,859	108	2,967
State support for capital	—	3,209	—	3,209
Contributions, net	—	16,875	211	17,086
Net assets released from restrictions used for operations and nonoperating activities	—	(3,956)	—	(3,956)
Net assets released from restrictions used for purchase of property and equipment	3,484	(3,484)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	2,680	51	2,731
Change in ownership interest of joint ventures	—	1,301	—	1,301
Amortization of accumulated loss of discontinued designated interest rate swap	1,668	—	—	1,668
Change in funded status of defined benefit pension plans	16,287	—	—	16,287
Asset reclassifications at request of donor	1,145	(6,474)	5,329	—
Other	1,672	1,180	—	2,852
Increase in net assets	<u>241,093</u>	<u>432,433</u>	<u>5,699</u>	<u>679,225</u>
Balance at June 30, 2018	<u>\$ 1,952,422</u>	<u>698,458</u>	<u>44,209</u>	<u>2,695,089</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 679,225	273,254
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	238,166	219,749
Provision for bad debts	174,137	184,597
Amortization of bond premium and deferred financing costs	1,477	919
Net realized gains and change in fair value of investments	(53,029)	(83,907)
Loss on early extinguishment of debt	—	26,427
Loss on impairment	45,794	—
Equity in net income of joint ventures	(5,489)	(3,856)
Change in economic and beneficial interests in net assets of related organizations	(3,776)	(4,458)
Change in fair value of interest rate swaps	(44,735)	(78,513)
Change in funded status of defined benefit pension plans	(16,287)	(34,353)
Inherent contribution – Capital Region	(460,015)	—
Restricted contributions, grants and other support	(17,086)	(21,525)
Change in operating assets and liabilities:		
Patient accounts receivable	(184,607)	(231,690)
Other receivables, prepaid expenses, other current assets and other assets	55,719	(8,700)
Inventories	(4,778)	(1,145)
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	(12,970)	57,976
Change in contingent consideration	(35,700)	—
Advances from third-party payors	21,926	7,224
Net cash provided by operating activities	377,972	301,999
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	(349,192)	8,691
Purchases of alternative investments	(64,375)	(175,688)
Sales of alternative investments	38,938	132,211
Cash acquired in contribution from Capital Region	46,626	—
Purchases of property and equipment	(219,155)	(231,257)
Distributions from/(contributions to) joint ventures, net	3,527	(688)
Net cash used in investing activities	(543,631)	(266,731)

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Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 190,928	653,396
Repayment of long-term debt and capital leases	(44,577)	(698,460)
Draws on lines of credit, net	(25,700)	(55,000)
Payment of debt issuance costs	(2,255)	(3,697)
Restricted contributions, grants and other support	17,086	21,525
	<u>135,482</u>	<u>(82,236)</u>
Net cash provided by (used in) financing activities		
	(30,177)	(46,968)
Net decrease in cash and cash equivalents		
Cash and cash equivalents, beginning of year	<u>476,201</u>	<u>523,169</u>
Cash and cash equivalents, end of year	<u>\$ 446,024</u>	<u>476,201</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 59,716	56,330
Amount included in accounts payable for construction in progress	28,502	29,164
Supplemental disclosures of noncash information:		
Capital leases	\$ 1,077	1,276
Contributed from Capital Region	*	—

* See footnote 1(a)(x) for detail of noncash contributions from Capital Region.

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation or UMMS) is a private, not-for-profit corporation providing comprehensive healthcare services through an integrated regional network of hospitals and related clinical enterprises. UMMS was created in 1984 when its founding hospital was privatized by the State of Maryland. Over its 30-year history, UMMS evolved into a multi-hospital system with academic, community and specialty service missions reaching primarily across Maryland. In continuing partnership with the University of Maryland School of Medicine, UMMS operates healthcare programs that improve the physical and mental health of thousands of people each day.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in note 4. The significant operating divisions of the Corporation are described in further detail below.

All material intercompany balances and transactions have been eliminated in consolidation.

(i) Recent Acquisitions and Divestitures

Effective September 1, 2017, the Corporation entered into an affiliation agreement with Dimensions Healthcare System and Subsidiaries (DHS) whereby the Corporation became the sole corporate member of DHS. DHS has changed its trade name to University of Maryland Capital Region Health (Capital Region) located in Prince George's County, Maryland, and includes two acute care hospitals, ambulatory and outpatient facilities, and other subsidiaries.

The transaction is described in more detail below.

(ii) University of Maryland Medical Center (Medical Center)

The Medical Center, which is a major component of UMMS, is a 767-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. While the Corporation is not affiliated with the University System of Maryland, clinical faculty members of the School of Medicine serve as medical staff of the Medical Center.

The Medical Center is comprised of two operating divisions: University Hospital, which includes the Greenebaum Cancer Center, and Shock Trauma Center. University Hospital, which generates approximately 80% of the Medical Center's admissions and patient days, is a tertiary teaching hospital providing over 70 clinical services and programs. The Greenebaum Cancer Center specializes in the treatment of cancer patients and is a site for clinical cancer research. The Shock Trauma Center, which specializes in emergency treatment of patients suffering severe trauma, generates approximately 20% of admissions and patient days.

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The Medical Center's operations include UniversityCARE, LLC (UCARE), a physician hospital organization of which the Corporation owns a majority ownership interest and therefore consolidates, and 36 South Paca Street, LLC, a wholly owned subsidiary of the Corporation that operates a residential apartment building.

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine, an unrelated third-party, concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2018 and 2017 was approximately \$163,321,000 and \$158,649,000, respectively.

(iii) University of Maryland Rehabilitation and Orthopaedic Institute (ROI)

ROI is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 137 licensed beds, which includes rehabilitation beds, chronic care beds, medical/surgical beds, and off-site physical therapy facilities.

A related corporation, The James Lawrence Kernan Endowment Fund, Inc. (Kernan Endowment), is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of ROI. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Kernan Endowment.

(iv) University of Maryland Medical Center Midtown Campus (Midtown)

Midtown is located in Baltimore city and is comprised of University of Maryland Midtown Hospital (UM Midtown), with 170 licensed beds, including 90 acute care beds and 80 chronic care beds and a wholly owned subsidiary providing primary care.

(v) University of Maryland Baltimore Washington Medical System, Inc. (Baltimore Washington)

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of University of Maryland Baltimore Washington Medical Center (UM Baltimore Washington), a 288-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

Baltimore Washington Medical Center Foundation, Inc. (BWMC Foundation) is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of UM Baltimore Washington. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the BWMC Foundation.

(vi) University of Maryland Shore Regional Health System (Shore Regional)

Shore Regional is a health system located on the Eastern Shore of Maryland. Shore Regional owns and operates University of Maryland Memorial Hospital (UM Memorial), a 140-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; University of Maryland Dorchester Hospital (UM Dorchester), a 48-bed acute care hospital providing inpatient and

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outpatient services in Cambridge, Maryland; University of Maryland Chester River Hospital Center (UM Chester River), a 26-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Shore Emergency Center at Queenstown (Shore Emergency Center), a free-standing emergency center; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Memorial; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Chester River; and several other subsidiaries providing various outpatient and home care services.

Dorchester General Hospital Foundation, Inc. (Dorchester Foundation) is governed by a separate, independent board of directors to raise funds on behalf of UM Dorchester. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation, and accordingly, the accompanying consolidated financial statements reflect a beneficial interest in the net assets of the Dorchester Foundation.

(vii) University of Maryland Charles Regional Health System, Inc. (Charles Regional)

Charles Regional owns and operates University of Maryland Charles Regional Medical Center (UM Charles Regional), which is comprised of a 109-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

(viii) University of Maryland St. Joseph Health System, LLC (St. Joseph)

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UM St. Joseph), a 224-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

(ix) University of Maryland Upper Chesapeake Health System (Upper Chesapeake)

Upper Chesapeake is a health system located in Harford County, Maryland. Upper Chesapeake's healthcare delivery system includes two acute care hospitals, University of Maryland Upper Chesapeake Medical Center (UM Upper Chesapeake), a 171-bed acute care hospital and University of Maryland Harford Memorial Hospital (UM Harford Memorial), an 86-bed acute care hospital; a physician practice; a captive insurance company; a land holding company; and Upper Chesapeake Health Foundation.

(x) University of Maryland Capital Region Health (Capital Region)

Capital Region is a health system located in Prince George's County. Capital Region owns and operates UM Prince George's Hospital Center (UM Prince George's), a 230-bed acute care teaching hospital providing an array of services including emergency medicine, behavioral health, cardiac surgery and a Level II Trauma Center; and UM Laurel Regional Health (UM Laurel), a 61-bed acute care hospital providing cardiopulmonary care, critical care, infusion and inpatient and outpatient surgery among other services.

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Effective September 1, 2017, UMMS became the sole corporate member of Capital Region after several years of collaboration with Prince George's County and the state of Maryland. This affiliation represents the culmination of those discussions and includes plans to build a new state-of-the-art medical center in Largo, Maryland. In accordance with the agreement, Prince George's County and the state of Maryland have each approved funding through legislation of \$208.0 million towards the construction of the new medical facility. The combined \$416.0 million of county and state capital funding commitments was recorded as a receivable within other assets of the accompanying consolidated balance sheets, and restricted net assets as of the affiliation date.

The affiliation was accounted for under the guidance of Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, and the financial position and results of operations of Capital Region were consolidated by the Corporation beginning on September 1, 2017.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at September 1, 2017 (in thousands):

Assets:	
Cash	\$ 46,626
Current assets	63,472
Investments	15,256
Limited use funds	54,370
Property and equipment	96,089
Other long-term assets	<u>393,747</u>
Total assets	<u>\$ 669,560</u>
Liabilities:	
Current liabilities	\$ 87,002
Long-term liabilities	<u>122,543</u>
Total liabilities	<u>209,545</u>
Net assets:	
Unrestricted	41,772
Temporarily restricted	<u>418,243</u>
Total net assets	<u>460,015</u>
Total liabilities and net assets	<u>\$ 669,560</u>

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The following table summarizes the Corporation's unaudited pro forma consolidated results as though the acquisition date occurred at the beginning of fiscal years (in thousands):

	<u>2018</u>	<u>2017</u>
Operating revenues:		
The Corporation	\$ 4,118,985	3,907,690
Capital Region	413,142	389,779
	<u>\$ 4,532,127</u>	<u>4,297,469</u>
Net nonoperating income:		
The Corporation	\$ 148,107	86,791
Capital Region	3,315	(7,327)
	<u>\$ 151,422</u>	<u>79,464</u>
Excess (deficit) of revenues over expenses:		
The Corporation	\$ 207,117	183,359
Capital Region	10,520	(16,791)
	<u>\$ 217,637</u>	<u>166,568</u>
Changes in net assets:		
Unrestricted:		
The Corporation	\$ 228,935	252,049
Capital Region	12,158	20,751
	<u>\$ 241,093</u>	<u>272,800</u>
Temporarily restricted:		
The Corporation	\$ 410,526	19,760
Capital Region	21,907	4,013
	<u>\$ 432,433</u>	<u>23,773</u>
Permanently restricted:		
The Corporation	\$ 5,699	1,445
Capital Region	—	—
	<u>\$ 5,699</u>	<u>1,445</u>
Total changes in net assets:		
The Corporation	\$ 645,160	273,254
Capital Region	34,065	24,764
	<u>\$ 679,225</u>	<u>298,018</u>

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(xi) *University of Maryland Medical System Foundation, Inc. (UMMS Foundation)*

The UMMS Foundation, a not-for-profit foundation, was established for the purpose of soliciting contributions on behalf of the Corporation.

(xii) *University of Maryland Community Medical Group, LLC (CMG)*

CMG is a physician network that employs more than 300 primary care physicians, specialists and advanced practice providers. CMG is a wholly owned subsidiary of UMMS and has over 75 locations across the state of Maryland.

(xiii) *University of Maryland Quality Care Network (QCN)*

QCN, a wholly owned subsidiary of UMMS, is a network comprised of UMMS employed physicians and independent physician practices in the UMMS service area. The participants bear shared responsibility for the care of a defined population of patients and can contract as one entity with payors.

(xiv) *University of Maryland Health Ventures, LLC. (UM Health Ventures)*

UM Health Ventures, a wholly owned subsidiary of UMMS, is the parent company of University of Maryland Medical System Health Plans, Inc. (UM Health Plans), a managed care healthcare company based in Baltimore, Maryland. UM Health Plans is the parent company of University of Maryland Health Partners (UMHP), which provides managed care health coverage to approximately 45,000 Medicaid recipients throughout Maryland; University of Maryland Health Advantage, Inc. (UMHA), which provides Medicare Advantage Plans to approximately 10,000 members; Riverside Health of Delaware Inc. (RHDE) and Riverside Health DC, Inc.

(b) Basis of Presentation

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

(c) Cash and Cash Equivalents

Cash and cash equivalents, excluding amounts shown within investments and assets limited as to use, consist of cash and interest-bearing deposits with maturities of three months or less from the date of purchase. Cash and cash equivalent balances may exceed amounts insured by federal agencies and, therefore, bear a risk of loss. The Corporation has not experienced such losses on these funds.

(d) Investments and Assets Limited as to Use

The Corporation's investment portfolios are classified as trading and are reported in the consolidated balance sheets at their fair value, based on quoted market prices, at June 30, 2018 and 2017. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations.

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June 30, 2018 and 2017

Assets limited as to use include investments set aside at the discretion of the board of directors for the replacement or acquisition of property and equipment, investments held by trustees under bond indenture agreements and self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Changes in fair values of donor-restricted investments are recorded in temporarily restricted net assets unless otherwise required by the donor or state law.

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations (note 12).

Alternative investments, which the Corporation defines to include multi-strategy commingled funds, hedge funds, hedge fund-of-funds, and private equity investments, are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore, values realized upon disposition may vary significantly from current reported values.

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.

(e) Inventories

Inventories, consisting primarily of drugs and medical/surgical supplies, are carried at the lower of cost or market, on a first-in, first-out basis.

(f) Economic Interests in Financially Interrelated Organizations

The Corporation recognizes its rights to assets held by recipient organizations, which accept cash or other financial assets from a donor and agree to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in these financially interrelated organizations are recognized in the consolidated statements of changes in net assets.

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets using the half-year convention. The estimated useful lives of the assets are as follows:

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

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Interest costs incurred on borrowed funds less interest income earned on the unexpended bond proceeds during the period of construction are capitalized as a component of the cost of acquiring those assets.

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

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt, which are included in long-term debt, are deferred and are amortized over the life of the related debt agreements or the related letter of credit agreements using the effective-interest method.

(i) Goodwill and Intangible Assets

Intangible assets include amounts recognized in connection with acquisitions. Intangible assets are initially valued at fair market value using generally accepted valuation methods. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets with definite and indefinite lives are reviewed for impairment if indicators of impairment arise.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Corporation has adopted Accounting Standards Update (ASU) No. 2017-04, *Simplifying the Test for Goodwill Impairment*, for the year ended June 30, 2018. Goodwill is evaluated for impairment at least annually on June 30, in accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, using a qualitative assessment (Step 0) to determine whether there are events or circumstances that indicate it is more likely than not that the fair value of the reporting unit is less than its carrying value, which determines whether a quantitative (Step 1) goodwill impairment test is necessary. Under the quantitative assessment, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, goodwill impairment exists for the reporting unit and the entity must record an impairment loss.

The Corporation has two reporting units; one of which includes all Health Care Delivery assets and the other that includes Health Plan assets. Based on the Corporation's qualitative assessment, it was determined that it was more likely than not that the fair values of each reporting unit exceeded their respective carrying value for the year ended June 30, 2017. Based on the Corporation's qualitative assessment, it was determined that the fair value of the Health Care Delivery reporting unit was more likely than not greater than its carrying value for the year ended June 30, 2018. The Health Plans reporting unit has experienced increasing losses in the fiscal year ended June 30, 2018 primarily related to medical claims expenses in excess of premium revenues for its Medicare Advantage Plan, and as a result the Corporation engaged a third party to perform the Step 1 impairment test using the income approach. The income approach provides an estimation of the fair value of an asset based on market participant expectations about the cash flows that asset would generate over its remaining

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useful life. The cash flow models were developed using projected revenues and expenses based on historical data, industry projections as well as management expectations.

Based on the results of the impairment test, the Corporation recognized a loss on impairment of \$12,794,000 related to goodwill and \$33,000,000 related to an intangible asset (Medicaid Contract).

The changes in the carrying amount of goodwill are as follows (in thousands):

	<u>Health Care Delivery</u>	<u>Health Plans</u>
Goodwill at June 30, 2016	\$ 48,810	42,019
Acquisitions	—	—
Write-downs	—	—
Goodwill at June 30, 2017	48,810	42,019
Acquisitions	—	—
Write-downs	—	(12,794)
Goodwill at June 30, 2018	<u>\$ 48,810</u>	<u>29,225</u>

(j) Contingent Consideration for Business Acquisitions

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. Contingent consideration is required to be recognized at fair value as of the acquisition date. The fair value of these liabilities is estimated based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market, which are defined as Level 3 inputs pursuant to fair value measurement accounting. At each reporting date, the contingent consideration obligation is revalued to estimated fair value and changes in fair value subsequent to the acquisition are reflected in operating income in the consolidated statements of operations. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates, and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. The Corporation recorded a contingent liability of \$35,700,000 related to an earn-out clause in connection with the August 15, 2015 acquisition of UM Health Plans. This earn-out could result in an undiscounted payment ranging from \$0 to \$106,500,000 depending on the performance and membership of both plans. The final computation of the earn-out is not to be determined until March 31, 2020. Based on the earn-out calculation, the Corporation determined that the fair value of the contingent liability was \$0 and \$35,700,000 at June 30, 2018 and 2017, respectively. As such, the Corporation recognized a gain of \$35,700,000 related to the change in fair value of the contingent consideration during the fiscal year ended June 30, 2018.

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(k) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

No impairment losses were recorded for the years ended June 30, 2018 or 2017.

(l) Investments in Joint Ventures

When the Corporation does not have a controlling interest in an entity, but exerts a significant influence over the entity, the Corporation applies the equity method of accounting.

(m) Self-Insurance

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

(n) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects, and funding of specific hospital operations and community outreach programs.

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

Patient service revenue for the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, Upper Chesapeake, and Capital Region reflects actual charges to patients based on rates established by the state of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC. See note 18 for further discussion on the HSCRC and regulated rates.

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

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

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

	2018	2017
Beginning allowance for doubtful accounts	\$ 219,806	202,298
Plus provision for bad debt	174,137	184,597
Less bad debt write-offs	(174,174)	(167,089)
Ending allowance for doubtful accounts	\$ 219,769	219,806

As of June 30, 2018 and 2017, the Corporation's allowance for doubtful accounts was approximately 33.7% and 36.7%, respectively, as a percentage of patient accounts receivable, net of contractual allowances. The Corporation's provision for bad debts represents 4.5% and 5.3% of net patient service revenue for the years ended June 30, 2018 and 2017, respectively

(p) Premium Revenue and Medical Claims Expense

Premium revenue consists of amounts received from the state of Maryland and the Centers for Medicare and Medicaid Services (CMS) by the Corporation's managed care organization for providing medical services to subscribing participants, regardless of services actually performed. The managed

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care organization provides services primarily to enrolled Medicaid and Medicare beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but unreported and are included in medical claims expense on the consolidated statements of operations.

(g) Charity Care

The Corporation is committed to providing quality healthcare to all, regardless of one's ability to pay. Patients who meet the criteria of its charity care policy receive services without charge or at amounts less than its established rates. The criteria for charity care consider the household income in relation to the federal poverty guidelines. The Corporation provides services at no charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For uninsured patients with adjusted gross income greater than 200% of the federal poverty guidelines, a sliding scale discount is applied. Income and asset information obtained from patient credit reporting data are used to determine patients' ability to pay. The Corporation maintains records to identify and monitor the level of charity care it furnished under its charity care policy. The charity care policies of the new affiliates are generally consistent with that of the Corporation's policy.

Due to the complexity of the eligibility process, the Corporation provides eligibility services to patients free of charge to assist in the qualification process. These eligibility services include, but are not limited to, the following:

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are published on the Corporation's Web site and included on the statements provided to patients.
- The Corporation offers assistance to patients in completing the applications for Medicaid or other government payment assistance programs, or applying for care under the Corporation's charity care policy, if applicable. The Corporation also employs an external firm to assist in the eligibility process.
- Any patient, whether covered by insurance or not, may meet with a UMMS representative and receive financial counseling from UMMS' dedicated financial assistance unit.

The Corporation recognizes that a large number of uninsured and insured patients meet the charity care guidelines but do not respond to the Corporation's attempts to obtain necessary financial information. In these instances, the Corporation uses credit reporting data to properly classify these unpaid balances as charity care as opposed to bad debt expense. Utilization of income and asset information and credit reporting data indicate the vast majority of amounts reported as provision for bad debts represent amounts due from patients that would otherwise qualify for charity benefits but do not respond to the Corporation's attempts to obtain the necessary financial information. In these cases, reasonable collection efforts are pursued, but yield few collections. Amounts determined to meet the criteria under the charity care policy are not reported as net patient service revenue.

