

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

University of Maryland Medical System Corporation and Subsidiaries
Years Ended June 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



University of Maryland Medical System Corporation and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2021 and 2020

Contents

Report of Independent Auditors.....	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Consolidating Balance Sheet – Hospital Format	65
Consolidating Statement of Operations – Hospital Format	67



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Report of Independent Auditors

The Board of Directors
University of Maryland Medical System Corporation

We have audited the accompanying consolidated financial statements of University of Maryland Medical System Corporation and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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 financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 consolidated financial position of University of Maryland Medical System Corporation and Subsidiaries at June 30, 2021 and 2020, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating and combining/combined information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the 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 financial statements as a whole.

Ernst + Young LLP

October 28, 2021

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 858,543	\$ 961,647
Assets limited as to use, current portion	54,457	64,026
Accounts receivable:		
Patient accounts receivable, net	529,825	472,351
Other	223,549	118,228
Inventories	105,076	105,879
Assets held for sale	-	149,563
Prepaid expenses and other current assets	32,233	60,178
Total current assets	1,803,683	1,931,872
Investments	1,355,157	927,366
Assets limited as to use, less current portion	1,338,262	1,113,986
Property and equipment, net	2,753,060	2,556,548
Investments in joint ventures	103,098	92,485
Other assets	501,852	517,654
Total assets	\$ 7,855,112	\$ 7,139,911
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 429,032	\$ 302,133
Accrued payroll and benefits	343,770	282,410
Advances from third-party payors	563,933	773,947
Lines of credit	113,000	193,500
Short-term financing	-	150,000
Other current liabilities	133,624	129,813
Liabilities held for sale	-	65,461
Long-term debt subject to short-term remarketing arrangements	153,510	28,794
Current portion of long-term debt	29,751	40,468
Total current liabilities	1,766,620	1,966,526
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,788,367	1,438,257
Other long-term liabilities	757,633	653,388
Interest rate swap liabilities	203,609	270,430
Total liabilities	4,516,229	4,328,601
Net assets:		
Without donor restrictions	3,036,143	2,055,346
With donor restrictions	302,740	755,964
Total net assets	3,338,883	2,811,310
Total liabilities and net assets	\$ 7,855,112	\$ 7,139,911

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2021	2020
Operating revenue, gains, and other support:		
Net patient service revenue	\$ 4,288,842	\$ 3,915,931
State and county support	20,025	19,737
CARES Act – Provider relief funds	155,723	199,632
Other revenue	305,251	228,754
Total operating revenue, gains, and other support	4,769,841	4,364,054
Operating expenses:		
Salaries, wages, and benefits	2,428,690	2,230,484
Expendable supplies	882,966	760,113
Purchased services	705,847	696,028
Contracted services	305,273	276,959
Depreciation and amortization	244,277	235,891
Interest expense	32,467	46,561
Total operating expenses	4,599,520	4,246,036
Income from continuing operations	170,321	118,018
Nonoperating income and expenses, net:		
Unrestricted contributions	3,882	9,293
Equity in net income of joint ventures	11,230	3,536
Investment income, net	41,377	24,635
Change in fair value of investments	184,661	(4,884)
Change in fair value of undesignated interest rate swaps	65,325	(75,811)
Other nonoperating losses, net	(38,888)	(24,376)
Loss on early extinguishment of debt	(8,565)	–
Excess of revenues over expenses from continuing operations	429,343	50,411
(Loss) gain on discontinued operations, net	(529)	19,599
Excess of revenues over expenses	\$ 428,814	\$ 70,010

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2019	\$ 1,973,405	\$ 764,219	\$ 2,737,624
Excess of revenues over expenses from continuing operations	50,411	–	50,411
Gain on discontinued operations, net	19,599	–	19,599
Investment gains, net	–	1,206	1,206
State support for capital	–	20,803	20,803
Contributions, net	–	18,111	18,111
Net assets released from restrictions used for operations and nonoperating activities	–	(6,307)	(6,307)
Net assets released from restrictions used for purchase of property and equipment	18,791	(18,791)	–
Change in economic and beneficial interests in the net assets of related organizations	27,283	(27,283)	–
Change in funded status of defined benefit pension plans	(36,971)	–	(36,971)
Other	2,828	4,006	6,834
Increase (decrease) in net assets	<u>81,941</u>	<u>(8,255)</u>	<u>73,686</u>
Balance at June 30, 2020	2,055,346	755,964	2,811,310
Excess of revenues over expenses from continuing operations	429,343	–	429,343
Loss on discontinued operations, net	(529)	–	(529)
Investment gains, net	–	15,589	15,589
State support for capital	–	15,189	15,189
Contributions, net	–	15,603	15,603
Net assets released from restrictions used for operations and nonoperating activities	–	(7,597)	(7,597)
Net assets released from restrictions used for purchase of property and equipment	386,238	(386,238)	–
Change in economic and beneficial interests in the net assets of related organizations	120,495	(107,725)	12,770
Change in funded status of defined benefit pension plans	52,567	–	52,567
Other	(7,317)	1,955	(5,362)
Increase (decrease) in net assets	<u>980,797</u>	<u>(453,224)</u>	<u>527,573</u>
Balance at June 30, 2021	<u>\$ 3,036,143</u>	<u>\$ 302,740</u>	<u>\$ 3,338,883</u>