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The

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Corporation estimates the total direct and indirect costs to provide charity care were \$48,479,000 and \$36,195,000 for the years ended June 30, 2018 and 2017, respectively.

(r) *Nonoperating Income and Expenses, Net*

Other activities that are only indirectly related to the Corporation's primary business of delivering healthcare services are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, inherent contributions, changes in fair value of investments, changes in fair value of undesignated interest rate swaps, settlement payments on interest rate swaps that do not qualify for hedge accounting treatment, and loss on early extinguishment of debt. Settlement payments on interest rate swaps were approximately \$19,227,000 and \$23,469,000 for the years ended June 30, 2018 and 2017, respectively, and are reported within other nonoperating losses, net.

(s) *Derivative Financial Instruments*

The Corporation records derivative and hedging activities on the consolidated balance sheets at their respective fair values.

The Corporation utilizes derivative financial instruments to manage its interest rate risks associated with long-term tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes.

The Corporation's specific goals are to (a) manage interest rate sensitivity by modifying the reprising or maturity characteristics of some of its tax-exempt debt, and (b) lower unrealized appreciation or depreciation in the market value of the Corporation's fixed-rate tax-exempt debt when that market value is compared with the cost of the borrowed funds. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by the income or loss on the derivative instruments that are linked to the debt.

The Corporation formally documents all hedge relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. On the date the derivative contract is entered into, the Corporation may designate the derivative as either a hedge of the fair value of a recognized or forecasted liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized liability (cash flow hedge), provided the derivative instrument meets certain criteria related to its effectiveness. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the consolidated balance sheets. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

All derivative instruments are reported as other assets or interest rate swap liabilities in the consolidated balance sheets and measured at fair value. Derivatives not designated as hedges or not meeting effectiveness criteria are carried at fair value with changes in the fair value recognized in other nonoperating income and expenses. For the years ended June 30, 2018 and 2017, none of the Corporation's derivatives qualify for hedge accounting.

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Changes in the fair value of derivative instruments are included in or excluded from the excess of revenues over expenses depending on the use of the derivative and whether it qualifies for hedge accounting treatment. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged item related to the risk being hedged, are included in the excess of revenues over expenses. Changes in the fair value of a derivative that is designated as a cash flow hedge are excluded from the excess of revenues over expenses to the extent that the hedge is effective until the excess of revenues over expenses is affected by the variability of cash flows in the hedged transaction. Changes in the fair value that relate to ineffectiveness are included in the excess of revenues over expenses as interest expense.

(t) Excess of Revenue over Expenses

The consolidated statements of operations includes a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets), changes in the funded status of defined benefit pension plans, amortization of accumulated loss of discontinued designated interest rate swaps, and other items that are required by generally accepted accounting principles to be reported separately.

(u) Income Taxes

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements.

The Corporation had net operating loss carryforwards on for-profit and unrelated business activities of approximately \$89,890,000 and \$75,518,000 as of June 30, 2018 and June 30, 2017, respectively, which expire at various dates through 2031. The Corporation's deferred tax assets, which consist primarily of the net operating loss carryforwards, are approximately \$22,345,000 at June 30, 2018 and \$31,028,000 at June 30, 2017 were fully reserved as they are not expected to be utilized. The Corporation had a deferred tax liability in the amount of \$3,027,000 and \$17,356,000 related to indefinite-lived intangibles at June 30, 2018 and June 30, 2017, respectively, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

The Corporation follows a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management does not believe that there are any unrecognized tax liabilities or benefits that should be recognized.

On December 22, 2017, the President signed into law H.R.1, originally known as the Tax Cuts and Jobs Act, as such the Corporation's effective tax rate was reduced from 35% to 21% during the fiscal year 2018. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Company has reviewed these provisions and the potential impact and has concluded the enactment of H.R.1 will not have a material effect on the operations of the organization.

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(v) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

The Corporation follows accounting guidance for classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA).

(w) Fair Value Measurements

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts receivable, assets limited as to use, investments, trade accounts payable, accrued payroll and benefits, other accrued expenses, and advances from third-party payors – The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

Pension plan assets – The Corporation applies Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, to its pension plan assets. The guidance permits, as a practical expedient, fair value of investments within its scope to be estimated using the net asset value (NAV) or its equivalent. The alternative investments classified within the fair value hierarchy have been recorded using the NAV.

The Corporation discloses its financial assets, financial liabilities, and fair value measurements of nonfinancial items according to the fair value hierarchy required by Generally Accepted Accounting Principles that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

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- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and the income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of June 30, 2018 and 2017, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) Cash Equivalents

The fair value of investments in cash equivalent securities, with maturities within three months of the date of purchase, is determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades and observable broker-dealer quotes.

(ii) U.S. Government and Agency Securities

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

(iii) Corporate Bonds

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds and foreign government bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

(iv) Collateralized Corporate Obligations

The fair value of collateralized corporate obligations is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

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(v) *Derivative Liabilities*

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, treasury yields, volatilities, credit spreads, maturity, and recovery rates.

(x) *Commitments and Contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(y) *Going Concern*

Management evaluates whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date the financial statements are issued. As of the date of this report, there are no conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern.

(z) *Use of Estimates*

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

(aa) *New Accounting Pronouncements*

The Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal year 2019. The Corporation expects to record a decrease in net patient service revenue related to self-pay patients and a corresponding decrease in bad debt expense upon the adoption of the standard. The Corporation will adopt ASU No. 2014-09 on July 1, 2018 and as a result, substantially all amounts that were previously presented as provision for bad debts in the Corporation's consolidated statements of operations will now be considered an implicit price concession resulting in a reduction in patient service revenue net of contractual adjustments. Other than described above, the Corporation is currently finalizing its assessment of the impact on the Corporation's consolidated balance sheets, results of operations or cash flows. However, expanded disclosures will be required.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize most leases on the balance sheet, increasing their reported assets and liabilities – sometimes very

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significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU No. 2016-02 is effective fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update requires not-for-profit entities to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions), rather than the three classes of net assets currently required, and other qualitative information regarding the entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance amends ASC Topic 715, *Compensation – Retirement Benefits*, to require employers that present a measure of operating income in their statements of operations to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit and settlement and curtailment effects, are to be included in nonoperating expenses. Employers are required to include all other components of net benefit cost in a separate line item(s). The line item(s) in which the components of net benefit cost other than the service cost are included need to be identified as such on the income statement or in the disclosures. The standard also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for the Corporation as of July 1, 2019, with early adoption permitted. Early adoption was elected and the impact of the early adoption is presented in note 10.

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

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(2) Investments and Assets Limited as to Use

The carrying values of Assets Limited as to Use were as follows at June 30 (in thousands):

	2018	2017
Investments held for collateral	\$ 84,590	122,646
Debt service and reserve funds	82,820	54,411
Construction funds – held by trustee	266,822	—
Construction funds – held by the Corporation	145,052	107,490
Board designated funds	123,729	109,466
Self-insurance trust funds	230,589	180,220
Funds restricted by donors	69,470	60,751
Economic and beneficial interests in the net assets of related organizations (note 12)	196,119	192,343
Total assets limited as to use	1,199,191	827,327
Less amounts available for current liabilities	(56,484)	(50,940)
Total assets limited as to use, less current portion	\$ 1,142,707	776,387

The carrying values of Assets Limited as to Use were as follows at June 30, 2018 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self- insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents \$	2,466	32,819	250,784	5,992	16,619	10,058	—	318,738
Corporate bonds	—	—	—	19,579	19,603	8,595	—	47,777
Collateralized corporate obligations	—	—	—	155	—	390	—	545
U.S. government and agency securities	82,124	50,001	161,090	170	13,016	427	—	306,828
Common stocks, including mutual funds	—	—	—	50,886	6,840	22,529	—	80,255
Alternative investments	—	—	—	46,947	—	27,471	—	74,418
Assets held by other organizations	—	—	—	—	174,511	—	196,119	370,630
Total assets limited as to use	\$ 84,590	82,820	411,874	123,729	230,589	69,470	196,119	1,199,191

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The carrying values of Assets Limited as to Use were as follows at June 30, 2017 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self- insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents \$	4,958	31,624	97,562	10,154	12,991	7,850	—	165,139
Corporate bonds	—	—	633	13,334	2,883	6,483	—	23,333
Collateralized corporate obligations	—	—	220	109	—	258	—	587
U.S. government and agency securities	117,688	22,787	283	140	283	331	—	141,512
Common stocks, including mutual funds	—	—	2,479	49,225	—	23,409	—	75,113
Alternative investments	—	—	6,313	36,504	—	22,420	—	65,237
Assets held by other organizations	—	—	—	—	164,063	—	192,343	356,406
Total assets limited as to use	\$ 122,646	54,411	107,490	109,466	180,220	60,751	192,343	827,327

Self-insurance trust funds include amounts held by the Maryland Medicine Comprehensive Insurance Program (MMCIP) for payment of malpractice claims. These assets consist primarily of stocks, fixed-income corporate obligations, and alternative investments. MMCIP is a funding mechanism for the Corporation's malpractice insurance program. As MMCIP is not an insurance provider, transactions with MMCIP are recorded under the deposit method of accounting. Accordingly, the Corporation accounts for its participation in MMCIP by carrying limited-use assets representing the amount of funds contributed to MMCIP and recording a liability for claims, which is included in other current and other long-term liabilities in the accompanying consolidated balance sheets.

The carrying values of investments were as follows at June 30 (in thousands):

	2018	2017
Cash and cash equivalents	\$ 86,172	37,160
Corporate bonds	62,227	52,440
Collateralized corporate obligations	28,614	14,573
U.S. government and agency securities	25,662	22,195
Common stocks	191,994	181,117
Alternative investments:		
Hedge funds/private equity	139,388	110,830
Commingled funds	338,088	324,634
	\$ 872,145	742,949

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2018, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately \$56,300,000 of the alternative investments were subject to 31–60 day

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notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately \$72,400,000, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately \$14,600,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately \$6,900,000 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had \$8,170,000 of unfunded commitments in alternative investments as of June 30, 2018.

As of June 30, 2017, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately \$52,500,000 of the alternative investment were subject to 31-60 day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately \$62,000,000, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately \$13,500,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately \$6,200,000 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had \$2,990,000 of unfunded commitments in alternative investments as of June 30, 2017.

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$477,476,000 and \$74,418,000, respectively, which are accounted for under the equity method at June 30, 2018 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents \$	86,172	—	—	86,172
Corporate bonds	35,843	26,384	—	62,227
Collateralized corporate obligations	—	28,614	—	28,614
U.S. government and agency securities	15,576	10,086	—	25,662
Common and preferred stocks, including mutual funds	191,994	—	—	191,994
	<u>329,585</u>	<u>65,084</u>	<u>—</u>	<u>394,669</u>
Assets limited as to use:				
Cash and cash equivalents	191,914	126,824	—	318,738
Corporate bonds	44,415	3,362	—	47,777
Collateralized corporate obligations	—	545	—	545
U.S. government and agency securities	95,240	211,588	—	306,828
Common and preferred stocks, including mutual funds	80,255	—	—	80,255
Investments held by other organizations	—	370,630	—	370,630
	<u>411,824</u>	<u>712,949</u>	<u>—</u>	<u>1,124,773</u>
\$	<u><u>741,409</u></u>	<u><u>778,033</u></u>	<u><u>—</u></u>	<u><u>1,519,442</u></u>

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$435,464,000 and \$65,237,000, respectively, which are accounted for under the equity method at June 30, 2017 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents \$	37,160	—	—	37,160
Corporate bonds	31,421	21,019	—	52,440
Collateralized corporate obligations	—	14,573	—	14,573
U.S. government and agency securities	10,610	11,585	—	22,195
Common and preferred stocks, including mutual funds	180,999	118	—	181,117
	<u>260,190</u>	<u>47,295</u>	<u>—</u>	<u>307,485</u>
Assets limited as to use:				
Cash and cash equivalents	133,678	31,461	—	165,139
Corporate bonds	19,786	3,547	—	23,333
Collateralized corporate obligations	—	587	—	587
U.S. government and agency securities	118,127	23,385	—	141,512
Common and preferred stocks, including mutual funds	75,113	—	—	75,113
Investments held by other organizations	—	356,406	—	356,406
	<u>346,704</u>	<u>415,386</u>	<u>—</u>	<u>762,090</u>
	<u>\$ 606,894</u>	<u>462,681</u>	<u>—</u>	<u>1,069,575</u>

Changes to Level 1 and Level 2 securities between June 30, 2018 and 2017 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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The Corporation's total return on its investments and assets limited as to use was as follows for the years ended June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Dividends and interest, net of fees	\$ 11,290	10,772
Net realized gains	27,002	26,827
Change in fair value of trading securities	<u>26,027</u>	<u>57,080</u>
Total investment return	<u>\$ 64,319</u>	<u>94,679</u>

Total investment return is classified in the consolidated statements of operations as follows for the years ended June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Nonoperating investment income, net	\$ 37,376	35,496
Change in fair value of unrestricted investments	23,976	54,175
Investment gains on restricted net assets	<u>2,967</u>	<u>5,008</u>
Total investment return	<u>\$ 64,319</u>	<u>94,679</u>

Investment return does not include the returns on the economic interests in the net assets of related organizations, the returns on the self-insurance trust funds, returns on undesignated interest rates swaps, or the returns on certain construction funds where amounts have been capitalized.

(3) Property and Equipment

The following is a summary of property and equipment at June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Land	\$ 188,071	148,905
Buildings	1,488,714	1,480,610
Building and leasehold improvements	973,282	808,738
Equipment	1,688,343	1,485,195
Construction in progress	<u>164,674</u>	<u>132,740</u>
	4,503,084	4,056,188
Less accumulated depreciation and amortization	<u>(2,334,565)</u>	<u>(1,964,085)</u>
	<u>\$ 2,168,519</u>	<u>2,092,103</u>

Interest cost capitalized was \$1,152,000 and \$0 for years ended June 30, 2018 and 2017, respectively.

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Remaining commitments on construction projects were approximately \$361,649,000 at June 30, 2018, of which approximately \$309,569,000 relates to Capital Region.

Construction in progress includes building and renovation costs for assets that have not yet been placed into service. These costs relate to major construction projects as well as routine renovations under way at the Corporation's facilities.

(4) Investments in Joint Ventures

The Corporation has investments of \$88,063,000 and \$82,094,000 at June 30, 2018 and 2017, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership percentage</u>	
		<u>FY 2018</u>	<u>FY 2017</u>
Shipley's Imaging Center, LLC	Freestanding imaging center	50 %	50 %
Innovative Health Services, LLC	Third-party insurance claims processor	50	50
Terrapin Insurance Company (Terrapin)	Healthcare professional liability insurance company	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare services	50	50
Central Maryland Radiation Oncology Center LLC	Healthcare services	50	50
University of Maryland Medicine ASC, LLC	Ambulatory surgical services	50	50
Chesapeake-Potomac Healthcare Alliance	Healthcare services	33	33
Civista Ambulatory Surgery Center, Inc.	Ambulatory surgical services	50	50
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC	Medical rehabilitative and therapy services	15	15
UM SJMC Choice One Urgent Care Centers	Urgent care centers	25/49 *	25
UM UCHS Choice One Urgent Care Centers	Urgent care centers	49	49
UM SRH Choice One Urgent Care Centers	Urgent care centers	49	49
UM BWMC Choice One Urgent Care Centers	Urgent care centers	49	49
Maryland eCare, LLC	Remote monitoring technology	14	14

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<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership percentage</u>	
		<u>FY 2018</u>	<u>FY 2017</u>
MRI at St. Joseph Medical Center, LLC	Healthcare services	51	51
Advanced/Upper Chesapeake Health Center, LLC	Imaging center	10	10
Madison Manor	Nursing Home	25 **	—

* In fiscal year 2018, a new UM SJMC Choice One Urgent Care Center was started at an ownership percentage of 49%. The remaining centers have an ownership percentage of 25%.

** New in fiscal year 2018, due to inherent contribution – Capital Region.

The Corporation recorded equity in net income of \$5,489,000 and \$3,856,000 related to these joint ventures for the years ended June 30, 2018 and 2017, respectively.

The following is a summary of the Corporation's joint ventures' combined unaudited condensed financial information as of and for the years ended June 30 (in thousands):

	<u>2018</u>				
	<u>Mt. Washington</u>	<u>Terrapin</u>	<u>Choice One*</u>	<u>Others</u>	<u>Total</u>
Current assets	\$ 30,302	22,272	5,321	25,620	83,515
Noncurrent assets	97,468	229,838	6,369	23,902	357,577
Total assets	<u>\$ 127,770</u>	<u>252,110</u>	<u>11,690</u>	<u>49,522</u>	<u>441,092</u>
Current liabilities	\$ 13,718	3,631	2,016	7,836	27,201
Noncurrent liabilities	7,082	246,529	436	865	254,912
Net assets	<u>106,970</u>	<u>1,950</u>	<u>9,238</u>	<u>40,821</u>	<u>158,979</u>
Total liabilities and net assets	<u>\$ 127,770</u>	<u>252,110</u>	<u>11,690</u>	<u>49,522</u>	<u>441,092</u>
Total operating revenue	\$ 62,491	29,728	8,643	83,616	184,478
Total operating expenses	(58,384)	(34,535)	(9,961)	(72,188)	(175,068)
Total nonoperating gains/(losses), net	3,281	4,806	—	(360)	7,727
Contributions from (to) owners	—	—	1,313	(11,710)	(10,397)
Other changes in net assets, net	<u>2,602</u>	<u>1</u>	<u>(238)</u>	<u>8</u>	<u>2,373</u>
Increase (decrease) in net assets	<u>\$ 9,990</u>	<u>—</u>	<u>(243)</u>	<u>(634)</u>	<u>9,113</u>

* Choice One is the combination of UM SJMC, UM UCHS, UM SRH, and UMBWMC Choice One Urgent Care Centers.

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	2017				
	Mt. Washington	Terrapin	Choice One*	Others	Total
Current assets	\$ 26,025	24,240	3,470	21,646	75,381
Noncurrent assets	92,483	221,844	5,525	17,925	337,777
Total assets	\$ 118,508	246,084	8,995	39,571	413,158
Current liabilities	\$ 13,273	106	420	5,276	19,075
Noncurrent liabilities	8,255	244,028	183	1,033	253,499
Net assets	96,980	1,950	8,392	33,262	140,584
Total liabilities and net assets	\$ 118,508	246,084	8,995	39,571	413,158
Total operating revenue	\$ 58,271	(5,670)	5,702	47,439	105,742
Total operating expenses	(54,822)	(5,456)	(7,313)	(43,496)	(111,087)
Total nonoperating gains/(losses), net	4,722	11,126	—	11	15,859
Contributions from (to) owners	—	—	7,116	(65)	7,051
Other changes in net assets, net	3,326	—	344	(1,070)	2,600
Increase (decrease) in net assets	\$ 11,497	—	5,849	2,819	20,165

* Choice One is the combination of UM SJMC, UM UCHS, UM SRH, and UMBWMC Choice One Urgent Care Centers.

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2018 and 2017 was approximately \$31,731,000 and \$25,215,000, respectively.

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

2019	\$	11,529
2020		9,458
2021		7,069
2022		6,761
2023		6,515
Thereafter		18,187
	\$	59,519

The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of \$3,770,000 and \$29,230,000 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of

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not less than \$37,000,000 but not more than \$45,000,000, as determined by appraisals. In addition, the lease agreement includes a put option exercisable through February 28, 2021, whereby the lessor may require the Corporation to purchase the building for \$37,000,000. As of June 30, 2018 and 2017, amounts of \$37,649,000 and \$37,198,000, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2018, amounts of \$2,238,000 and \$13,898,000, representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

The following is a summary of all property and equipment under capital leases at June 30 (in thousands):

	2018	2017
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	28,843	25,176
	61,843	58,176
Less accumulated amortization	(23,941)	(18,129)
	\$ 37,902	40,047

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2018 (in thousands):

2019	\$ 42,388
2020	2,670
2021	1,680
2022	1,115
2023	891
Thereafter	12,364
Total minimum lease payments	61,108
Less amounts representing interest	(7,324)
Present value of net minimum lease payments	\$ 53,784

(6) Line of Credit

For the fiscal years ended June 30, 2018 and 2017, the Corporation had a \$250,000,000 revolving line of credit outstanding with a syndicate of banking partners. The line of credit is annually renewing and the current expiration date is August 29, 2019. Interest is calculated based on an optional base rate or percentage of 1-month LIBOR plus a credit spread. As of June 30, 2018 and 2017, the amount outstanding

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on the line of credit was \$99,300,000 and \$125,000,000, respectively. The calculated interest rates as of June 30, 2018 and 2017 were 5% and 1.78%, respectively.

(7) Long-Term Debt and Other Borrowings

Long-term debt consists of the following at June 30 (in thousands):

	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2018</u>	<u>2017</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2017D/E Bonds	4.00%–4.17%	2045–2049	\$ 189,965	—
Series 2017B/C Bonds	1.98%–5.00%	2018–2040	267,055	273,810
Series 2017A Bonds	Variable rate	2017–2043 ¹	45,135	46,220
Series 2016A–F Bonds	Variable rate	2017–2042 ¹	318,475	321,515
Series 2015 Bonds	3.63%–5.00%	2016–2042	76,420	77,735
Series 2013 Bonds	3.00%–5.00%	2014–2044	343,250	346,850
Series 2010 Bonds	4.75%–5.25%	2011–2040	56,635	62,835
Series 2008D/E Bonds	Variable rate	2025–2042	105,000	105,000
Series 2008F Bonds	4.50%–5.25%	2009–2024	34,125	40,415
Series 2007A Bonds	Variable rate	2008–2035	82,330	85,095
MHHEFA Pooled Loan Program	Variable rate	2017–2035	8,034	8,022
Other long-term debt:				
UCHS Term Loan	Variable rate	2019	150,000	150,000
Term loans	1.86%–3.98%	2009–2022	48,736	56,540
Other loans, mortgages and notes payable	3.25%–6.73%	Monthly, 1991–2025	20,468	21,099
Total debt			1,745,628	1,595,136
Less current portion of long-term debt			51,989	40,937
Less short-term financing			150,000	—
Less long-term debt subject to short-term remarketing agreements			58,054	28,440
			1,485,585	1,525,759
Plus unamortized premiums and discounts, net			32,853	33,033
Plus unamortized deferred financing costs			(10,104)	(8,302)
			<u>\$ 1,508,334</u>	<u>1,550,490</u>

¹ Mandatory purchase options are due in the following (fiscal years), unless the bondholding bank and the Obligated Group agree to an extension: Series 2016A (2024), 2016B (2022), 2016C&D (2024), 2016E&F (2027), and 2017A (2022).

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Pursuant to an Amended and Restated Master Loan Agreement dated December 1, 2017 (UMMS Master Loan Agreement), the Corporation and several of its subsidiaries have issued debt through Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority). As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The UMMS Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

The Obligated Group under the UMMS Master Loan Agreement includes the Medical Center, ROI, UM Midtown, UM Baltimore Washington, Shore Health (UM Memorial and UM Dorchester), UM Chester River, UM Charles Regional, UM St. Joseph, UM Upper Chesapeake, UM Harford Memorial, UM Laurel, UM Prince George's, Bowie Health Center (Bowie), and the UMMS Foundation. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the UMMS Master Loan Agreement.

Under the terms of the UMMS Master Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the Master Trustee to provide for repayment of the obligations of the Obligated Group (note 2).

In September 2016, the Corporation refunded \$212,065,000 of the Series 2012A-D Bonds. The refunding was completed using the proceeds of a new \$212,785,000 variable-rate MHHEFA bond issue (the Series 2016A-D Bonds).

In October 2016, the Corporation refunded \$108,420,000 of the Series 2011B/C (UCHS issue) Bonds. The refunding was completed using the proceeds of a new \$108,730,000 variable rate MHHEFA bond issue (the Series 2016E/F Bonds).

In January 2017, the Corporation refunded \$46,050,000 of the Series 2011A (UCHS issue) Bonds. The refunding was completed using the proceeds of a new \$46,220,000 variable-rate MHHEFA bond issue (the Series 2017A Bonds).

In February 2017, the Corporation refunded \$20,225,000 of the Series 1991B Bonds, \$116,375,000 of the Series 2005 Bonds, and \$140,885,000 of the Series 2010 Bonds. The refunding was completed using the proceeds of a new \$273,810,000 fixed-rate MHHEFA bond issue (the Series 2017B/C Bonds).

The unamortized portion of issuance costs on the debt refunded by the Series 2016A-D Bonds, 2016E/F Bonds, 2017A Bonds, and 2017B/C Bonds was expensed as a loss on early extinguishment of debt during the year ended June 30, 2017.

The Corporation has a term loan in the amount of \$150,000,000 related to the acquisition of Upper Chesapeake, which expires on March 1, 2019. The Corporation intends to refinance this obligation prior to its maturity date, and has classified this obligation as a short-term financing and long-term debt at June 30, 2018 and 2017, respectively, in the consolidated balance sheets.

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In May 2017, the Corporation was authorized to borrow \$19,000,000 of the Series 1985A/B Pooled Loan Program Bonds (\$175,000,000 original MHHEFA Pooled Loan Program). These proceeds are to be used for the purchase, renovation and furnishing a new administrative building. As a participant in the Pooled Loan Program, the Corporation bears the full interest cost on the \$19,000,000 and will draw-down on the funds as they are required to complete the project.

In December 2018, MHHEFA issued \$145,265,000 of tax-exempt Revenue Bonds, Series 2017D, and \$44,700,000 taxable Revenue Bonds, Series 2017E. These proceeds are to be used for the purpose of financing a portion of the costs of acquisition, construction and equipping of certain capital projects related to Capital Region, including (a) construction of a new regional medical center and an adjacent new ambulatory care center and (b) construction of a new freestanding medical facility.

The aggregate annual future maturities of long-term debt according to the original terms of the Master Loan Agreement and all other loan agreements are as follows for the years ending June 30 (in thousands):

2019	\$	201,989
2020		44,420
2021		66,984
2022		48,468
2023		45,261
Thereafter		<u>1,338,506</u>
	\$	<u><u>1,745,628</u></u>

The Corporation's Series 2007A and 2008D-E Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter-of-credit agreements with three banking institutions. These agreements have terms that expire in 2020 through 2022. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter-of-credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2018.

The following table reflects the mandatory redemptions and required repayment terms for the years ended June 30 of the Corporation's debt obligations in the event that the put options associated with variable rate

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demand bonds subject to short-term remarketing agreements were exercised, but not successfully remarketed, and mandatory purchase options are not extended (in thousands):

2019	\$	260,043
2020		120,806
2021		66,984
2022		187,838
2022		45,261
Thereafter		1,064,696
	\$	1,745,628

The approximate interest rates on outstanding debt bearing interest at variable rates were as follows at June 30:

	2018	2017
Series 2008D Bonds	1.54 %	0.90 %
Series 2008E Bonds	1.49	0.89
Series 2007A Bonds	1.55	0.91
Series 2016A Bonds	2.51	1.41
Series 2016B Bonds	2.34	1.27
Series 2016C Bonds	2.36	1.32
Series 2016D Bonds	2.66	1.52
Series 2016E Bonds	2.50	1.43
Series 2016F Bonds	2.47	1.41
Series 2017A Bonds	2.26	1.23
Series 1985 Pooled Loan Program (MHHEFA)	2.25	1.69
UCHS Term Loan	2.84	1.98

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Term loans outstanding are as follows at June 30 (in thousands):

	<u>Interest rate</u>	<u>Interest rate as of June 30, 2018</u>	<u>Payable in fiscal year(s)</u>	<u>2018</u>	<u>2017</u>
Term loan 1: Payable monthly beginning March 2012	Fixed rate	3.95 %	2012–2022	\$ 6,800	7,600
Term loan 2: Payable monthly beginning February 2010	1-month LIBOR + 2.00%	3.98	2010–2023	2,609	2,831
Term loan 3: Payable monthly beginning October 2012	Fixed rate	2.80	2013–2018	—	61
Term loan 4: Payable monthly beginning November 2012	Fixed rate	2.80	2013–2018	—	16
Term loan 5: Payable monthly beginning November 2015	1-month LIBOR + 1.95%	3.95	2016–2021	36,667	41,667
Term loan 6: Payable monthly beginning May 2016	Fixed rate	1.86	2016–2019	383	834
Term loan 7: Payable monthly beginning February 2017	Fixed rate	2.47	2017–2020	976	1,524
Term loan 8: Payable monthly beginning July 2017	Fixed rate	2.66	2018–2020	1,301	2,007
Total term loans (included in long-term debt)				<u>\$ 48,736</u>	<u>56,540</u>

(8) Interest Rate Risk Management

The Corporation uses a combination of fixed and variable rate debt to finance capital needs. The Corporation maintains an interest rate risk-management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations that may arise from volatility in interest rates.

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At June 30, 2018 and 2017, the Corporation's notional values of outstanding interest rate swaps were \$758,901,000 and \$770,919,000, respectively, the details of which were as follows (in thousands):

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Receive rate</u>	<u>Maturity date</u>	<u>Mark to market</u>
As of June 30, 2018:					
Swap #1	\$ 83,446	3.59 %	70% 1-month LIBOR	7/1/2031	\$ (8,996)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(23,745)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(6,905)
Swap #4	34,325	3.99	67% 1-month LIBOR	7/1/2034	(5,685)
Swap #5	25,930	3.54	70% 1-month LIBOR	7/1/2031	(2,704)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(55,421)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(16,117)
Swap #8	80,075	4.00	67% 1-month LIBOR	7/1/2034	(13,321)
Swap #9	3,230	3.63	67% 1-month LIBOR	7/1/2032	(233)
Swap #10	101,275	3.92	67% 1-month LIBOR	1/1/2043	(21,731)
Swap #11	<u>80,620</u>	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	<u>1,086</u>
					(153,772)
				Valuation adjustments	<u>3,983</u>
Total	<u>\$ 758,901</u>				<u>\$ (149,789)</u>
As of June 30, 2017:					
Swap #1	\$ 85,809	3.59 %	70% 1-month LIBOR	7/1/2031	\$ (13,430)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(30,029)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(8,573)
Swap #4	35,400	3.99	67% 1-month LIBOR	7/1/2034	(7,729)
Swap #5	26,680	3.54	70% 1-month LIBOR	7/1/2031	(4,066)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(70,082)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(20,006)
Swap #8	82,600	4.00	67% 1-month LIBOR	7/1/2034	(18,097)
Swap #9	3,580	3.63	67% 1-month LIBOR	7/1/2032	(376)
Swap #10	104,000	3.92	67% 1-month LIBOR	1/1/2043	(28,384)
Swap #11	<u>82,850</u>	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	<u>1,058</u>
					(199,714)
				Valuation adjustments	<u>5,190</u>
Total	<u>\$ 770,919</u>				<u>\$ (194,524)</u>

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The mark-to-market values of the Corporation's interest rate swaps include a valuation adjustment representing the creditworthiness of the counterparties to the swaps.

On January 1, 2013, in accordance with ASC Topic 815, *Derivatives and Hedging*, the Corporation elected to discontinue the cash flow hedging relationship for Swap #8. As of that date, the accumulated losses included in unrestricted net assets will be reclassified into earnings over the life of the Series 2007 bonds. For the years ended June 30, 2018 and 2017, \$1,668,000 and \$1,716,000, respectively, was reclassified from other changes in net assets into change in fair value of undesignated interest rate swaps. The accumulated losses included in unrestricted net assets were \$16,266,000 and \$17,934,000 at June 30, 2018 and 2017, respectively.

The Corporation recorded a net nonoperating gain on changes in the fair value of nonqualifying interest rate swaps of \$43,071,000 and \$76,797,000 for the years ended June 30, 2018 and 2017, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of \$149,789,000 and \$194,524,000 as of June 30, 2018 and 2017, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

The Corporation is subject to a collateral posting requirement with two of its swap counterparties. Collateral posting requirements are based on the Corporation's long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was \$80,480,000 and \$115,250,000 at June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Corporation met its collateral posting requirement through the use of collateralized investments, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily, and is accounted for as a component of the Corporation's assets limited as to use on the accompanying consolidated balance sheets as of that date. Any excess investment value is considered a component of the Corporation's unrestricted investment portfolio, and is included in investments on the accompanying consolidated balance sheets as of that date.

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(9) Other Liabilities

Other liabilities consist of the following at June 30 (in thousands):

	2018	2017
Professional and general malpractice liabilities	\$ 290,306	234,569
Capital lease obligations	53,784	54,523
Accrued pension obligations	91,210	26,422
Contingent consideration	—	35,700
Accrued interest payable	23,809	18,870
Deferred tax liability, net	3,027	17,356
Unearned revenue	35,293	26,521
Medical claims payable	29,234	21,024
Other miscellaneous	103,478	81,977
Total other liabilities	630,141	516,962
Less current portion	(231,453)	(182,688)
Other long-term liabilities	\$ 398,688	334,274

Other miscellaneous liabilities consists of patient credit balances and other current and long-term liabilities.

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, Upper Chesapeake, and Capital Region. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation. The following is a brief description of each of the retirement plans in which employees of the Corporation participate:

(a) Defined Benefit Plans

University of Maryland Medical Center Midtown Campus Retirement Plan for Non-Union Employees (Midtown Plan) – A noncontributory defined benefit plan covering substantially all nonunion employees. The benefits are based on years of service and compensation. Contributions to this plan are made to satisfy the minimum funding requirements of ERISA. In 2006, Midtown froze the defined benefit pension plan.

Baltimore Washington Medical Center Pension Plan (Baltimore Washington Plan) – A noncontributory defined benefit pension plan covering full-time employees who have been employed for at least one year and have reached 21 years of age. In 2018, Baltimore Washington closed the defined benefit pension plan to new hires.

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Baltimore Washington Medical Center Supplemental Executive Retirement Plan – A noncontributory defined benefit pension plan for senior management level employees. In 2018, Baltimore Washington terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets was completed on December 29, 2017.

On June 30, 2015, the Corporation amended the Baltimore Washington Medical Center Pension Plan to provide for the merger of the Midtown Plan and the Charles Regional Plan into the Baltimore Washington Plan and to change the name of the newly consolidated plan to the University of Maryland Medical System Corporate Pension Plan (the Corporate Plan). All provisions of the respective previous plans shall continue to apply to the respective applicable participants. All of the assets of the three formerly separate plans are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

Chester River Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all CRHC employees as well as employees of a subsidiary. The benefits are paid to retirees based upon age at retirement, years of service, and average compensation. Chester River's funding policy is to satisfy the minimum funding requirements of ERISA. Effective June 30, 2008, Chester River froze the defined-benefit pension plan. On March 31, 2018, Chester River terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets is anticipated to be completed by June 30, 2019.

Civista Health Inc. Retirement Plan and Trust (Charles Regional Plan) – A noncontributory defined benefit pension plan covering employees that have worked at least one thousand hours per year during three or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. Charles Regional makes annual contributions to the plan based upon amounts required to be funded under provisions of ERISA.

Upper Chesapeake Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all employees of the various affiliates of Upper Chesapeake who have completed six months of employment and attained the age of twenty and a half years. Upper Chesapeake makes annual contributions to the plan equal to the minimum funding requirements pursuant to ERISA regulations. On December 31, 2005, Upper Chesapeake froze the defined benefit pension plan. On June 30, 2015, Upper Chesapeake terminated the defined benefit pension plan and liquidation of its remaining benefit obligation using its plan assets was completed by September 30, 2017.

Dimensions Health Corporation Pension Plan (Capital Region Pension Plan) – A noncontributory defined benefit pension plan covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East – Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the Plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average final compensation. On December 31, 2007, the Capital Region Pension Plan was frozen. No further benefit accruals will be made to the Plan. The Plan

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freeze substantially reduces annual funding obligations beginning with Plan year 2008. The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the Plan participants and to meet the funding requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

Dimensions Health Corporation Post Retirement Benefit Plans (Capital Region Post Retirement Benefit Plans) – A postretirement health care plan is provided to both salaried and nonsalaried employees who have retired and certain other employees who were eligible to retire prior to July 1, 1995. The plan is contributory for those who retired prior to July 1, 1995, with retiree contributions adjusted annually. Employees who retired on July 1, 1995 and later are eligible to participate in the plan by paying 100% of the premiums without corporate contributions. The Corporation's policy has been to fund this plan on an as needed basis.

A defined postretirement life insurance plan is a noncontributory plan for all eligible retirees prior to July 1, 2001. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union, the plan was no longer offered to new retirees as of July 1, 1999. Effective July 1, 2001, the plan was modified to become contributory for the nonunion employees and employees represented by the 1199 SEIU Health Care Workers East – Health Care Workers union who retired prior to July 1, 2001 and for the employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union who retired prior to July 1, 1999. The Corporation's policy has been to fund its share of these benefits as they are incurred.

The Corporation recognizes the funded status (i.e., the difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheets. The Corporation recognizes changes in the funded status in the year in which the changes occur as changes in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

The following tables set forth the combined benefit obligations and assets of the defined benefit plans at June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 182,024	245,686
Benefit obligations, Capital Region	278,165	—
Settlements	(11,747)	(55,324)
Curtailments and plan amendments	(2,206)	—
Service cost	3,093	4,502
Interest cost	17,120	7,299
Actuarial loss	(13,064)	(4,612)
Benefit payments	<u>(22,045)</u>	<u>(15,527)</u>
Projected benefit obligations at end of year	<u>\$ 431,340</u>	<u>182,024</u>

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	2018	2017
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 155,602	202,925
Fair value of plan assets, Capital Region	187,164	—
Actual return on plan assets	16,182	12,560
Settlements	(11,747)	(55,324)
Employer contributions	14,974	10,968
Benefit payments	(22,045)	(15,527)
Fair value of plan assets at end of year	\$ 340,130	155,602

The funded status of the plans and amounts recognized as accrued payroll and benefits and other long-term liabilities in the consolidated balance sheets at June 30 are as follows (in thousands):

	2018	2017
Funded status, end of period:		
Fair value of plan assets	\$ 340,130	155,602
Projected benefit obligations	431,340	182,024
Net funded status	\$ (91,210)	(26,422)
Accumulated benefit obligation at end of year	\$ 428,509	176,660
Amounts recognized in consolidated balance sheets at June 30:		
Accrued payroll and benefits	\$ —	1,056
Accrued pension obligation	(91,210)	(27,478)
	\$ (91,210)	(26,422)
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial gain (loss)	\$ 44,165	(62,233)
Prior service cost	284	(485)
	\$ 44,449	(62,718)

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

Net actuarial loss	\$ 3,721	
Prior service cost	76	
	\$ 3,797	

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

	2018	2017
Service cost	\$ 3,093	4,502
Interest cost	17,120	7,299
Expected return on plan assets	(22,636)	(9,976)
Prior service cost recognized	464	20,814
Recognized gains or losses	8,990	6,351
Net periodic pension cost	\$ 7,031	28,990

As described in note 1(aa) the Corporation adopted ASU No. 2017-07 as of July 1, 2017. As a result of the adoption of this ASU, the components of net benefit cost other than the service cost of \$3,093,000 were recorded in other nonoperating losses, net in the consolidated statement of operations for the year ended June 30, 2018. Service cost is included as a component of fringe benefits, which is recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations. The Corporation elected to use the practical expedient as of July 1, 2016. This election resulted in a decrease in operating expenses and increase in other nonoperating losses, net of \$24,488,000 in the consolidated statement of operations for the year ended June 30, 2017.

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

	2018	2017
Discount rate	4.22%–4.44%	2.50%–4.11%
Rate of compensation increase (for nonfrozen plan)	3.00	3.00–4.50

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

	2018	2017
Discount rate	3.20%–4.10%	2.00%–3.95%
Expected long-term return on plan assets	6.50	6.75
Rate of compensation increase (for nonfrozen plan)	3.00	2.50–4.50

The investment policies of the Corporation's pension plans incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Corporation uses investment managers specializing in each asset category, and regularly monitors performance and compliance with investment guidelines. In developing the expected

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long-term rate of return on assets assumption, the Corporation considers the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2018 and 2017, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of June 30</u>	
		<u>2018</u>	<u>2017</u>
Cash and cash equivalents	0–10%	2 %	5 %
Fixed income securities	20–40	30	32
Equity securities	30–50	39	26
Global asset allocation	10–20	17	27
Hedge funds	5–15	12	10
		<u>100 %</u>	<u>100 %</u>

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

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2018, aggregated by the fair value hierarchy as described in note 1(w) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments reported at NAV*</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,107	3,010	—	—	8,117
Corporate bonds	25,285	—	—	—	25,285
Government and agency bonds	10,315	—	—	—	10,315
Fixed income mutual funds	21,556	—	—	—	21,556
Common and preferred stocks	10,084	—	—	—	10,084
Equity mutual funds	100,309	12,091	—	—	112,400
Other mutual funds	30,968	—	—	—	30,968
Alternative investments	26,961	27,153	—	67,291	121,405
	<u>\$ 230,585</u>	<u>42,254</u>	<u>—</u>	<u>67,291</u>	<u>340,130</u>

* Fund investments reported at NAV as practical expedient.

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The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2017, aggregated by the fair value hierarchy as described in note 1(w) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments reported at NAV*</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,694	6,639	—	—	8,333
Fixed income mutual funds	11,495	—	—	—	11,495
Common and preferred stocks	10,993	—	—	—	10,993
Equity mutual funds	22,714	—	—	—	22,714
Other mutual funds	13,056	—	—	—	13,056
Alternative investments	18,240	28,431	—	42,340	89,011
	<u>\$ 78,192</u>	<u>35,070</u>	<u>—</u>	<u>42,340</u>	<u>155,602</u>

* Fund investments reported at NAV as practical expedient.