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2021	2020
Operating activities		
Increase in net assets	\$ 527,573	\$ 73,686
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	244,277	235,891
Amortization of bond premium and deferred financing costs	(2,438)	1,477
Net realized gains and change in fair value of investments	(226,038)	(3,183)
Equity in net income of joint ventures	(11,230)	(3,536)
Change in economic and beneficial interests in net assets of related organizations	(14,741)	27,281
Change in fair value of interest rate swaps	(65,325)	74,256
Change in funded status of defined benefit pension plans	52,567	36,971
Restricted contributions, grants and other support, net	(46,381)	(40,120)
Loss on early extinguishment of debt	8,565	–
Loss on divestiture of UM Health Plans	3,266	–
Change in operating assets and liabilities:		
Patient accounts receivable	(57,474)	(13,027)
Other receivables, prepaid expenses, other current assets, and other assets	(97,198)	(76,747)
Inventories	803	(35,401)
Trade accounts payable, accrued payroll and benefits, other current liabilities, and other long-term liabilities	231,300	74,235
Advances from third-party payors	(210,014)	634,784
Net cash provided by operating activities	<u>337,512</u>	<u>986,567</u>
Investing activities		
Purchases and sales of investments and assets limited as to use, net	(467,307)	125,958
Purchases of alternative investments	(72,432)	(79,572)
Sales of alternative investments	91,351	101,417
Purchase of UM Ambulatory Care, LLC, net cash acquired	–	(608)
Purchases of property and equipment	(440,572)	(461,896)
Sale of UM Health Plan, LLC net cash proceeds	65,555	–
Transfer of funds from UCH Legacy Funding Corp	122,504	–
Distributions from joint ventures, net	2,327	1,922
Net cash used in investing activities	<u>(698,574)</u>	<u>(312,779)</u>

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)
(In Thousands)

	Year Ended June 30	
	2021	2020
Financing activities		
Proceeds from long-term debt	\$ 783,994	\$ –
Payment of debt issuance costs	(5,484)	(45,434)
Repayment of long-term debt and capital leases	(470,528)	–
(Repayments of) draws on lines of credit, net	(80,500)	32,200
Restricted contributions, grants, and other support	46,381	40,120
Net cash provided by financing activities	<u>273,863</u>	<u>26,886</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(87,199)	700,674
Cash, cash equivalents, and restricted cash, beginning of year	1,212,623	511,949
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,125,424</u>	<u>\$ 1,212,623</u>
Cash and cash equivalents	\$ 858,543	\$ 961,647
Restricted cash included in assets limited as to use	266,881	250,976
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,125,424</u>	<u>\$ 1,212,623</u>
Discontinued operations		
Operating activities	\$ (6,452)	\$ 19,374
Investing activities	\$ –	\$ (569)
Financing activities	\$ –	\$ –
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, net of amounts capitalized	\$ 32,737	\$ 54,306
Amount included in accounts payable for construction in progress	\$ 43,215	\$ 45,415

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (In Thousands)

June 30, 2021

1. Organization and Summary of Significant Accounting Policies

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. Prior to that time, the founding hospital was state-owned, operated and financed as part of the University of Maryland, now a part of the University System. As part of the privatization process, the Maryland General Assembly and the University of Maryland's Board of Regents adopted legislation (the Governance Legislation) separating the major health care delivery components from the University System to UMMS. This Governance Legislation provides for certain level of oversight by the State of Maryland to ensure UMMS' founding purposes are consistently set forth in its functions and operating practices.

Over its 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 5. The significant operating divisions of the Corporation are described in further detail below.

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

Recent Acquisitions and Divestitures

During the year ended June 30, 2020, the Corporation signed a letter of intent to sell the assets and liabilities of UM Health Plans, which included both the Medicaid Plan and Medicare Advantage Plan. Based on the criteria in Accounting Standards Codification (ASC) 205, *Discontinued Operations*, it was determined that the pending sale met the criteria for discontinued operations treatment. As of June 30, 2021 and 2020, assets held for sale were approximately \$0 and \$149,600 and liabilities held for sale were approximately \$0 and \$65,500, respectively. For the years ended

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

June 30, 2021 and 2020, operating revenues from discontinued operations were approximately \$117,112 and \$361,618, respectively. For the years ended June 30, 2021 and 2020, operating and nonoperating expenses from discontinued operations were approximately \$114,375 and \$342,019, respectively. The transaction was completed on October 10, 2020, resulting in a loss on sale of \$3,266, which is included in the net loss from discontinued operations of \$529 for the year ended June 30, 2021.