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2018 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling \$14,400,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$13,400,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$1,200,000 is subject to a lock-up restriction of three years. In addition, one fund totaling \$800,000 is subject to lockup restrictions and is not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had no unfunded commitments as of June 30, 2018.

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

The Corporation expects to contribute \$13,117,000 to its defined benefit pension plans for the fiscal year ended June 30, 2019.

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The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from plan assets in the following years ending June 30 (in thousands):

2019	\$	36,612
2020		24,526
2021		25,432
2022		26,010
2023		26,728
2024–2028		134,978

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

(b) Defined Contribution Plans

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a five-year gradual vesting schedule. Effective January 1, 2017, this plan was opened for new participants.

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the ROI Plan or the Midtown Plan described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees' base compensation. Effective January 1, 2017, this plan was frozen to new participants.

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan. Effective July 29, 2016, the Baltimore Washington retirement plan was merged into this plan. Effective January 1, 2017, this plan was frozen to new participants.

Midtown 401(k) Profit Sharing Plan for Union Employees – Defined contribution plan for substantially all union employees of Midtown. Employer contributions to this plan are determined based on years of service and hours worked. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

Baltimore Washington Retirement Plans – Defined contribution plans covering all employees of Baltimore Washington Medical Center and certain related entities. Effective July 29, 2016, this plan merged into the UMMS Voluntary 403(b) plan.

Shore Health System Retirement Plan – A contributory benefit plan covering substantially all employees of Shore Health. Employees are eligible for matching contributions after one year of service.

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Chester River Retirement Plan – A contributory benefit plan covering substantially all employees of Chester River who have met the eligibility requirements. Employees are eligible for matching contributions after one year of service.

Charles Regional Retirement Savings Plan – A contributory benefit plan covering substantially all full-time employees of Charles Regional. Employees are eligible for matching contributions after three years of service as defined in the plan.

Upper Chesapeake Retirement Plan – A contributory benefit plan covering substantially all employees of Upper Chesapeake. Employees are eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a five-year gradual vesting schedule.

Dimensions Health Retirement Plan (Capital Region Retirement Plan) – A contributory benefit plan covering substantially all employees of Capital Region. This plan replaced the frozen defined benefit plan effective January 1, 2008. Employees are eligible for elective deferrals of compensation as contributions to the plan. Employees are eligible for matching contributions after one year of service with a three year “cliff” vesting schedule. Nonrepresented employees, who, as of January 1, 2008, are both fifty-five years or older, who have at least one year of vesting service, and work in positions budgeted for at least forty hours per pay period, receive an additional contribution.

In accordance with the collective bargaining agreement with 1199 SEIU Health Care Workers East – Registered Nurses Chapter, represented employees with fifteen years of service also receive a matching \$25 for each pay period in which they defer \$25 or more paid quarterly. These employees who are both fifty-five years or older, and who have fifteen years of vesting service, and work in positions budgeted for at least forty hours per pay period receive an additional contribution.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$45,918,000 and \$41,900,000 for the years ended June 30, 2018 and 2017, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted primarily for the following purposes at June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Facility construction and renovations, research, education, and other		
Capital Region	\$ 424,034	—
All others	78,305	73,682
Economic and beneficial interests in the net assets of related organizations	<u>196,119</u>	<u>192,343</u>
	<u>\$ 698,458</u>	<u>266,025</u>

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Net assets were released from donor restrictions during the years ended June 30, 2018 and 2017 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	2018	2017
Purchases of equipment and construction costs	\$ 3,484	33,038
Research, education, uncompensated care, and other	3,956	2,868
	\$ 7,440	35,906

Permanently restricted net assets consist primarily of gifts to be held in perpetuity, the income from which may be used to fund the operations of the Corporation.

The Corporation's endowments consist of donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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Notes to Consolidated Financial Statements

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Endowment net assets are as follows (in thousands):

		June 30, 2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	38	16,124	44,209	60,371
		June 30, 2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	13,335	38,510	51,845

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Corporation to retain as a fund of perpetual duration. The Corporation does not have any donor-restricted endowment funds that are below the level that the donor or MUPMIFA requires.

(c) Investment Strategies

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

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

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

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(12) Economic and Beneficial Interests in the Net Assets of Related Organizations

The Corporation is supported by several related organizations that were formed to raise funds on behalf of the Corporation and certain of its subsidiaries. These interests are accounted for as either economic or beneficial interests in the net assets of such organizations.

The following is a summary of economic and beneficial interests in the net assets of financially interrelated organizations as of June 30 (in thousands):

	2018	2017
Economic interests in:		
UCH Legacy Funding Corporation	\$ 150,000	150,000
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	31,804	29,725
Baltimore Washington Medical Center Foundation, Inc.	9,862	9,222
Total economic interests	191,666	188,947
Beneficial interest in the net assets of:		
Dorchester General Hospital Foundation, Inc.	3,711	3,396
Prince George's Hospital Center Foundation, Inc.	496	—
Laurel Regional Hospital Auxiliary, Inc.	170	—
Laurel Regional Hospital Foundation, Inc.	76	—
	\$ 196,119	192,343

The UCH Legacy Funding Corporation was formed in December 2013 to hold funds restricted for the benefit of Upper Chesapeake.

At the discretion of its board of trustees, the Kernan Endowment Fund may pledge securities to satisfy various collateral requirements on behalf of ROI and may provide funding to ROI to support various clinical programs or capital needs.

BWMC Foundation was formed in July 2000 and supports the activities of UM Baltimore Washington by soliciting charitable contributions on its behalf.

Shore Regional maintains a beneficial interest in the net assets of Dorchester Foundation, a nonprofit corporation organized to raise funds on behalf of Dorchester Hospital. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation.

The Prince George's Hospital Center Foundation, Inc.; the Laurel Regional Hospital Auxiliary, Inc.; and the Laurel Regional Hospital Foundation, Inc. were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated Capital Region hospitals. Capital Region does not have control over the policies or decisions of these entities.

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A summary of the combined unaudited condensed financial information of the financially interrelated organizations in which the Corporation holds an economic or beneficial interest as of June 30 is as follows (in thousands):

	2018	2017
Current assets	\$ 3,355	3,073
Noncurrent assets	192,857	189,927
Total assets	\$ 196,212	193,000
Current liabilities	\$ 109	532
Noncurrent liabilities	(16)	125
Net assets	196,119	192,343
Total liabilities and net assets	\$ 196,212	193,000
Total operating revenue	\$ 3,897	2,422
Total operating expense	(1,474)	(210)
Other changes in net assets	1,353	2,246
Total increase in net assets	\$ 3,776	4,458

(13) State and County Support

The Corporation received \$3,200,000 in support for the Shock Trauma Center operations from the state of Maryland for both years ended June 30, 2018 and 2017.

In support of Capital Region operations, the Corporation received the following for the years ended June 30 (in thousands):

	2018	2017
State of Maryland	\$ 28,000	15,000
Prince George's County government	8,305	—
Magruder Memorial Hospital Trust	869	—
	\$ 37,174	15,000

The State of Maryland appropriates funds for construction costs incurred, equipment purchases made, and other capital support. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$3,209,000 and \$23,029,000 during the years ended June 30, 2018 and 2017, respectively.

As described in note 1(a)(x), Prince George's County and the State of Maryland have each approved funding through legislation of \$208.0 million towards the construction of the new medical facility.

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Notes to Consolidated Financial Statements

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(14) Functional Expenses

The Corporation provides healthcare services to residents within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Healthcare services	\$ 3,866,282	3,347,703
General and administrative	529,603	463,419
	<u>\$ 4,395,885</u>	<u>3,811,122</u>

(15) Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2018 and 2017 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Professional and general malpractice liabilities	\$ 290,306	234,569
Employee health	35,799	33,130
Employee long-term disability	6,369	8,696
Workers' compensation	19,869	18,961
Total self-insured liabilities	352,343	295,356
Less current portion	<u>(73,226)</u>	<u>(71,832)</u>
	<u>\$ 279,117</u>	<u>223,524</u>

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$168,452,000 and \$144,313,000 as of June 30, 2018 and 2017, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

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The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1.0 million on individual claims and \$3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to Terrapin, an unconsolidated joint venture. Terrapin provides insurance for claims in excess of \$1 million individually and \$3 million in the aggregate up to \$150 million individually and \$150 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

As discussed in note 4, Terrapin is a joint venture corporation in which a 50% equity interest is owned by the Corporation and a 50% equity interest is owned by Faculty Physicians, Inc.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2018 and 2017 was approximately \$52,652,000 and \$36,367,000, respectively.

(16) Business and Credit Concentrations

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

The Corporation maintains cash accounts with highly rated financial institutions, which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits, and as such, management does not believe the Corporation is subject to any significant credit risks related to this practice.

The Corporation had gross receivables from patients and third-party payors as follows at June 30:

	<u>2018</u>	<u>2017</u>
Medicare	23 %	25 %
Medicaid	23	20
Commercial insurance and HMOs	18	21
Blue Cross	10	11
Self-pay and others	26	23
	<u>100 %</u>	<u>100 %</u>

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June 30, 2018 and 2017

The Corporation recorded gross revenues from patients and third-party payors for the years ended June 30 as follows:

	2018	2017
Medicare	38 %	39 %
Medicaid	24	22
Commercial insurance and HMOs	22	20
Blue Cross	11	14
Self-pay and others	5	5
	100 %	100 %

(17) Certain Significant Risks and Uncertainties

The Corporation provides general acute healthcare services in the state of Maryland. The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

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

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

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

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, are expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

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The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Corporation has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

(18) Maryland Health Services Cost Review Commission

Effective July 1, 2013, the Health System and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology for the following hospitals: Medical Center, ROI, Midtown, Baltimore Washington, Charles Regional, St. Joseph, Shore Emergency Center, Upper Chesapeake, and Capital Region. The agreements will continue each year and on July 1 of each year thereafter; the agreements will renew for a one-year period unless it is canceled by the HSCRC or by the Corporation. The agreements were in place for the years ended June 30, 2018 and 2017. The GBR model is a revenue constraint and quality improvement system designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Corporation's mission to provide the highest value of care possible to its patients and the communities it serves.

The GBR agreements establish a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, a hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Although the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. The Corporation will receive an annual adjustment to its cap for the change in population in the Corporation's service areas. GBR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting. The HSCRC also may impose various other revenue adjustments, which could be significant in the future.

For the years ended June 30, 2018 and 2017, UM Memorial Hospital, UM Dorchester Hospital, and UM Chester River continued their participation in Total Patient Revenue (TPR) agreements with the HSCRC. The TPR agreements establish an approved aggregate inpatient and outpatient revenue for regulated services to provide care for the patient population in the geographic region without regard for patient acuity or volumes.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2018 and 2017, the Corporation recognized a net distribution from the pool of approximately \$14,015,000 and \$8,345,000, respectively, which is recorded as net patient service revenue.

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Notes to Consolidated Financial Statements

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(19) Subsequent Events

The Corporation evaluated all events and transactions that occurred after June 30, 2018 and through October 26, 2018, the date the consolidated financial statements were issued. Other than those described below, the Corporation did not have any material recognizable subsequent events during the period.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidating Balance Sheet Information by Division

June 30, 2018

(In thousands)

Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Current assets:														
Cash and cash equivalents	\$ 259,415	2,274	3,619	10,482	12,677	5,631	1,987	41,809	57,872	48,781	—	1,477	—	446,024
Assets limited as to use, current portion	51,674	—	682	1,392	943	484	1,128	—	181	—	—	—	—	56,484
Accounts receivable:														
Patient accounts receivable, less allowance for doubtful accounts of \$219,769	198,855	8,172	8,146	43,415	32,522	10,927	37,393	39,421	48,292	—	—	4,522	—	431,665
Other	342,758	16,159	33,258	27,975	11,367	11,724	12,101	—	194,421	26,475	—	11,164	(572,209)	115,193
Inventories	33,542	1,145	2,983	6,496	4,482	1,680	5,670	9,172	5,606	—	—	—	—	70,776
Prepaid expenses and other current assets	15,887	133	3,322	1,183	1,629	644	1,766	10,086	4,234	5,742	1,500	731	—	46,857
Total current assets	<u>902,131</u>	<u>27,883</u>	<u>52,010</u>	<u>90,943</u>	<u>63,620</u>	<u>31,090</u>	<u>60,045</u>	<u>100,488</u>	<u>310,606</u>	<u>80,998</u>	<u>1,500</u>	<u>17,894</u>	<u>(572,209)</u>	<u>1,166,999</u>
Investments	288,289	37,828	3	147,525	96,349	35,552	12,277	242,082	—	12,240	—	—	—	872,145
Assets limited as to use, less current portion:														
Investments held for collateral	50,572	—	3,700	8,000	—	—	—	22,318	—	—	—	—	—	84,590
Debt service funds	33,935	—	—	—	—	—	—	—	—	—	—	—	—	33,935
Construction funds	333,359	17,112	8,589	10,613	24,378	13,434	4,389	—	—	—	—	—	—	411,874
Board designated and escrow funds	—	—	—	—	79,493	(181)	—	26,743	—	—	17,674	—	—	123,729
Self-insurance trust funds	79,742	—	14,816	23,164	37,229	7,392	7,889	11,267	41,491	—	—	—	—	222,990
Funds restricted by donor	—	—	1,093	—	34,417	—	6,977	—	—	—	26,983	—	—	69,470
Economic and beneficial interests in the net assets of related organizations	<u>202,725</u>	<u>35,620</u>	<u>447</u>	<u>9,862</u>	<u>3,711</u>	<u>—</u>	<u>9,503</u>	<u>—</u>	<u>743</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(66,492)</u>	<u>196,119</u>
Total investments	<u>700,333</u>	<u>52,732</u>	<u>28,645</u>	<u>51,639</u>	<u>179,228</u>	<u>20,645</u>	<u>28,758</u>	<u>60,328</u>	<u>42,234</u>	<u>—</u>	<u>44,657</u>	<u>—</u>	<u>(66,492)</u>	<u>1,142,707</u>
Property and equipment, net	925,452	45,094	104,904	255,253	157,506	105,942	221,008	250,550	91,425	3,053	—	8,332	—	2,168,519
Investments in joint ventures and other assets	1,007,331	—	8,042	27,615	11,958	9,356	33,777	218,612	8,648	45,046	11,008	—	(702,300)	679,093
Total assets	<u>\$ 3,823,536</u>	<u>163,537</u>	<u>193,604</u>	<u>572,975</u>	<u>508,661</u>	<u>202,585</u>	<u>355,865</u>	<u>872,060</u>	<u>452,913</u>	<u>141,337</u>	<u>57,165</u>	<u>26,226</u>	<u>(1,341,001)</u>	<u>6,029,463</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidating Balance Sheet Information by Division

June 30, 2018

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Current liabilities:														
Trade accounts payable	\$ 136,233	11,787	13,812	15,550	14,847	6,231	19,919	21,878	23,579	1,453	176	3,154	—	268,619
Accrued payroll and benefits	111,554	5,789	10,595	22,104	18,746	3,907	26,531	28,187	23,378	2,080	—	11,410	—	264,281
Advances from third-party payors	82,676	6,526	7,378	12,178	6,238	3,508	11,412	9,367	14,584	—	—	—	—	153,867
Lines of credit	99,300	—	—	—	—	—	—	—	—	—	—	—	—	99,300
Short-term financing	150,000	—	—	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	213,444	1,333	5,451	36,435	20,850	16,829	101,333	35,905	196,083	160,506	—	15,493	(572,209)	231,453
Long-term debt subject to short-term remarketing arrangements	58,054	—	—	—	—	—	—	—	—	—	—	—	—	58,054
Current portion of long-term debt	14,841	518	940	4,373	2,802	3,255	14,939	5,088	233	5,000	—	—	—	51,989
Total current liabilities	866,102	25,953	38,176	90,640	63,483	33,730	174,134	100,425	257,857	169,039	176	30,057	(572,209)	1,277,563
Long-term debt, less current portion	725,170	19,278	29,623	156,708	80,454	55,246	217,119	191,386	1,683	31,667	—	—	—	1,508,334
Other long-term liabilities	126,407	144	18,742	45,984	22,600	16,387	29,971	36,096	99,116	3,241	—	—	—	398,688
Interest rate swap liabilities	149,789	—	—	—	—	—	—	—	—	—	—	—	—	149,789
Total liabilities	1,867,468	45,375	86,541	293,332	166,537	105,363	421,224	327,907	358,656	203,947	176	30,057	(572,209)	3,334,374
Net assets:														
Unrestricted	1,338,378	82,409	105,523	269,781	301,068	97,222	(92,003)	384,991	60,688	(62,610)	23,853	(3,831)	(553,047)	1,952,422
Temporarily restricted	616,001	35,753	1,540	9,862	25,181	—	20,700	157,886	33,569	—	12,435	—	(214,489)	698,458
Permanently restricted	1,689	—	—	—	15,875	—	5,944	1,276	—	—	20,701	—	(1,276)	44,209
Total net assets	1,956,068	118,162	107,063	279,643	342,124	97,222	(65,359)	544,153	94,257	(62,610)	56,989	(3,831)	(768,792)	2,695,089
Total liabilities and net assets	\$ 3,823,536	163,537	193,604	572,975	508,661	202,585	355,865	872,060	452,913	141,337	57,165	26,226	(1,341,001)	6,029,463

See accompanying independent auditors' report.

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Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2018

(In thousands)

Assets	University of Maryland Medical Center	Corporate Shared Services	36 South Paca	University CARE	Eliminations	University of Maryland Medical Center & Affiliates consolidated total
Current assets:						
Cash and cash equivalents	\$ 254,298	338	716	4,063	—	259,415
Assets limited as to use, current portion	2,789	48,885	—	—	—	51,674
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$77,313	198,855	—	—	—	—	198,855
Other	333,672	52,119	25	13	(43,071)	342,758
Inventories	33,468	35	—	39	—	33,542
Prepaid expenses and other current assets	2,569	13,231	—	87	—	15,887
Total current assets	<u>825,651</u>	<u>114,608</u>	<u>741</u>	<u>4,202</u>	<u>(43,071)</u>	<u>902,131</u>
Investments	252,176	36,113	—	—	—	288,289
Assets limited as to use, less current portion:						
Investment held for collateral	—	50,572	—	—	—	50,572
Debt service funds	—	33,935	—	—	—	33,935
Construction funds	30,121	303,238	—	—	—	333,359
Board designated and escrow funds	—	—	—	—	—	—
Self-insurance trust funds	79,742	—	—	—	—	79,742
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	52,725	150,000	—	—	—	202,725
	<u>162,588</u>	<u>537,745</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>700,333</u>
Property and equipment, net	793,860	123,326	8,266	—	—	925,452
Investments in joint ventures and other assets	105,109	908,841	3,277	—	(9,896)	1,007,331
Total assets	<u>\$ 2,139,384</u>	<u>1,720,633</u>	<u>12,284</u>	<u>4,202</u>	<u>(52,967)</u>	<u>3,823,536</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2018

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Corporate Shared Services	36 South Paca	University CARE	Eliminations	University of Maryland Medical Center & Affiliates consolidated total
Current liabilities:						
Trade accounts payable	\$ 99,791	35,586	154	702	—	136,233
Accrued payroll and benefits	83,261	28,260	—	33	—	111,554
Advances from third-party payors	82,676	—	—	—	—	82,676
Lines of credit	99,300	—	—	—	—	99,300
Short-term financing	—	150,000	—	—	—	150,000
Other current liabilities	109,963	146,441	111	—	(43,071)	213,444
Long-term debt subject to short-term remarketing arrangements	58,054	—	—	—	—	58,054
Current portion of long-term debt	13,891	950	—	—	—	14,841
Total current liabilities	546,936	361,237	265	735	(43,071)	866,102
Long-term debt, less current portion	506,140	219,030	—	—	—	725,170
Other long-term liabilities	126,396	—	11	—	—	126,407
Interest rate swaps	—	149,789	—	—	—	149,789
Total liabilities	1,179,472	730,056	276	735	(43,071)	1,867,468
Net assets:						
Unrestricted	907,187	425,612	12,008	3,467	(9,896)	1,338,378
Temporarily restricted	52,725	563,276	—	—	—	616,001
Permanently restricted	—	1,689	—	—	—	1,689
Total net assets	959,912	990,577	12,008	3,467	(9,896)	1,956,068
Total liabilities and net assets	\$ 2,139,384	1,720,633	12,284	4,202	(52,967)	3,823,536

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2018

(In thousands)

Assets	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Current assets:					
Cash and cash equivalents	\$ 347	3,264	8	—	3,619
Assets limited as to use, current portion	—	682	—	—	682
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$13,046	221	7,260	665	—	8,146
Other	1,729	31,529	—	—	33,258
Inventories	—	2,983	—	—	2,983
Prepaid expenses and other current assets	2,483	839	—	—	3,322
Total current assets	<u>4,780</u>	<u>46,557</u>	<u>673</u>	<u>—</u>	<u>52,010</u>
Investments	—	3	—	—	3
Assets limited as to use, less current portion:					
Investment held for collateral	—	3,700	—	—	3,700
Debt service funds	—	—	—	—	—
Construction funds	—	8,589	—	—	8,589
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	14,816	—	—	14,816
Funds restricted by donor	—	1,093	—	—	1,093
Economic interests in the net assets of related organizations	—	447	—	—	447
	—	<u>28,645</u>	—	—	<u>28,645</u>
Property and equipment, net	4,515	100,389	—	—	104,904
Investments in joint ventures and other assets	1,703	6,339	—	—	8,042
Total assets	<u>\$ 10,998</u>	<u>181,933</u>	<u>673</u>	<u>—</u>	<u>193,604</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2018

(In thousands)

Liabilities and Net Assets	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Current liabilities:					
Trade accounts payable	\$ 232	13,576	4	—	13,812
Accrued payroll and benefits	—	10,595	—	—	10,595
Advances from third-party payors	—	7,378	—	—	7,378
Lines of credit	—	—	—	—	—
Other current liabilities	592	4,197	662	—	5,451
Current portion of long-term debt	140	800	—	—	940
Total current liabilities	964	36,546	666	—	38,176
Long-term debt, less current portion	—	29,623	—	—	29,623
Other long-term liabilities	—	18,742	—	—	18,742
Total liabilities	964	84,911	666	—	86,541
Net assets:					
Unrestricted	10,034	95,482	7	—	105,523
Temporarily restricted	—	1,540	—	—	1,540
Permanently restricted	—	—	—	—	—
Total net assets	10,034	97,022	7	—	107,063
Total liabilities and net assets	\$ 10,998	181,933	673	—	193,604

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Baltimore Washington Medical System (BWMS)

June 30, 2018

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Current assets:							
Cash and cash equivalents	\$ —	10,770	129	—	(417)	—	10,482
Assets limited as to use, current portion	—	1,392	—	—	—	—	1,392
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$31,809	1,500	35,056	6,859	—	—	—	43,415
Other	—	5,110	17,007	2,000	3,858	—	27,975
Inventories	—	6,496	—	—	—	—	6,496
Prepaid expenses and other current assets	(137)	1,220	52	—	48	—	1,183
Total current assets	1,363	60,044	24,047	2,000	3,489	—	90,943
Investments	—	147,525	—	—	—	—	147,525
Assets limited as to use, less current portion:							
Investment held for collateral	—	8,000	—	—	—	—	8,000
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	10,613	—	—	—	—	10,613
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	23,164	—	—	—	—	23,164
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	9,862	—	—	—	—	9,862
Total	—	51,639	—	—	—	—	51,639
Property and equipment, net	2,428	236,600	—	—	16,225	—	255,253
Investments in joint ventures and other assets	310,415	28,869	—	—	536	(312,205)	27,615
Total assets	\$ 314,206	524,677	24,047	2,000	20,250	(312,205)	572,975

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Baltimore Washington Medical System (BWMS)

June 30, 2018

(In thousands)

Liabilities and Net Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Current liabilities:							
Trade accounts payable	\$ (139)	15,782	226	—	(319)	—	15,550
Accrued payroll and benefits	1,476	19,321	1,307	—	—	—	22,104
Advances from third-party payors	—	12,178	—	—	—	—	12,178
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	31,918	4,480	—	1	36	—	36,435
Current portion of long-term debt	—	4,148	—	—	225	—	4,373
Total current liabilities	33,255	55,909	1,533	1	(58)	—	90,640
Long-term debt, less current portion	—	154,327	—	—	2,381	—	156,708
Other long-term liabilities	507	45,477	—	—	—	—	45,984
Total liabilities	33,762	255,713	1,533	1	2,323	—	293,332
Net assets:							
Unrestricted	280,444	259,102	22,514	1,999	17,927	(312,205)	269,781
Temporarily restricted	—	9,862	—	—	—	—	9,862
Permanently restricted	—	—	—	—	—	—	—
Total net assets	280,444	268,964	22,514	1,999	17,927	(312,205)	279,643
Total liabilities and net assets	\$ 314,206	524,677	24,047	2,000	20,250	(312,205)	572,975

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2018

(In thousands)

Assets	Shore Health System, Inc.	Shore Orthopedics	UM Shore Home Care	Queenstown ASC	Memorial Hospital Foundation, Inc. and Subsidiary	Chester River Consolidated Total	Eliminations	Shore Regional consolidated total
Current assets:								
Cash and cash equivalents	\$ (1,503)	342	7	—	—	13,831	—	12,677
Assets limited as to use, current portion	767	—	—	—	—	176	—	943
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$18,397	25,109	482	250	58	—	6,623	—	32,522
Other	4,030	—	98	—	2,600	4,639	—	11,367
Inventories	3,810	—	—	—	—	672	—	4,482
Prepaid expenses and other current assets	1,428	62	45	—	27	67	—	1,629
Total current assets	<u>33,641</u>	<u>886</u>	<u>400</u>	<u>58</u>	<u>2,627</u>	<u>26,008</u>	<u>—</u>	<u>63,620</u>
Investments	77,168	—	—	—	337	18,844	—	96,349
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	20,268	—	—	—	—	4,110	—	24,378
Board designated and escrow funds	25,000	—	—	—	48,847	5,646	—	79,493
Self-insurance trust funds	29,050	—	—	—	—	8,179	—	37,229
Funds restricted by donor	5,252	—	—	—	24,602	4,563	—	34,417
Economic and beneficial interests in the net assets of related organizations	83,027	—	—	—	—	7,574	(86,890)	3,711
	<u>162,597</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>73,449</u>	<u>30,072</u>	<u>(86,890)</u>	<u>179,228</u>
Property and equipment, net	132,787	526	200	51	3,111	20,831	—	157,506
Investments in joint ventures and other assets	10,301	—	—	—	14	1,995	(352)	11,958
Total assets	<u>\$ 416,494</u>	<u>1,412</u>	<u>600</u>	<u>109</u>	<u>79,538</u>	<u>97,750</u>	<u>(87,242)</u>	<u>508,661</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2018

(In thousands)

Liabilities and Net Assets	Shore Health System, Inc.	Shore Orthopedics	UM Shore Home Care	Queenstown ASC	Memorial Hospital Foundation, Inc. and Subsidiary	Chester River Consolidated Total	Eliminations	Shore Regional consolidated total
Current liabilities:								
Trade accounts payable	\$ 11,773	238	(17)	2	3	2,848	—	14,847
Accrued payroll and benefits	15,094	755	265	—	21	2,611	—	18,746
Advances from third-party payors	5,560	—	—	—	—	678	—	6,238
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	13,405	4,774	—	833	199	1,639	—	20,850
Current portion of long-term debt	2,700	—	—	—	—	102	—	2,802
Total current liabilities	48,532	5,767	248	835	223	7,878	—	63,483
Long-term debt, less current portion	76,675	—	—	—	—	3,779	—	80,454
Other long-term liabilities	15,786	—	—	—	—	6,814	—	22,600
Total liabilities	140,993	5,767	248	835	223	18,471	—	166,537
Net assets:								
Unrestricted	238,908	(4,355)	352	(726)	51,996	70,392	(55,499)	301,068
Temporarily restricted	22,014	—	—	—	15,846	6,295	(18,974)	25,181
Permanently restricted	14,579	—	—	—	11,473	2,592	(12,769)	15,875
Total net assets	275,501	(4,355)	352	(726)	79,315	79,279	(87,242)	342,124
Total liabilities and net assets	\$ 416,494	1,412	600	109	79,538	97,750	(87,242)	508,661

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2018

(In thousands)

Assets	Chester River Hospital Center	UM Shore Nursing and Rehab.	UM Chester River Home Care	Chester River Health Foundation	Chester River consolidated total
Current assets:					
Cash and cash equivalents	\$ 12,637	852	342	—	13,831
Assets limited as to use, current portion	176	—	—	—	176
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$2,974	6,266	140	217	—	6,623
Other	3,737	897	2	3	4,639
Inventories	672	—	—	—	672
Prepaid expenses and other current assets	48	4	15	—	67
Total current assets	23,536	1,893	576	3	26,008
Investments	14,319	—	1,678	2,847	18,844
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	4,110	—	—	—	4,110
Board designated and escrow funds	5,000	—	—	646	5,646
Self-insurance trust funds	8,179	—	—	—	8,179
Funds restricted by donor	105	—	—	4,458	4,563
Economic interests in the net assets of related organizations	7,574	—	—	—	7,574
	24,968	—	—	5,104	30,072
Property and equipment, net	20,631	—	200	—	20,831
Investments in joint ventures and other assets	1,995	—	—	—	1,995
Total assets	\$ 85,449	1,893	2,454	7,954	97,750

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2018

(In thousands)

Liabilities and Net Assets	Chester River Hospital Center	UM Shore Nursing and Rehab.	UM Chester River Home Care	Chester River Health Foundation	Chester River consolidated total
Current liabilities:					
Trade accounts payable	\$ 2,336	461	48	3	2,848
Accrued payroll and benefits	2,467	7	137	—	2,611
Advances from third-party payors	620	58	—	—	678
Lines of credit	—	—	—	—	—
Other current liabilities	876	356	31	376	1,639
Current portion of long-term debt	102	—	—	—	102
Total current liabilities	<u>6,401</u>	<u>882</u>	<u>216</u>	<u>379</u>	<u>7,878</u>
Long-term debt, less current portion	3,779	—	—	—	3,779
Other long-term liabilities	6,814	—	—	—	6,814
Total liabilities	<u>16,994</u>	<u>882</u>	<u>216</u>	<u>379</u>	<u>18,471</u>
Net assets:					
Unrestricted	63,998	1,011	2,233	3,150	70,392
Temporarily restricted	3,161	—	5	3,129	6,295
Permanently restricted	1,296	—	—	1,296	2,592
Total net assets	<u>68,455</u>	<u>1,011</u>	<u>2,238</u>	<u>7,575</u>	<u>79,279</u>
Total liabilities and net assets	<u>\$ 85,449</u>	<u>1,893</u>	<u>2,454</u>	<u>7,954</u>	<u>97,750</u>

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Charles Regional Health System, Inc. (Charles Regional)

June 30, 2018

(In thousands)

Assets	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Urgent Care	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Charles Regional Imaging Center	Eliminations	Charles Regional consolidated total
Current assets:								
Cash and cash equivalents	\$ —	3,954	—	—	1,329	348	—	5,631
Assets limited as to use, current portion	—	484	—	—	—	—	—	484
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$6,343	—	10,658	126	—	—	143	—	10,927
Other	—	11,554	—	—	26	144	—	11,724
Inventories	—	1,680	—	—	—	—	—	1,680
Prepaid expenses and other current assets	1	617	2	9	15	—	—	644
Total current assets	<u>1</u>	<u>28,947</u>	<u>128</u>	<u>9</u>	<u>1,370</u>	<u>635</u>	<u>—</u>	<u>31,090</u>
Investments	—	33,218	—	—	2,334	—	—	35,552
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	—	13,434	—	—	—	—	—	13,434
Board designated and escrow funds	(181)	—	—	—	—	—	—	(181)
Self-insurance trust funds	—	7,392	—	—	—	—	—	7,392
Funds restricted by donor	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,265	—	—	—	—	(5,265)	—
	<u>(181)</u>	<u>26,091</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,265)</u>	<u>20,645</u>
Property and equipment, net	25,417	73,626	524	4	2,344	4,027	—	105,942
Investments in joint ventures and other assets	904	9,676	—	3,055	—	—	(4,279)	9,356
Total assets	<u>\$ 26,141</u>	<u>171,558</u>	<u>652</u>	<u>3,068</u>	<u>6,048</u>	<u>4,662</u>	<u>(9,544)</u>	<u>202,585</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Charles Regional Health System, Inc. (Charles Regional)

June 30, 2018

(In thousands)

Liabilities and Net Assets	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Urgent Care	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Charles Regional Imaging Center	Eliminations	Charles Regional consolidated total
Current liabilities:								
Trade accounts payable	\$ —	5,922	170	—	46	93	—	6,231
Accrued payroll and benefits	—	3,799	—	—	—	108	—	3,907
Advances from third-party payors	—	3,508	—	—	—	—	—	3,508
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	8,042	1,181	2,188	5,276	—	142	—	16,829
Current portion of long-term debt	700	2,522	—	—	33	—	—	3,255
Total current liabilities	8,742	16,932	2,358	5,276	79	343	—	33,730
Long-term debt, less current portion	5,573	48,971	—	—	702	—	—	55,246
Other long-term liabilities	—	16,345	—	—	—	42	—	16,387
Total liabilities	14,315	82,248	2,358	5,276	781	385	—	105,363
Net assets:								
Unrestricted	11,826	89,310	(1,706)	(2,208)	5,267	4,277	(9,544)	97,222
Temporarily restricted	—	—	—	—	—	—	—	—
Permanently restricted	—	—	—	—	—	—	—	—
Total net assets	11,826	89,310	(1,706)	(2,208)	5,267	4,277	(9,544)	97,222
Total liabilities and net assets	\$ 26,141	171,558	652	3,068	6,048	4,662	(9,544)	202,585

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2018

(In thousands)

Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	UM Regional Supplier svcs	UM Regional Prof svcs	Eliminations	St. Joseph consolidated total
Current assets:										
Cash and cash equivalents	\$ (3,101)	(399)	—	—	1,765	3,722	—	—	—	1,987
Assets limited as to use, current portion	1,128	—	—	—	—	—	—	—	—	1,128
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$16,493	31,520	3,180	—	1,449	—	—	909	335	—	37,393
Other	693	209	3,643	—	5	7,297	—	254	—	12,101
Inventories	5,501	—	—	—	—	—	166	3	—	5,670
Prepaid expenses and other current assets	830	453	199	111	137	—	—	36	—	1,766
Total current assets	<u>36,571</u>	<u>3,443</u>	<u>3,842</u>	<u>1,560</u>	<u>1,907</u>	<u>11,019</u>	<u>1,075</u>	<u>628</u>	<u>—</u>	<u>60,045</u>
Investments	—	—	—	—	—	12,277	—	—	—	12,277
Assets limited as to use, less current portion:										
Debt service funds	—	—	—	—	—	—	—	—	—	—
Construction funds	4,389	—	—	—	—	—	—	—	—	4,389
Board designated and escrow funds	—	—	—	—	—	—	—	—	—	—
Self-insurance trust funds	7,889	—	—	—	—	—	—	—	—	7,889
Funds restricted by donor	—	—	—	—	—	6,977	—	—	—	6,977
Economic interests in the net assets of related organizations	9,503	—	—	—	—	—	—	—	—	9,503
	<u>21,781</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,977</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,758</u>
Property and equipment, net	208,109	1,180	201	239	11,094	—	71	114	—	221,008
Investments in joint ventures and other assets	31,300	—	2,337	—	—	526	—	1,951	(2,337)	33,777
Total assets	<u>\$ 297,761</u>	<u>4,623</u>	<u>6,380</u>	<u>1,799</u>	<u>13,001</u>	<u>30,799</u>	<u>1,146</u>	<u>2,693</u>	<u>(2,337)</u>	<u>355,865</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2018

(In thousands)

Liabilities and Net Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	UM Regional Supplier svcs	UM Regional Prof svcs	Eliminations	St. Joseph consolidated total
Current liabilities:										
Trade accounts payable	\$ 18,181	739	573	13	38	35	324	16	—	19,919
Accrued payroll and benefits	21,433	3,579	—	1,016	—	—	325	178	—	26,531
Advances from third-party payors	11,412	—	—	—	—	—	—	—	—	11,412
Lines of credit	—	—	—	—	—	—	—	—	—	—
Other current liabilities	97,313	3,393	—	199	25	202	—	201	—	101,333
Current portion of long-term debt	6,429	—	—	—	8,510	—	—	—	—	14,939
Total current liabilities	154,768	7,711	573	1,228	8,573	237	649	395	—	174,134
Long-term debt, less current portion	217,122	—	(3)	—	—	—	—	—	—	217,119
Other long-term liabilities	29,971	—	—	—	—	—	—	—	—	29,971
Total liabilities	401,861	7,711	570	1,228	8,573	237	649	395	—	421,224
Net assets:										
Unrestricted	(104,101)	(3,088)	5,810	571	4,428	3,919	497	2,298	(2,337)	(92,003)
Temporarily restricted	1	—	—	—	—	20,699	—	—	—	20,700
Permanently restricted	—	—	—	—	—	5,944	—	—	—	5,944
Total net assets	(104,100)	(3,088)	5,810	571	4,428	30,562	497	2,298	(2,337)	(65,359)
Total liabilities and net assets	\$ 297,761	4,623	6,380	1,799	13,001	30,799	1,146	2,693	(2,337)	355,865

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2018

(In thousands)

Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current assets:													
Cash and cash equivalents	\$ 25,867	15,220	29	—	381	6	306	—	—	—	—	—	41,809
Assets limited as to use, current portion	—	—	—	—	—	—	—	—	—	—	—	—	—
Accounts receivable:													
Patient accounts receivable, less allowance for doubtful accounts of \$16,948	27,251	6,075	—	—	6,091	4	—	—	—	—	—	—	39,421
Other	—	—	—	—	—	—	—	—	—	—	—	—	—
Inventories	5,619	2,859	—	—	694	—	—	—	—	—	—	—	9,172
Prepaid expenses and other current assets	1,263	1,906	16	—	520	5	5,273	58	—	1,045	—	—	10,086
Total current assets	<u>60,000</u>	<u>26,060</u>	<u>45</u>	<u>—</u>	<u>7,686</u>	<u>15</u>	<u>5,579</u>	<u>58</u>	<u>—</u>	<u>1,045</u>	<u>—</u>	<u>—</u>	<u>100,488</u>
Investments	149,952	91,560	—	—	—	570	—	—	—	—	—	—	242,082
Assets limited as to use, less current portion:													
Investments held for swap collateral	22,318	—	—	—	—	—	—	—	—	—	—	—	22,318
Debt service funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Board designated and escrow funds	—	—	—	—	—	—	26,743	—	—	—	—	—	26,743
Self-insurance trust funds	—	—	—	—	—	—	—	—	—	11,267	—	—	11,267
Funds restricted by donor	—	—	—	—	—	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
	<u>22,318</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,743</u>	<u>—</u>	<u>—</u>	<u>11,267</u>	<u>—</u>	<u>—</u>	<u>60,328</u>
Property and equipment, net	210,747	31,874	—	844	1,660	1,505	54	865	—	—	3,001	—	250,550
Investments in joint ventures and other assets	233,870	—	—	4,420	—	—	45	—	—	8,461	—	(28,184)	218,612
Total assets	<u>\$ 676,887</u>	<u>149,494</u>	<u>45</u>	<u>5,264</u>	<u>9,346</u>	<u>2,090</u>	<u>32,421</u>	<u>923</u>	<u>—</u>	<u>20,773</u>	<u>3,001</u>	<u>(28,184)</u>	<u>872,060</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2018

(In thousands)

Liabilities and Net Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current liabilities:													
Trade accounts payable	\$ 10,169	8,249	—	—	3,199	—	—	186	—	75	—	—	21,878
Accrued payroll and benefits	21,030	5,812	—	—	—	—	—	1,345	—	—	—	—	28,187
Advances from third-party payors	7,473	1,894	—	—	—	—	—	—	—	—	—	—	9,367
Other current liabilities	(3,371)	15,338	29	864	6,304	581	9,931	2,135	—	913	3,116	65	35,905
Current portion of long-term debt	5,088	—	—	—	—	—	—	—	—	—	—	—	5,088
Total current liabilities	40,389	31,293	29	864	9,503	581	9,931	3,666	—	988	3,116	65	100,425
Long-term debt, less current portion	167,184	24,202	—	—	—	—	—	—	—	—	—	—	191,386
Other long-term liabilities	20,973	1,152	—	—	—	—	—	—	—	19,665	—	(5,694)	36,096
Total liabilities	228,546	56,647	29	864	9,503	581	9,931	3,666	—	20,653	3,116	(5,629)	327,907
Net assets:													
Unrestricted	275,851	92,847	16	4,400	(157)	939	13,898	(2,743)	—	120	(115)	(65)	384,991
Temporarily restricted	172,490	—	—	—	—	570	7,316	—	—	—	—	(22,490)	157,886
Permanently restricted	—	—	—	—	—	—	1,276	—	—	—	—	—	1,276
Total net assets	448,341	92,847	16	4,400	(157)	1,509	22,490	(2,743)	—	120	(115)	(22,555)	544,153
Total liabilities and net assets	\$ 676,887	149,494	45	5,264	9,346	2,090	32,421	923	—	20,773	3,001	(28,184)	872,060

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Capital Region Health System (Capital Region)

June 30, 2018

(In thousands)

Assets	Prince George's Hospital Center	Laurel Regional Hospital	Bowie Health Center	Gladys Spellman Specialty Care	Dimensions Healthcare Associates	Affiliated Enterprises, Inc.	Madison Manor Inc.	Dimensions Assurance, Ltd.	Dimensions Health System Corporate	Regional Medical Center	Eliminations	Capital Region consolidated total
Current assets:												
Cash and cash equivalents	\$ 1	1	1	—	—	1,366	388	—	56,115	—	—	57,872
Assets limited as to use, current portion	—	—	—	—	—	—	—	—	181	—	—	181
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$27,971	32,753	12,363	2,388	(152)	940	—	—	—	—	—	—	48,292
Other	142,478	708	10,865	21,991	11,266	1,598	2,759	6,984	198	565	(4,991)	194,421
Inventories	3,453	1,788	365	—	—	—	—	—	—	—	—	5,606
Prepaid expenses and other current assets	176	—	37	—	208	—	—	36	3,777	—	—	4,234
Total current assets	<u>178,861</u>	<u>14,860</u>	<u>13,656</u>	<u>21,839</u>	<u>12,414</u>	<u>2,964</u>	<u>3,147</u>	<u>7,020</u>	<u>60,271</u>	<u>565</u>	<u>(4,991)</u>	<u>310,606</u>
Investments	—	—	—	—	—	—	—	—	—	—	—	—
Assets limited as to use, less current portion:												
Investments held for swap collateral	—	—	—	—	—	—	—	—	—	—	—	—
Debt service funds	—	—	—	—	—	—	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—	—	—	—	—	—	—
Board designated and escrow funds	—	—	—	—	—	—	—	—	—	—	—	—
Self-insurance trust funds	—	—	—	—	—	—	—	39,747	1,744	—	—	41,491
Funds restricted by donor	—	—	—	—	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	496	247	—	—	—	—	—	—	4,834	—	(4,834)	743
	496	247	—	—	—	—	—	39,747	6,578	—	(4,834)	42,234
Property and equipment, net	14,200	32,362	8,177	61	244	2,401	—	—	6,069	27,911	—	91,425
Investments in joint ventures and other assets	2,410	976	—	—	—	—	2,211	196	1,855	2,000	(1,000)	8,648
Total assets	<u>\$ 195,967</u>	<u>48,445</u>	<u>21,833</u>	<u>21,900</u>	<u>12,658</u>	<u>5,365</u>	<u>5,358</u>	<u>46,963</u>	<u>74,773</u>	<u>30,476</u>	<u>(10,825)</u>	<u>452,913</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Capital Region Health System (Capital Region)

June 30, 2018

(In thousands)

Liabilities and Net Assets	Prince George's Hospital Center	Laurel Regional Hospital	Bowie Health Center	Gladys Spellman Specialty Care	Dimensions Healthcare Associates	Affiliated Enterprises, Inc.	Madison Manor Inc.	Dimensions Assurance, Ltd.	Dimensions Health System Corporate	Regional Medical Center	Eliminations	Capital Region consolidated total
Current liabilities:												
Trade accounts payable	\$ 11,260	3,203	243	53	3,090	21	2	(1)	5,707	1	—	23,579
Accrued payroll and benefits	6,811	5,012	444	198	1,596	—	—	—	9,317	—	—	23,378
Advances from third-party payors	10,698	2,853	208	825	—	—	—	—	—	—	—	14,584
Other current liabilities	9,020	55,807	398	14	300	41	—	7,416	128,078	—	(4,991)	196,083
Current portion of long-term debt	—	—	—	—	—	233	—	—	—	—	—	233
Total current liabilities	37,789	66,875	1,293	1,090	4,986	295	2	7,415	143,102	1	(4,991)	257,857
Long-term debt, less current portion	—	—	—	—	—	1,683	—	—	—	—	—	1,683
Other long-term liabilities	—	350	—	—	—	—	—	22,609	76,157	—	—	99,116
Total liabilities	37,789	67,225	1,293	1,090	4,986	1,978	2	30,024	219,259	1	(4,991)	358,656
Net assets:												
Unrestricted	156,675	(22,131)	20,481	20,810	7,491	3,387	5,356	16,939	(144,486)	2,000	(5,834)	60,688
Temporarily restricted	1,503	3,351	59	—	181	—	—	—	—	28,475	—	33,569
Permanently restricted	—	—	—	—	—	—	—	—	—	—	—	—
Total net assets	158,178	(18,780)	20,540	20,810	7,672	3,387	5,356	16,939	(144,486)	30,475	(5,834)	94,257
Total liabilities and net assets	\$ 195,967	48,445	21,833	21,900	12,658	5,365	5,358	46,963	74,773	30,476	(10,825)	452,913

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Health Plans

June 30, 2018

(In thousands)

Assets	UM Health Ventures	UM Health Plans	Eliminations	UM Health Plans consolidated total
Current assets:				
Cash and cash equivalents	\$ —	48,781	—	48,781
Assets limited as to use, current portion	—	—	—	—
Accounts receivable:				
Patient accounts receivable, less allowance for doubtful accounts of \$0	—	—	—	—
Other	—	26,475	—	26,475
Inventories	—	—	—	—
Prepaid expenses and other current assets	—	5,742	—	5,742
Total current assets	<u>—</u>	<u>80,998</u>	<u>—</u>	<u>80,998</u>
Investments	—	12,240	—	12,240
Assets limited as to use, less current portion:				
Investment held for collateral	—	—	—	—
Debt service funds	—	—	—	—
Construction funds	—	—	—	—
Board designated and escrow funds	—	—	—	—
Self-insurance trust funds	—	—	—	—
Funds restricted by donor	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—
Property and equipment, net	—	3,053	—	3,053
Investments in joint ventures and other assets	140,780	42,829	(138,563)	45,046
Total assets	<u>\$ 140,780</u>	<u>139,120</u>	<u>(138,563)</u>	<u>141,337</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Health Plans

June 30, 2018

(In thousands)

Liabilities and Net Assets	UM Health Ventures	UM Health Plans	Eliminations	UM Health Plans consolidated total
Current liabilities:				
Trade accounts payable	\$ 230	1,223	—	1,453
Accrued payroll and benefits	—	2,080	—	2,080
Advances from third-party payors	—	—	—	—
Lines of credit	—	—	—	—
Other current liabilities	80,216	80,290	—	160,506
Current portion of long-term debt	5,000	—	—	5,000
Total current liabilities	85,446	83,593	—	169,039
Long-term debt, less current portion	31,667	—	—	31,667
Other long-term liabilities	—	3,241	—	3,241
Total liabilities	117,113	86,834	—	203,947
Net assets:				
Unrestricted	23,667	52,286	(138,563)	(62,610)
Temporarily restricted	—	—	—	—
Permanently restricted	—	—	—	—
Total net assets	23,667	52,286	(138,563)	(62,610)
Total liabilities and net assets	\$ 140,780	139,120	(138,563)	141,337

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division

June 30, 2017

(In thousands)

Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Current assets:													
Cash and cash equivalents	\$ 332,747	(83)	3,641	18,579	7,997	11,317	5,199	55,906	40,876	—	22	—	476,201
Assets limited as to use, current portion	46,797	—	432	1,228	814	342	1,327	—	—	—	—	—	50,940
Accounts receivable:													
Patient accounts receivable, less allowance for doubtful accounts of \$219,805	173,672	11,530	14,421	49,169	26,499	8,614	43,388	45,634	—	—	5,221	—	378,148
Other	275,913	22,384	32,713	19,824	21,823	2,638	23,446	13,320	18,056	—	3,261	(348,669)	84,709
Inventories	28,598	1,106	3,071	6,131	4,588	1,391	5,613	10,385	—	—	—	—	60,883
Prepaid expenses and other current assets	16,092	116	1,048	1,132	1,854	818	2,040	9,958	331	1,500	1,134	—	36,023
Total current assets	<u>873,819</u>	<u>35,053</u>	<u>55,326</u>	<u>96,063</u>	<u>63,575</u>	<u>25,120</u>	<u>81,013</u>	<u>135,203</u>	<u>59,263</u>	<u>1,500</u>	<u>9,638</u>	<u>(348,669)</u>	<u>1,086,904</u>
Investments	232,394	29,013	3	136,194	99,570	33,535	11,539	190,493	10,208	—	—	—	742,949
Assets limited as to use, less current portion:													
Investments held for collateral	81,987	—	3,700	8,000	—	—	—	28,959	—	—	—	—	122,646
Debt service funds	10,438	—	—	—	—	—	—	—	—	—	—	—	10,438
Construction funds	46,264	14,203	8,081	10,051	9,970	10,651	8,270	—	—	—	—	—	107,490
Board designated and escrow funds	—	—	—	—	74,632	(107)	—	22,383	—	12,548	10	—	109,466
Self-insurance trust funds	72,828	—	16,776	23,028	33,120	6,707	7,891	12,903	—	—	—	—	173,253
Funds restricted by donor	—	—	1,116	—	32,756	—	1,525	—	—	25,354	—	—	60,751
Economic and beneficial interests in the net assets of related organizations	197,124	31,446	442	9,222	3,396	—	9,503	—	—	—	—	(58,790)	192,343
Total investments	<u>408,641</u>	<u>45,649</u>	<u>30,115</u>	<u>50,301</u>	<u>153,874</u>	<u>17,251</u>	<u>27,189</u>	<u>64,245</u>	<u>—</u>	<u>37,902</u>	<u>10</u>	<u>(58,790)</u>	<u>776,387</u>
Property and equipment, net	915,834	45,924	103,973	263,057	173,371	109,487	211,700	254,177	4,451	—	10,129	—	2,092,103
Investments in joint ventures and other assets	672,137	—	9,970	18,010	10,395	6,364	32,525	218,709	93,340	10,039	—	(660,528)	410,961
Total assets	<u>\$ 3,102,825</u>	<u>155,639</u>	<u>199,387</u>	<u>563,625</u>	<u>500,785</u>	<u>191,757</u>	<u>363,966</u>	<u>862,827</u>	<u>167,262</u>	<u>49,441</u>	<u>19,777</u>	<u>(1,067,987)</u>	<u>5,109,304</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division

June 30, 2017

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Current liabilities:													
Trade accounts payable	\$ 141,737	9,249	17,285	22,456	21,183	9,160	26,554	18,628	933	154	4,263	—	271,602
Accrued payroll and benefits	108,519	5,489	10,144	21,106	19,681	4,206	25,538	26,567	2,378	—	9,916	—	233,544
Advances from third-party payors	79,155	3,568	10,706	9,951	6,466	2,593	11,089	8,413	—	—	—	—	131,941
Lines of credit	125,000	—	—	—	—	—	—	—	—	—	—	—	125,000
Short-term financing	—	—	—	—	—	—	—	—	—	—	—	—	—
Other current liabilities	149,514	7,236	12,553	37,771	28,522	10,693	105,256	59,194	103,118	—	17,500	(348,669)	182,688
Long-term debt subject to short-term remarketing arrangements	28,440	—	—	—	—	—	—	—	—	—	—	—	28,440
Current portion of long-term debt	13,271	505	1,010	4,187	2,839	3,033	6,260	4,832	5,000	—	—	—	40,937
Total current liabilities	645,636	26,047	51,698	95,471	78,691	29,685	174,697	117,634	111,429	154	31,679	(348,669)	1,014,152
Long-term debt, less current portion	718,215	20,486	31,865	163,722	85,425	59,464	238,172	196,474	36,667	—	—	—	1,550,490
Other long-term liabilities	123,123	144	21,226	36,913	18,208	15,398	25,628	40,371	53,263	—	—	—	334,274
Interest rate swap liabilities	194,524	—	—	—	—	—	—	—	—	—	—	—	194,524
Total liabilities	1,681,498	46,677	104,789	296,106	182,324	104,547	438,497	354,479	201,359	154	31,679	(348,669)	3,093,440
Net assets:													
Unrestricted	1,200,794	77,383	93,040	258,297	279,315	87,117	(95,139)	350,019	(34,097)	17,777	(11,902)	(511,275)	1,711,329
Temporarily restricted	218,844	31,579	1,558	9,222	23,429	93	19,610	157,053	—	11,404	—	(206,767)	266,025
Permanently restricted	1,689	—	—	—	15,717	—	998	1,276	—	20,106	—	(1,276)	38,510
Total net assets	1,421,327	108,962	94,598	267,519	318,461	87,210	(74,531)	508,348	(34,097)	49,287	(11,902)	(719,318)	2,015,864
Total liabilities and net assets	\$ 3,102,825	155,639	199,387	563,625	500,785	191,757	363,966	862,827	167,262	49,441	19,777	(1,067,987)	5,109,304

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division

Year ended June 30, 2018

(In thousands)

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	UCHS	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:														
Patient service revenue (net of contractual adjustments)	\$ 1,520,096	114,624	221,538	426,512	325,674	143,615	441,552	453,077	329,344	—	—	77,390	(1,944)	4,051,478
Provision for bad debts	(52,110)	(4,155)	(9,910)	(34,580)	(10,812)	(7,544)	(14,171)	(13,114)	(26,132)	—	—	(1,609)	—	(174,137)
Net patient service revenue	1,467,986	110,469	211,628	391,932	314,862	136,071	427,381	439,963	303,212	—	—	75,781	(1,944)	3,877,341
Other operating revenue:														
State support	31,200	—	—	—	—	—	—	—	32,508	—	—	—	(23,334)	40,374
Premium Revenue	—	—	—	—	—	—	—	—	—	357,099	—	—	—	357,099
Other revenue	98,979	2,735	19,617	6,689	4,916	768	6,594	2,092	6,665	—	—	65,388	(63,587)	150,856
Total unrestricted revenue, gains and other support	1,598,165	113,204	231,245	398,621	319,778	136,839	433,975	442,055	342,385	357,099	—	141,169	(88,865)	4,425,670
Operating expenses:														
Salaries, wages and benefits	767,394	54,716	97,227	187,436	141,377	57,036	204,532	233,763	174,599	14,680	—	101,995	—	2,034,755
Expendable supplies	364,845	15,433	32,898	58,274	45,245	19,266	83,121	79,553	43,570	—	—	16,047	—	758,252
Purchased services	157,291	23,182	55,187	86,874	80,194	34,282	96,864	62,174	69,506	29,216	—	39,289	(88,865)	645,194
Medical Claims Expense	—	—	—	—	—	—	—	—	—	342,721	—	—	—	342,721
Contracted services	136,537	8,553	27,207	17,164	19,256	7,416	7,867	10,858	35,348	—	—	5,170	—	275,376
Depreciation and amortization	98,109	6,658	12,843	27,564	22,396	8,623	21,990	22,865	12,699	2,076	—	2,343	—	238,166
Interest expense	24,522	674	1,061	5,495	2,953	2,032	9,413	7,737	188	1,369	—	183	—	55,627
Total operating expenses before non-recurring items	1,548,698	109,216	226,423	382,807	311,421	128,655	423,787	416,950	335,910	390,062	—	165,027	(88,865)	4,350,091
Income from operations before non-recurring items	49,467	3,988	4,822	15,814	8,357	8,184	10,188	25,105	6,475	(32,963)	—	(23,858)	—	75,579
Non-recurring Items														
Change in fair value of contingent consideration	—	—	—	—	—	—	—	—	—	35,700	—	—	—	35,700
Loss on impairment	—	—	—	—	—	—	—	—	—	(45,794)	—	—	—	(45,794)
Loss from non-recurring items	—	—	—	—	—	—	—	—	—	(10,094)	—	—	—	(10,094)
Operating income	49,467	3,988	4,822	15,814	8,357	8,184	10,188	25,105	6,475	(43,057)	—	(23,858)	—	65,485
Nonoperating income and expenses, net:														
Contributions	—	—	—	—	289	—	213	3,043	—	—	8,832	—	—	12,377
Inherent contribution - Capital Region	41,772	—	—	—	—	—	—	—	—	—	—	—	—	41,772
Equity in net income of joint ventures	3,059	—	—	(203)	223	240	1,418	445	307	—	—	—	—	5,499
Investment income	10,317	1,028	72	3,904	12,713	776	759	5,913	1,273	(89)	710	—	—	37,376
Change in fair value of investments	6,913	1,318	—	5,129	631	1,282	277	7,993	—	—	433	—	—	23,976
Change in fair value of undesignated interest rate swaps	43,071	—	—	—	—	—	—	—	—	—	—	—	—	43,071
Other nonoperating gains and losses	(9,909)	(294)	(3,535)	(6,252)	3,548	(530)	(5,468)	(2,702)	1,665	14,411	(3,643)	—	—	(12,709)
Total nonoperating income and expenses	95,223	2,052	(3,463)	2,578	17,404	1,768	(2,801)	14,692	3,245	14,322	6,332	—	—	151,352
Excess (deficiency) of revenues over expenses	\$ 144,690	6,040	1,359	18,392	25,761	9,952	7,387	39,797	9,720	(28,735)	6,332	(23,858)	—	216,837

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland Medical Center & Affiliates (UMMC)

Year ended June 30, 2018

(In thousands)

	<u>University of Maryland Medical Center</u>			<u>Corporate Shared Services</u>	<u>36 South Paca</u>	<u>University CARE</u>	<u>Eliminations</u>	<u>University of Maryland Medical Center & Affiliates consolidated total</u>
	<u>University Hospital</u>	<u>Shock Trauma Center</u>	<u>Subtotal</u>					
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 1,323,973	194,943	1,518,916	—	—	1,180	—	1,520,096
Provision for bad debts	(42,306)	(9,851)	(52,157)	—	—	47	—	(52,110)
Net patient service revenue	1,281,667	185,092	1,466,759	—	—	1,227	—	1,467,986
Other operating revenue:								
State support	—	3,200	3,200	28,000	—	—	—	31,200
Other revenue	96,384	235	96,619	2,061	887	1,355	(1,943)	98,979
Total unrestricted revenue, gains and other support	1,378,051	188,527	1,566,578	30,061	887	2,582	(1,943)	1,598,165
Operating expenses:								
Salaries, wages and benefits	537,469	66,688	604,157	161,743	119	1,375	—	767,394
Expendable supplies	331,453	29,106	360,559	3,966	181	139	—	364,845
Purchased services	255,039	44,218	299,257	(143,626)	873	2,730	(1,943)	157,291
Contracted services	124,233	12,304	136,537	—	—	—	—	136,537
Depreciation and amortization	86,041	11,632	97,673	—	436	—	—	98,109
Interest expense	24,044	—	24,044	138	340	—	—	24,522
Total operating expenses	1,358,279	163,948	1,522,227	22,221	1,949	4,244	(1,943)	1,548,698
Operating income (loss)	19,772	24,579	44,351	7,840	(1,062)	(1,662)	—	49,467
Nonoperating income and expenses, net:								
Contributions	—	—	—	—	—	—	—	—
Inherent contribution - Capital Region	—	—	—	41,772	—	—	—	41,772
Equity in net income of joint ventures	(3,191)	—	(3,191)	3,694	—	—	2,556	3,059
Investment income	10,317	—	10,317	—	—	—	—	10,317
Change in fair value of investments	6,913	—	6,913	—	—	—	—	6,913
Change in fair value of undesignated interest rate swaps	—	—	—	43,071	—	—	—	43,071
Other nonoperating gains and losses	(9,813)	—	(9,813)	(262)	—	—	166	(9,909)
Total nonoperating income and expenses	4,226	—	4,226	88,275	—	—	2,722	95,223
Excess (deficiency) of revenues over expenses	\$ 23,998	24,579	48,577	96,115	(1,062)	(1,662)	2,722	144,690

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Midtown Health, Inc. (Midtown)

Year ended June 30, 2018

(In thousands)

	<u>UM Midtown Health Systems, Inc.</u>	<u>UMMC Midtown Campus</u>	<u>UM Midtown Clin. Prac. Group</u>	<u>Eliminations</u>	<u>Midtown consolidated total</u>
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual adjustments)	\$ 988	220,000	4,317	(3,767)	221,538
Provision for bad debts	(153)	(9,476)	(281)	—	(9,910)
Net patient service revenue	835	210,524	4,036	(3,767)	211,628
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	1,007	18,610	—	—	19,617
Total unrestricted revenue, gains and other support	1,842	229,134	4,036	(3,767)	231,245
Operating expenses:					
Salaries, wages and benefits	788	96,439	—	—	97,227
Expendable supplies	67	32,831	—	—	32,898
Purchased services	1,586	53,331	270	—	55,187
Contracted services	—	27,207	3,767	(3,767)	27,207
Depreciation and amortization	601	12,242	—	—	12,843
Interest expense	18	1,043	—	—	1,061
Total operating expenses	3,060	223,093	4,037	(3,767)	226,423
Operating income (loss)	(1,218)	6,041	(1)	—	4,822
Nonoperating income and expenses, net:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	—	—	—	—	—
Investment income	—	72	—	—	72
Change in fair value of investments	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses	—	(3,535)	—	—	(3,535)
Total nonoperating income and expenses	—	(3,463)	—	—	(3,463)
Excess (deficiency) of revenues over expenses	\$ (1,218)	2,578	(1)	—	1,359

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Baltimore Washington Medical System (BWMS)

Year ended June 30, 2018

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 7,130	387,027	34,413	—	—	—	(2,058)	426,512
Provision for bad debts	(254)	(19,037)	(15,289)	—	—	—	—	(34,580)
Net patient service revenue	6,876	367,990	19,124	—	—	—	(2,058)	391,932
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	3,913	4,980	—	—	2,549	—	(4,753)	6,689
Total unrestricted revenue, gains and other support	10,789	372,970	19,124	—	2,549	—	(6,811)	398,621
Operating expenses:								
Salaries, wages and benefits	5,246	171,046	11,144	—	—	—	—	187,436
Expendable supplies	273	57,852	—	—	149	—	—	58,274
Purchased services	19,671	67,201	5,421	10	1,381	—	(6,810)	86,874
Contracted services	—	17,164	—	—	—	—	—	17,164
Depreciation and amortization	437	26,383	—	—	744	—	—	27,564
Interest expense	42	5,351	—	—	102	—	—	5,495
Total operating expenses	25,669	344,997	16,565	10	2,376	—	(6,810)	382,807
Operating income (loss)	(14,880)	27,973	2,559	(10)	173	—	(1)	15,814
Nonoperating income and expenses, net:								
Contributions	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	34,648	(203)	—	—	—	—	(34,648)	(203)
Investment income	—	3,904	—	—	—	—	—	3,904
Change in fair value of investments	—	5,129	—	—	—	—	—	5,129
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	(572)	(4,754)	—	(926)	—	—	—	(6,252)
Total nonoperating income and expenses	34,076	4,076	—	(926)	—	—	(34,648)	2,578
Excess (deficiency) of revenues over expenses	\$ 19,196	32,049	2,559	(936)	173	—	(34,649)	18,392

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Shore Regional Health (Shore Regional)

Year ended June 30, 2018

(In thousands)

	Shore Health System, Inc.	Shore Orthopedics	UM Shore Home Care	Queenstown ASC	Shore Med. Group	Memorial Hospital Foundation, Inc. and Subsidiary	Chester River Consolidated Total	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:									
Patient service revenue (net of contractual adjustments)	\$ 256,099	8,395	3,157	98	—	—	57,925	—	325,674
Provision for bad debts	(8,165)	—	13	(15)	—	—	(2,645)	—	(10,812)
Net patient service revenue	247,934	8,395	3,170	83	—	—	55,280	—	314,862
Other operating revenue:									
State support	—	—	—	—	—	—	—	—	—
Other revenue	4,644	58	—	—	—	—	510	(296)	4,916
Total unrestricted revenue, gains and other support	252,578	8,453	3,170	83	—	—	55,790	(296)	319,778
Operating expenses:									
Salaries, wages and benefits	111,176	8,193	3,789	257	—	—	17,962	—	141,377
Expendable supplies	39,366	852	62	37	—	—	4,928	—	45,245
Purchased services	42,760	1,531	542	390	19,999	—	15,268	(296)	80,194
Contracted services	13,152	—	—	14	—	—	6,090	—	19,256
Depreciation and amortization	18,099	98	50	3	—	—	4,146	—	22,396
Interest expense	2,816	—	—	—	—	—	137	—	2,953
Total operating expenses	227,369	10,674	4,443	701	19,999	—	48,531	(296)	311,421
Operating income (loss)	25,209	(2,221)	(1,273)	(618)	(19,999)	—	7,259	—	8,357
Nonoperating income and expenses, net:									
Contributions	(4)	—	—	—	—	31	262	—	289
Equity in net income of joint ventures	223	—	—	—	—	—	—	—	223
Investment income (loss)	7,795	—	—	—	—	4,253	665	—	12,713
Change in fair value of investments	282	—	—	—	—	(338)	687	—	631
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	(924)	—	—	—	—	(523)	4,995	—	3,548
Total nonoperating income and expenses	7,372	—	—	—	—	3,423	6,609	—	17,404
Excess (deficiency) of revenues over expenses	\$ 32,581	(2,221)	(1,273)	(618)	(19,999)	3,423	13,868	—	25,761

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

Year ended June 30, 2018

(In thousands)

	Chester River Hospital Center	UM Shore Nursing and Rehab.	UM Chester River Home Care	Chester River Health Foundation	Chester River consolidated total
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual allowances)	\$ 55,903	—	2,022	—	57,925
Provision for bad debts	(2,660)	—	15	—	(2,645)
Net patient service revenue	53,243	—	2,037	—	55,280
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	510	—	—	—	510
Total unrestricted revenue, gains and other support	53,753	—	2,037	—	55,790
Operating expenses:					
Salaries, wages and benefits	15,995	—	1,967	—	17,962
Expendable supplies	4,897	—	31	—	4,928
Purchased services	15,007	—	261	—	15,268
Contracted services	6,090	—	—	—	6,090
Depreciation and amortization	4,133	—	13	—	4,146
Interest expense	137	—	—	—	137
Total operating expenses	46,259	—	2,272	—	48,531
Operating income	7,494	—	(235)	—	7,259
Nonoperating income and expenses, net:					
Contributions	—	—	—	262	262
Equity in net income of joint ventures	—	—	—	—	—
Investment income	456	—	42	167	665
Change in fair value of investments	628	—	59	—	687
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses	(443)	6,077	—	(639)	4,995
Total nonoperating income and expenses	641	6,077	101	(210)	6,609
Excess (deficiency) of revenues over expenses	\$ 8,135	6,077	(134)	(210)	13,868

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Charles Regional Health (Charles Regional)

Year ended June 30, 2018

(In thousands)

	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Urgent Care	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Charles Regional Imaging Center	Eliminations	Charles Regional consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ —	140,663	1,662	—	—	1,290	—	143,615
Provision for bad debts	—	(7,421)	(78)	—	—	(45)	—	(7,544)
Net patient service revenue	—	133,242	1,584	—	—	1,245	—	136,071
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	218	550	—	—	—	—	—	768
Total unrestricted revenue, gains and other support	218	133,792	1,584	—	—	1,245	—	136,839
Operating expenses:								
Salaries, wages and benefits	—	57,036	—	—	—	—	—	57,036
Expendable supplies	—	19,015	90	—	—	161	—	19,266
Purchased services	2,271	29,167	1,801	(7)	—	1,050	—	34,282
Contracted services	—	7,000	—	—	—	416	—	7,416
Depreciation and amortization	1,789	5,892	113	—	—	829	—	8,623
Interest expense	282	1,750	—	—	—	—	—	2,032
Total operating expenses	4,342	119,860	2,004	(7)	—	2,456	—	128,655
Operating income	(4,124)	13,932	(420)	7	—	(1,211)	—	8,184
Nonoperating income and expenses, net:								
Contributions	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	—	239	—	(1,211)	—	—	1,212	240
Investment income	23	698	—	—	55	—	—	776
Change in fair value of investments	—	1,275	—	—	7	—	—	1,282
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	—	(831)	—	363	24	—	(86)	(530)
Total nonoperating income and expenses	23	1,381	—	(848)	86	—	1,126	1,768
Excess (deficiency) of revenues over expenses	\$ (4,101)	15,313	(420)	(841)	86	(1,211)	1,126	9,952

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland St. Joseph Health System (SJHS)

Year ended June 30, 2018

(In thousands)

	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	UM Regional Supplier Svcs	UM Regional Prof SVCS	Eliminations	St. Joseph consolidated total
Unrestricted revenues, gains and other support:										
Patient service revenue (net of contractual adjustments)	\$ 371,927	36,685	—	24,336	—	—	4,478	4,126	—	441,552
Provision for bad debts	(10,782)	(1,631)	—	(1,476)	—	—	(282)	—	—	(14,171)
Net patient service revenue	361,145	35,054	—	22,860	—	—	4,196	4,126	—	427,381
Other operating revenue:										
State support	—	—	—	—	—	—	—	—	—	—
Other revenue	3,266	12,106	1,419	—	2,682	—	9	150	(13,038)	6,594
Total unrestricted revenue, gains and other support	364,411	47,160	1,419	22,860	2,682	—	4,205	4,276	(13,038)	433,975
Operating expenses:										
Salaries, wages and benefits	136,452	47,632	—	15,925	—	—	1,583	2,940	—	204,532
Expendable supplies	79,516	1,308	—	19	—	—	2,200	78	—	83,121
Purchased services	71,041	12,782	2,348	10,852	1,297	—	924	605	(2,985)	96,864
Contracted services	17,875	45	—	—	—	—	—	—	(10,053)	7,867
Depreciation and amortization	21,156	207	39	41	474	—	43	30	—	21,990
Interest expense	9,009	—	—	—	404	—	—	—	—	9,413
Total operating expenses	335,049	61,974	2,387	26,837	2,175	—	4,750	3,653	(13,038)	423,787
Operating income (loss)	29,362	(14,814)	(968)	(3,977)	507	—	(545)	623	—	10,188
Nonoperating income and expenses, net:										
Contributions	—	—	—	—	—	213	—	—	—	213
Equity in net income of joint ventures	1,418	—	—	—	—	—	—	—	—	1,418
Investment income	—	—	—	—	—	759	—	—	—	759
Change in fair value of investments	—	—	—	—	—	277	—	—	—	277
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	(3,279)	—	—	—	—	(1,257)	(932)	—	—	(5,468)
Total nonoperating income and expenses	(1,861)	—	—	—	—	(8)	(932)	—	—	(2,801)
Excess (deficiency) of revenues over expenses	\$ 27,501	(14,814)	(968)	(3,977)	507	(8)	(1,477)	623	—	7,387

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland Upper Chesapeake Health System (UCHS)

Year ended June 30, 2018

(In thousands)

	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Unrestricted revenues, gains and other support:													
Patient service revenue (net of contractual adjustments)	\$ 303,574	93,815	—	—	55,342	346	—	—	—	—	—	—	453,077
Provision for bad debts	(5,704)	(5,362)	—	—	(2,005)	(43)	—	—	—	—	—	—	(13,114)
Net patient service revenue	297,870	88,453	—	—	53,337	303	—	—	—	—	—	—	439,963
Other operating revenue:													
State support	—	—	—	—	—	—	—	—	—	—	—	—	—
Other revenue	3,980	1,134	—	—	6,717	400	—	15,914	—	772	—	(26,825)	2,092
Total unrestricted revenue, gains and other support	301,850	89,587	—	—	60,054	703	—	15,914	—	772	—	(26,825)	442,055
Operating expenses:													
Salaries, wages and benefits	122,447	50,452	—	—	48,440	749	—	11,675	—	—	—	—	233,763
Expendable supplies	62,315	7,797	—	—	9,174	46	—	221	—	—	—	—	79,553
Purchased services	43,141	20,239	283	105	12,761	162	—	3,680	—	799	13	(19,009)	62,174
Contracted services	10,763	3,829	—	—	2,902	—	—	62	—	—	—	(6,698)	10,858
Depreciation and amortization	17,447	4,418	—	—	453	272	—	275	—	—	—	—	22,865
Interest expense	6,753	984	—	—	—	—	—	—	—	—	—	—	7,737
Total operating expenses	262,866	87,719	283	105	73,730	1,229	—	15,913	—	799	13	(25,707)	416,950
Operating income (loss)	38,984	1,868	(283)	(105)	(13,676)	(526)	—	1	—	(27)	(13)	(1,118)	25,105
Nonoperating income and expenses, net:													
Contributions	—	—	—	—	—	—	3,043	—	—	—	—	—	3,043
Equity in net income of joint ventures	—	—	—	445	—	—	—	—	—	—	—	—	445
Investment income	2,925	2,122	—	—	—	14	825	—	—	27	—	—	5,913
Change in fair value of investments	3,554	2,838	—	—	—	29	1,572	—	—	—	—	—	7,993
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	(2,702)	—	—	—	—	—	—	—	—	—	—	—	(2,702)
Total nonoperating income and expenses	3,777	4,960	—	445	—	43	5,440	—	—	27	—	—	14,692
Excess (deficiency) of revenues over expenses	\$ 42,761	6,828	(283)	340	(13,676)	(483)	5,440	1	—	—	(13)	(1,118)	39,797

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland Capital Region Health System (Capital Region)

Year ended June 30, 2018

(In thousands)

	Prince George's Hospital Center	Laurel Regional Hospital	Bowie Health Center	Gladys Spellman Specialty Care	Dimensions Healthcare Associates	Affiliated Enterprises, Inc.	Madison Manor Inc.	Dimensions Assurance, Ltd.	Dimensions Health System Corporate	Regional Medical Center	Eliminations	Capital Region consolidated total
Unrestricted revenues, gains and other support:												
Patient service revenue (net of contractual adjustments)	\$ 220,663	75,593	18,944	4,865	9,279	—	—	—	—	—	—	329,344
Provision for bad debts	(15,067)	(4,918)	(3,045)	(789)	(2,313)	—	—	—	—	—	—	(26,132)
Net patient service revenue	205,596	70,675	15,899	4,076	6,966	—	—	—	—	—	—	303,212
Other operating revenue:												
State support	24,420	7,817	—	—	271	—	—	—	—	—	—	32,508
Other revenue	4,767	140	237	12	54	1,130	—	2,528	325	—	(2,528)	6,665
Total unrestricted revenue, gains and other support	234,783	78,632	16,136	4,088	7,291	1,130	—	2,528	325	—	(2,528)	342,385
Operating expenses:												
Salaries, wages and benefits	115,095	34,604	8,500	2,561	13,839	—	—	—	—	—	—	174,599
Expendable supplies	30,321	9,689	2,693	506	361	—	—	—	—	—	—	43,570
Purchased services	69,692	18,795	4,348	782	(24,481)	251	172	2,476	(1)	—	(2,528)	69,506
Contracted services	13,088	5,112	(71)	48	17,170	—	—	—	1	—	—	35,348
Depreciation and amortization	7,442	3,677	1,368	44	35	133	—	—	—	—	—	12,699
Interest expense	63	30	5	1	—	89	—	—	—	—	—	188
Total operating expenses	235,701	71,907	16,843	3,942	6,924	473	172	2,476	—	—	(2,528)	335,910
Operating income (loss)	(918)	6,725	(707)	146	367	657	(172)	52	325	—	—	6,475
Nonoperating income and expenses, net:												
Contributions	—	—	—	—	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	—	—	—	—	—	—	307	—	—	—	—	307
Investment income	24	4	2	2	—	—	—	1,241	—	—	—	1,273
Change in fair value of investments	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses	1,385	492	100	71	92	—	—	—	(475)	—	—	1,665
Total nonoperating income and expenses	1,409	496	102	73	92	—	307	1,241	(475)	—	—	3,245
Excess (deficiency) of revenues over expenses	\$ 491	7,221	(605)	219	459	657	135	1,293	(150)	—	—	9,720

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland Health Plans

Year ended June 30, 2018

(In thousands)

	UM Health Ventures	UM Health Plans	Eliminations	UM Health Plans consolidated total
Unrestricted revenues, gains and other support:				
Patient service revenue (net of contractual adjustments)	\$ —	—	—	—
Provision for bad debts	—	—	—	—
Net patient service revenue	—	—	—	—
Other operating revenue:				
State support	—	—	—	—
Premium revenue	—	357,099	—	357,099
Other revenue	—	—	—	—
Total unrestricted revenue, gains and other support	—	357,099	—	357,099
Operating expenses:				
Salaries, wages and benefits	—	14,680	—	14,680
Expendable supplies	—	—	—	—
Purchased services	76	29,140	—	29,216
Medical Claims Expense	—	342,721	—	342,721
Contracted services	—	—	—	—
Depreciation and amortization	—	2,076	—	2,076
Interest expense	1,369	—	—	1,369
Total operating expenses before non-recurring items	1,445	388,617	—	390,062
Income from operations before non-recurring items	(1,445)	(31,518)	—	(32,963)
Non-recurring Items				
Change in fair value of contingent consideration	35,700	—	—	35,700
Loss on impairment	—	(45,794)	—	(45,794)
Loss from non-recurring items	35,700	(45,794)	—	(10,094)
Operating income	34,255	(77,312)	—	(43,057)
Nonoperating income and expenses, net:				
Contributions	—	—	—	—
Equity in net income of joint ventures	—	—	—	—
Investment income	—	(89)	—	(89)
Change in fair value of investments	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—
Other nonoperating gains and losses	—	14,411	—	14,411
Total nonoperating income and expenses	—	14,322	—	14,322
Excess (deficiency) of revenues over expenses	\$ 34,255	(62,990)	—	(28,735)

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division

Year ended June 30, 2017

(In thousands)

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	UCHS	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:													
Patient Service Revenue (net of contractual adjustments)	\$ 1,482,557	115,107	226,153	423,060	325,782	137,928	434,315	452,276	—	—	73,474	(1,033)	3,669,619
Provision for bad debts	(73,931)	(7,266)	(20,133)	(35,205)	(11,498)	(6,462)	(13,646)	(16,455)	—	—	(1)	—	(184,597)
Net patient service revenue	1,408,626	107,841	206,020	387,855	314,284	131,466	420,669	435,821	—	—	73,473	(1,033)	3,485,022
Other operating revenue:													
State support	18,200	—	—	—	—	—	—	—	—	—	—	—	18,200
Premium Revenue	—	—	—	—	—	—	—	268,060	—	—	—	—	268,060
Other revenue	105,443	2,602	11,228	5,450	5,547	746	4,750	271	—	—	62,164	(61,793)	136,408
Total unrestricted revenue, gains and other support	1,532,269	110,443	217,248	393,305	319,831	132,212	425,419	436,092	268,060	—	135,637	(62,826)	3,907,690
Operating expenses:													
Salaries, wages and benefits	747,544	52,003	92,120	180,940	157,237	56,888	198,026	224,188	13,854	—	89,146	—	1,811,946
Expendable supplies	354,148	15,379	29,905	61,498	46,202	19,020	82,507	83,351	—	—	12,714	—	704,724
Purchased services	119,167	23,500	46,688	93,658	78,364	30,671	103,220	58,623	16,623	—	31,010	(62,826)	538,698
Medical Claims Expense	—	—	—	—	—	—	—	—	252,118	—	—	—	252,118
Contracted services	134,767	8,867	23,146	9,560	17,049	6,091	8,241	13,253	—	—	5,716	—	226,690
Depreciation and amortization	96,054	6,535	12,875	27,565	22,705	7,762	19,716	22,137	2,278	—	2,122	—	219,749
Interest expense	24,525	722	1,149	5,811	3,141	2,175	10,034	8,150	1,304	—	186	—	57,197
Total operating expenses	1,476,205	107,006	205,883	379,032	324,698	122,607	421,744	409,702	286,177	—	140,894	(62,826)	3,811,122
Operating income (loss)	56,064	3,437	11,365	14,273	(4,867)	9,605	3,675	26,390	(18,117)	—	(5,257)	—	96,568
Nonoperating income and expenses, net:													
Contributions	—	—	—	—	326	200	279	228	—	4,392	—	—	5,425
Equity in net income of joint ventures	3,038	—	—	(115)	(166)	48	834	217	—	—	—	—	3,856
Investment income	10,454	1,106	102	4,501	9,374	810	360	7,607	182	1,000	—	—	35,496
Change in fair value of investments	13,983	2,607	—	10,139	9,161	2,539	962	12,813	—	1,971	—	—	54,175
Change in fair value of undesignated interest rate swaps	76,797	—	—	—	—	—	—	—	—	—	—	—	76,797
Loss on early extinguishment of debt	(26,427)	—	—	—	—	—	—	—	—	—	—	—	(26,427)
Other nonoperating gains and losses	(10,812)	(363)	(2,059)	(4,438)	(7,738)	(1,157)	(5,262)	(23,007)	(2,339)	(5,356)	—	—	(62,531)
Total nonoperating income and expenses	67,033	3,350	(1,957)	10,087	10,957	2,440	(2,827)	(2,142)	(2,157)	2,007	—	—	86,791
Excess (deficiency) of revenues over expenses	\$ 123,097	6,787	9,408	24,360	6,090	12,045	848	24,248	(20,274)	2,007	(5,257)	—	183,359

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2018

(In thousands)

Assets	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals**	Capital Region Hospitals***	UMMS Foundation	Eliminations	Obligated group total
Current assets:													
Cash and cash equivalents	\$ 254,636	2,274	3,264	10,770	(1,503)	12,637	3,954	(3,101)	41,087	3	—	—	324,021
Assets limited as to use, current portion	51,674	—	682	1,392	767	176	484	1,128	—	—	—	—	56,303
Accounts receivable:													
Patient accounts receivable, less allowance for doubtful accounts of \$193,143	198,855	8,172	7,260	35,056	25,109	6,266	10,658	31,520	33,326	47,352	—	—	403,574
Other	385,791	16,159	31,529	5,110	4,030	3,737	11,554	693	—	176,042	—	(273,176)	361,469
Inventories	33,503	1,145	2,983	6,496	3,810	672	1,680	5,501	8,478	5,606	—	—	69,874
Prepaid expenses and other current assets	15,800	133	839	1,220	1,428	48	617	830	3,169	213	1,500	—	25,797
Total current assets	<u>940,259</u>	<u>27,883</u>	<u>46,557</u>	<u>60,044</u>	<u>33,641</u>	<u>23,536</u>	<u>28,947</u>	<u>36,571</u>	<u>86,060</u>	<u>229,216</u>	<u>1,500</u>	<u>(273,176)</u>	<u>1,241,038</u>
Investments	288,289	37,828	3	147,525	77,168	14,319	33,218	—	241,512	—	—	—	839,862
Assets limited as to use, less current portion:													
Investments held for collateral	50,572	—	3,700	8,000	—	—	—	—	22,318	—	—	—	84,590
Debt service funds	33,935	—	—	—	—	—	—	—	—	—	—	—	33,935
Construction funds	333,359	17,112	8,589	10,613	20,268	4,110	13,434	4,389	—	—	—	—	411,874
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	—	—	17,674	—	47,674
Self-insurance trust funds	79,742	—	14,816	23,164	29,050	8,179	7,392	7,889	—	—	—	—	170,232
Funds restricted by donor	—	—	1,093	—	5,252	105	—	—	—	—	26,983	—	33,433
Economic interests in the net assets of related organizations	202,725	35,620	447	9,862	83,027	7,574	5,265	9,503	—	743	—	(66,492)	288,274
Total limited as to use, less current portion	<u>700,333</u>	<u>52,732</u>	<u>28,645</u>	<u>51,639</u>	<u>162,597</u>	<u>24,968</u>	<u>26,091</u>	<u>21,781</u>	<u>22,318</u>	<u>743</u>	<u>44,657</u>	<u>(66,492)</u>	<u>1,070,012</u>
Property and equipment, net	917,186	45,094	100,389	236,600	132,787	20,631	73,626	208,109	242,621	54,800	—	—	2,031,843
Investments in joint ventures and other assets	1,013,950	—	6,339	28,869	10,301	1,995	9,676	31,300	233,870	3,386	11,008	(702,300)	648,394
Total assets	<u>\$ 3,860,017</u>	<u>163,537</u>	<u>181,933</u>	<u>524,677</u>	<u>416,494</u>	<u>85,449</u>	<u>171,558</u>	<u>297,761</u>	<u>826,381</u>	<u>288,145</u>	<u>57,165</u>	<u>(1,041,968)</u>	<u>5,831,149</u>

* Includes Corporate Shared Services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

*** Includes Prince George's Hospital Center, Laurel Regional Hospital, Bowie Health Center and Gladys Spellman Specialty Care Unit

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2018

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals**	Capital Region Hospitals***	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:													
Trade accounts payable	\$ 135,377	11,769	13,576	15,782	11,773	2,336	5,922	18,181	18,418	14,759	176	—	248,069
Accrued payroll and benefits	111,521	5,684	10,595	19,321	15,094	2,467	3,799	21,433	26,842	12,465	—	—	229,221
Advances from third-party payors	82,676	6,526	7,378	12,178	5,560	620	3,508	11,412	9,367	14,584	—	—	153,809
Short-term financing	99,300	—	—	—	—	—	—	—	—	—	—	—	99,300
Lines of credit	150,000	—	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	256,404	1,333	4,197	4,480	13,405	876	1,181	97,313	11,967	65,239	—	(273,176)	183,219
Long-term debt subject to short-term remarketing arrangements	58,054	—	—	—	—	—	—	—	—	—	—	—	58,054
Current portion of long-term debt	14,841	518	800	4,148	2,700	102	2,522	6,429	5,088	—	—	—	37,148
Total current liabilities	908,173	25,830	36,546	55,909	48,532	6,401	16,932	154,768	71,682	107,047	176	(273,176)	1,158,820
Long-term debt, less current portion	725,170	19,278	29,623	154,327	76,675	3,779	48,971	217,122	191,386	—	—	—	1,466,331
Other long-term liabilities	126,396	144	18,742	45,477	15,786	6,814	16,345	29,971	22,125	350	—	—	282,150
Interest rate swap liabilities	149,789	—	—	—	—	—	—	—	—	—	—	—	149,789
Total liabilities	1,909,528	45,252	84,911	255,713	140,993	16,994	82,248	401,861	285,193	107,397	176	(273,176)	3,057,090
Net assets:													
Unrestricted	1,332,799	82,665	95,482	259,102	238,908	63,998	89,310	(104,101)	368,698	175,835	23,853	(553,047)	2,073,502
Temporarily restricted	616,001	35,620	1,540	9,862	22,014	3,161	—	1	172,490	4,913	12,435	(214,469)	663,568
Permanently restricted	1,689	—	—	—	14,579	1,296	—	—	—	—	20,701	(1,276)	36,989
Total net assets	1,950,489	118,285	97,022	268,964	275,501	68,455	89,310	(104,100)	541,188	180,748	56,989	(768,792)	2,774,059
Total liabilities and net assets	\$ 3,860,017	163,537	181,933	524,677	416,494	85,449	171,558	297,761	826,381	288,145	57,165	(1,041,968)	5,831,149

* Includes Corporate Shared services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

*** Includes Prince George's Hospital Center, Laurel Regional Hospital, Bowie Health Center and Gladys Spellman Specialty Care Unit

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2017

(In thousands)

Assets	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals**	UMMS Foundation	Eliminations	Obligated group total
Current assets:												
Cash and cash equivalents	\$ 328,162	(83)	2,970	18,724	8,955	(1,901)	8,548	(1,201)	54,280	—	—	418,454
Assets limited as to use, current portion	46,797	—	432	1,228	572	242	342	1,327	—	—	—	50,940
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$188,977	173,649	11,530	14,012	41,501	22,473	2,208	8,396	37,685	39,965	—	—	351,419
Other	283,680	576	30,964	1,408	2,692	13,308	4,586	20,341	12,094	—	(125,283)	244,366
Inventories	28,559	1,106	3,071	6,131	3,892	696	1,391	5,435	9,702	—	—	59,983
Prepaid expenses and other current assets	16,035	21,924	499	1,138	1,476	20	784	1,026	4,106	1,500	—	48,508
Total current assets	<u>876,882</u>	<u>35,053</u>	<u>51,948</u>	<u>70,130</u>	<u>40,060</u>	<u>14,573</u>	<u>24,047</u>	<u>64,613</u>	<u>120,147</u>	<u>1,500</u>	<u>(125,283)</u>	<u>1,173,670</u>
Investments	232,394	29,013	3	136,194	83,553	12,230	31,145	—	189,966	—	—	714,498
Assets limited as to use, less current portion:												
Investments held for collateral	81,987	—	3,700	8,000	—	—	—	—	28,959	—	—	122,646
Debt service funds	10,438	—	—	—	—	—	—	—	—	—	—	10,438
Construction funds	46,264	14,203	8,081	10,051	5,432	4,538	10,651	8,270	—	—	—	107,490
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	—	12,548	—	42,548
Self-insurance trust funds	72,828	—	16,776	23,028	25,492	7,327	6,707	7,891	—	—	—	160,049
Funds restricted by donor	—	—	1,116	—	5,029	105	—	—	—	25,354	—	31,604
Economic interests in the net assets of related organizations	197,124	31,446	442	9,222	78,558	6,270	5,179	9,503	—	—	(59,790)	277,954
Total investments limited as to use, less current portion	<u>408,641</u>	<u>45,649</u>	<u>30,115</u>	<u>50,301</u>	<u>139,511</u>	<u>23,240</u>	<u>22,537</u>	<u>25,664</u>	<u>28,959</u>	<u>37,902</u>	<u>(59,790)</u>	<u>752,729</u>
Property and equipment, net	907,068	45,924	99,343	243,492	142,380	25,257	75,087	198,818	246,245	—	—	1,983,614
Investments in joint ventures and other assets	676,447	—	6,567	17,672	9,822	2,183	6,976	25,627	228,151	10,039	(660,528)	322,956
Total assets	<u>\$ 3,101,432</u>	<u>155,639</u>	<u>187,976</u>	<u>517,789</u>	<u>415,326</u>	<u>77,483</u>	<u>159,792</u>	<u>314,722</u>	<u>813,468</u>	<u>49,441</u>	<u>(845,601)</u>	<u>4,947,467</u>

* Includes Corporate Shared services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2017

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals**	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:												
Trade accounts payable	\$ 140,720	9,220	17,046	22,259	17,471	2,893	8,268	25,140	15,461	154	—	258,632
Accrued payroll and benefits	108,479	5,384	10,144	18,847	15,175	3,007	4,206	20,743	25,269	—	—	211,254
Advances from third-party payors	79,155	3,568	10,706	9,951	5,618	737	2,593	11,089	8,413	—	—	131,830
Short-term financing	—	—	—	—	—	—	—	—	—	—	—	—
Lines of credit	125,000	—	—	—	—	—	—	—	—	—	—	125,000
Other current liabilities	149,408	1,040	6,839	31,343	23,406	1,102	1,047	2,950	35,111	—	(125,283)	126,963
Long-term debt subject to short-term remarketing arrangements	28,440	—	—	—	—	—	—	—	—	—	—	28,440
Current portion of long-term debt	13,271	505	782	3,962	2,705	104	2,337	6,260	4,832	—	—	34,758
Total current liabilities	644,473	19,717	45,517	86,362	64,375	7,843	18,451	66,182	89,086	154	(125,283)	916,877
Long-term debt, less current portion	718,215	20,486	31,725	161,116	81,081	4,308	52,457	229,474	196,474	—	—	1,495,336
Other long-term liabilities	123,107	144	21,226	36,049	12,374	5,455	15,398	25,628	23,662	—	—	263,043
Interest rate swap liabilities	194,524	—	—	—	—	—	—	—	—	—	—	194,524
Total liabilities	1,680,319	40,347	98,468	283,527	157,830	17,606	86,306	321,284	309,222	154	(125,283)	2,869,780
Net assets:												
Unrestricted	1,200,580	83,846	87,950	225,040	222,367	55,913	73,393	(6,563)	336,018	17,777	(511,275)	1,785,046
Temporarily restricted	218,844	31,446	1,558	9,222	20,708	2,668	93	1	168,228	11,404	(207,767)	256,405
Permanently restricted	1,689	—	—	—	14,421	1,296	—	—	—	20,106	(1,276)	36,236
Total net assets	1,421,113	115,292	89,508	234,262	257,496	59,877	73,486	(6,562)	504,246	49,287	(720,318)	2,077,687
Total liabilities and net assets	\$ 3,101,432	155,639	187,976	517,789	415,326	77,483	159,792	314,722	813,468	49,441	(845,601)	4,947,467

* Includes Corporate Shared services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Operations and Changes in Net Assets Information – Obligated Group

Year ended June 30, 2018

(In thousands)

	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Shore Health System				Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals**	Capital Region Hospitals***	UMMS Foundation	Eliminations	Obligated group total
					Memorial Hospital	Dorchester General	QAEC	Subtotal								
Unrestricted revenues, gains and other support:																
Patient service revenue (net of contractual adjustments)	\$ 1,518,916	114,046	220,000	387,027	203,576	46,299	6,224	256,099	55,903	140,663	371,927	397,389	320,065	—	(1,944)	3,780,091
Provision for bad debts	(52,157)	(4,078)	(9,476)	(19,037)	(5,150)	(2,170)	(845)	(8,165)	(2,660)	(7,421)	(10,782)	(11,066)	(23,819)	—	—	(148,661)
Net patient service revenue	1,466,759	109,968	210,524	367,990	198,426	44,129	5,379	247,934	53,243	133,242	361,145	386,323	296,246	—	(1,944)	3,631,430
Other operating revenue:																
State support	31,200	—	—	—	—	—	—	—	—	—	—	—	32,237	—	—	63,437
Other revenue	98,680	2,732	18,610	4,980	4,347	288	9	4,644	510	550	3,266	5,114	5,156	—	—	144,242
Total unrestricted revenue, gains and other support	1,596,639	112,700	229,134	372,970	202,773	44,417	5,388	252,578	53,753	133,792	364,411	391,437	333,639	—	(1,944)	3,839,109
Operating expenses:																
Salaries, wages, and benefits	765,900	53,923	96,439	171,046	85,481	22,387	3,308	111,176	15,995	57,036	136,452	172,899	160,760	—	—	1,741,626
Expendable supplies	364,525	15,419	32,831	57,852	36,031	2,859	477	39,366	4,897	19,015	79,516	70,112	43,209	—	—	726,742
Purchased services	155,631	23,002	53,331	67,201	34,089	7,814	857	42,760	15,007	29,167	71,041	63,380	93,617	—	(1,944)	612,193
Contracted services	136,537	8,553	27,207	17,164	8,055	3,656	1,441	13,152	6,090	7,000	17,875	14,592	18,177	—	—	286,347
Depreciation and amortization	97,673	6,658	12,242	26,383	14,445	3,187	467	18,099	4,133	5,892	21,156	21,865	12,531	—	—	226,632
Interest expense	24,182	674	1,043	5,351	2,502	193	121	2,816	137	1,750	9,009	7,737	99	—	—	52,798
Total operating expenses	1,544,448	108,229	223,093	344,997	180,603	40,095	6,671	227,369	46,259	119,860	335,049	350,585	328,393	—	(1,944)	3,626,338
Operating income (loss)	52,191	4,471	6,041	27,973	22,170	4,322	(1,283)	25,209	7,494	13,932	29,362	40,852	5,246	—	—	212,771
Nonoperating income and expenses, net:																
Contributions	—	—	—	—	(4)	—	—	(4)	—	—	—	—	—	8,832	—	8,828
Inherent contribution - Capital Region	41,772	—	—	—	—	—	—	—	—	—	—	—	—	—	—	41,772
Equity in net income of joint ventures	503	—	—	(203)	169	47	7	223	—	239	1,418	—	—	—	—	2,180
Investment income	10,317	1,028	72	3,904	7,795	—	—	7,795	456	698	—	5,047	32	710	—	30,059
Change in fair value of investments	6,913	1,318	—	5,129	282	—	—	282	628	1,275	—	6,392	—	433	—	22,370
Change in fair value of undesignated interest rate swaps	43,071	—	—	—	—	—	—	—	—	—	—	—	—	—	—	43,071
Other nonoperating gains and losses	(10,075)	(294)	(3,535)	(4,754)	(702)	(194)	(28)	(924)	(443)	(831)	(3,279)	(2,702)	2,048	(3,643)	—	(28,432)
Total nonoperating income and expenses	92,501	2,052	(3,463)	4,076	7,540	(147)	(21)	7,372	641	1,381	(1,861)	8,737	2,080	6,332	—	119,848
Excess (deficiency) of revenues over expenses	144,692	6,523	2,578	32,049	29,710	4,175	(1,304)	32,581	8,135	15,313	27,501	49,589	7,326	6,332	—	332,619
Net assets released from restrictions used for purchase of property and equipment	—	—	618	1,690	745	—	—	745	453	—	—	—	—	—	—	3,506
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interest in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	(14,310)	(7,704)	(207)	(4,120)	(18,187)	—	—	(18,187)	(426)	(1,324)	(125,411)	(16,909)	46,450	(2,234)	—	(144,382)
Amortization of accumulated loss of discontinued designated interest rate swap	1,668	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,668
Change in funded status of defined benefit pension plans	—	—	4,312	1,873	—	—	—	—	(886)	1,873	—	—	—	—	—	7,172
Asset reclassifications at request of donor	—	—	—	—	—	—	—	—	—	—	—	—	—	1,978	—	1,978
Other	169	—	231	2,570	1,402	—	—	1,402	809	55	372	—	—	—	—	5,608
Increase (decrease) in unrestricted net assets	\$ 132,219	(1,181)	7,532	34,062	13,670	4,175	(1,304)	16,541	8,085	15,917	(97,538)	32,680	53,776	6,076	—	208,169

* Includes Corporate Shared Services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

*** Includes Prince George's Hospital Center, Laurel Regional Hospital, Bowie Health Center and Gladys Spellman Specialty Care Unit

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Operations and Changes in Net Assets Information – Obligated Group

Year ended June 30, 2017

(In thousands)

	University of	Rehabilitation & Orthopaedic Institute	University of	Baltimore	Shore Health System				Chester	Charles	St. Joseph	Upper	UMMS Foundation	Eliminations	Obligated group total
	Maryland Medical Center & Affiliate*		Maryland Midtown Campus	Washington Medical Center	Memorial Hospital	Dorchester General	QAEC	Subtotal	River Hospital Center	Regional Medical Center	Medical Center	Chesapeake Hospitals**			
Unrestricted revenues, gains and other support:															
Patient service revenue (net of contractual adjustments)	\$ 1,481,115	114,438	224,909	382,961	198,566	45,354	5,772	249,692	54,588	136,289	370,211	401,011	—	(1,033)	3,414,181
Provision for bad debts	(73,814)	(7,188)	(19,757)	(19,775)	(5,861)	(2,044)	(626)	(8,531)	(2,777)	(6,428)	(10,577)	(15,056)	—	—	(163,903)
Net patient service revenue	1,407,301	107,250	205,152	363,186	192,705	43,310	5,146	241,161	51,811	129,861	359,634	385,955	—	(1,033)	3,250,278
Other operating revenue:															
State support	18,200	—	—	—	—	—	—	—	—	—	—	—	—	—	18,200
Other revenue	103,239	2,583	10,221	3,681	4,230	335	11	4,576	403	507	3,231	5,099	—	—	133,540
Total unrestricted revenue, gains and other support	1,528,740	109,833	215,373	366,867	196,935	43,645	5,157	245,737	52,214	130,368	362,865	391,054	—	(1,033)	3,402,018
Operating expenses:															
Salaries, wages, and benefits	745,926	51,275	91,325	163,885	91,466	25,767	3,680	120,913	17,620	56,888	135,718	169,037	—	—	1,552,587
Expendable supplies	353,848	15,357	29,853	60,895	34,202	3,441	505	38,148	6,191	18,879	80,461	75,274	—	—	678,906
Purchased services	115,723	23,315	44,827	66,602	33,965	7,372	1,061	42,398	11,488	27,006	77,393	61,155	(1,033)	—	468,874
Contracted services	134,767	8,867	23,146	9,560	7,254	2,977	906	11,137	5,782	6,067	16,946	13,918	—	—	230,190
Depreciation and amortization	95,665	6,535	12,464	26,386	14,137	3,192	647	17,976	4,338	5,543	18,955	20,829	—	—	208,691
Interest expense	24,165	722	1,116	5,657	2,480	160	343	2,983	152	1,887	9,620	8,150	—	—	54,452
Total operating expenses	1,470,094	106,071	202,731	332,985	183,504	42,909	7,142	233,555	45,571	116,270	339,093	348,363	—	(1,033)	3,193,700
Operating income (loss)	58,646	3,762	12,642	33,882	13,431	736	(1,985)	12,182	6,643	14,098	23,772	42,691	—	—	208,318
Nonoperating income and expenses, net:															
Contributions	—	—	—	—	25	—	—	25	—	200	—	—	4,392	—	4,617
Equity in net income of joint ventures	630	—	—	(115)	(126)	(35)	(5)	(166)	—	48	834	—	—	—	1,231
Investment income	10,454	1,106	102	4,501	5,786	—	—	5,786	516	702	—	5,298	1,000	—	29,485
Change in fair value of investments	13,983	2,607	—	10,139	5,237	—	—	5,237	1,240	2,268	—	12,728	1,971	—	50,173
Change in fair value of undesignated interest rate swaps	76,797	—	—	—	—	—	—	—	—	—	—	—	—	—	76,797
Loss on early extinguishment of debt	(26,427)	—	—	—	—	—	—	—	—	—	—	—	—	—	(26,427)
Other nonoperating gains and losses	(10,981)	(363)	(2,059)	(4,079)	(2,589)	(716)	(102)	(3,407)	(549)	(943)	(4,040)	(23,007)	(5,356)	—	(54,784)
Total nonoperating income and expenses	64,456	3,350	(1,957)	10,446	8,333	(751)	(107)	7,475	1,207	2,275	(3,206)	(4,981)	2,007	—	81,072
Excess (deficiency) of revenues over expenses	123,102	7,112	10,685	44,328	21,764	(15)	(2,092)	19,657	7,850	16,373	20,566	37,710	2,007	—	289,390
Net assets released from restrictions used for purchase of property and equipment	21,500	—	1,529	—	7,692	—	—	7,692	423	—	2,063	—	—	—	33,207
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interest in the net assets of related organizations	—	—	—	—	1,304	—	—	1,304	—	—	—	—	—	—	1,304
Change in ownership interest of joint ventures	397	—	—	—	—	—	—	—	—	—	—	—	—	—	397
Capital transfers (to) from affiliate	18,280	(1,137)	(249)	(3,454)	(22,886)	—	—	(22,886)	(180)	(1,121)	1,269	(15,330)	(6,833)	—	(31,641)
Amortization of accumulated loss of discontinued designated interest rate swap	1,794	—	—	—	—	—	—	—	—	—	—	—	—	—	1,794
Change in funded status of defined benefit pension plans	—	—	4,570	6,308	—	—	—	—	1,738	705	—	21,032	—	—	34,353
Asset reclassifications at request of donor	—	—	—	—	—	—	—	—	—	—	—	(1,326)	—	—	(1,326)
Other	(217)	(2)	1,748	—	—	—	—	—	—	(4)	(220)	(58)	4	—	1,251
Increase (decrease) in unrestricted net assets	\$ 164,856	5,973	18,283	47,182	7,874	(15)	(2,092)	5,767	9,831	15,953	23,678	42,028	(4,822)	—	328,729

* Includes Corporate Shared services

** Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

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