Effective March 1, 2020, the Corporation purchased the full interest in nine urgent care sites from ChoiceOne, which is a subsidiary of Fresenius Medical Care. Previously the urgent care sites were operated under a joint venture agreement between ChoiceOne and three affiliates: UM St. Joseph Medical Center, UM Shore Regional Health and UM Upper Chesapeake Health. Upon becoming a wholly-owned subsidiary of the Corporation, the nine sites were moved under one Company, University of Maryland Ambulatory Care, LLC (UM Ambulatory Care).

University of Maryland Medical Center (Medical Center)

The Medical Center, which is a major component of UMMS, is a 806-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. As part of the privatization in 1984, only clinical faculty members of the School of Medicine may 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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine 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, 2021 and 2020, was approximately \$190,417 and \$168,438, respectively.

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.

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 177 licensed beds, including 100 acute care beds and 77 chronic care beds and a wholly owned subsidiary providing primary care.

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 285-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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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 132-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; University of Maryland Dorchester Hospital (UM Dorchester), a 34-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; University of Maryland Chester River Hospital Center (UM Chester River), a 21-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.

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 99-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

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 219-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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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 174-bed acute care hospital and University of Maryland Harford Memorial Hospital (UM Harford Memorial), an 82-bed acute care hospital; a physician practice; a land holding company; and Upper Chesapeake Health Foundation.

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 the new state-of-the-art UM Capital Region Medical Center (UM Prince George's), a 205-bed acute care teaching hospital providing an array of services including emergency medicine, behavioral health, cardiac surgery, women's and infants health and a Level II Trauma Center; UM Laurel Medical Center (UM Laurel), a free standing medical facility providing emergency medicine and outpatient surgery and UM Bowie Health Center (UM Bowie) a free standing medical facility providing emergency medicine and diagnostic imaging and lab services.

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.

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.

Basis of Presentation

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

Investments and Assets Limited as to Use

The Corporation's investment portfolios, except alternative investments, are classified as trading and are reported in the consolidated balance sheets, as long-term assets, at June 30, 2021 and 2020. Unrealized holding gains and losses on trading securities with readily determinable market values as well as alternative investments are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

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. Restricted investments are recorded in net assets with donor restrictions 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 13).

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. The equity method reflects the Corporation's share of the net asset values, as a practical expedient, which is based on the unit values of the interest as determined by the issuer sponsoring such interest dividing the fund's net assets at fair value by its units outstanding at the valuation dates. 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

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.

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 accompanying consolidated statements of changes in net assets.

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. 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

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

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.

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.

Impairment losses of \$2,900 and \$0 were recorded for the years ended June 30, 2021 and 2020, respectively.

Investments in Joint Ventures

When the Corporation does not have a controlling interest in an entity where less than 50% of the voting common stock is owned or does not exert a significant influence over the entity, the Corporation applies the equity method of accounting.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Self-Insurance

Under the Corporation's self-insurance programs (general and professional liability, workers' compensation, and employee health and long-term disability benefits), incurred claims are estimated primarily based upon actuarial methods which include incurred but not reported claims analysis and reported claims the severity of incidents and the expected timing of claim payments. These estimates are continually reviewed and adjusted as necessary based on experience. These adjustments are recorded within the current period operating income.

Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. 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.

Net Patient Service Revenue and Patient Accounts Receivable

In accordance with ASC 606, *Revenue from Contracts with Customers*, net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient services revenue, is recorded at the transaction price estimated by the Corporation to reflect the total consideration due from patients and third-party payors (including commercial payers and government programs) and others. Revenue is recognized over time as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The services provided to a patient during an inpatient stay or outpatient visit represent a bundle of goods and services that are distinct and accounted for as a single performance obligation.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

The Corporation's estimate of the transaction price includes the Corporation's standard charges for the goods and services provided with a reduction recorded related to explicit price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and implicit price concessions such as uncollectible amounts. The price concessions are determined using the portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Based on historical experience, a significant portion of the self-pay population will be unable or unwilling to pay for services and only the amount anticipated to be collected is recognized the transactions price. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are considered bad debt expense and recorded within operating expenses. Estimates for uncollectible amounts are based on the historical collections experience for similar payors and patients, current market conditions, and other relevant factors. The Corporation recognizes a significant amount of patient service revenue even though they do not assess the patient's ability to pay.

The standard charges for goods and services 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. See Note 20 for further discussion on the HSCRC and regulated rates.

Patient accounts are recorded at the net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and commercial insurance, the net realizable value is based on the estimated contractual adjustments which is based on approved discounts on charges as permitted by the HSCRC. For self-pay accounts, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience.

The Corporation has elected to apply the optional exemption in ASC 606-10-50-14a as all performance obligations relate to contracts with duration of less than one year. Under this exemption, the Corporation was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Net patient service revenue by line of business are as follows:

	Year Ended June 30	
	2021	2020
Hospital inpatient and outpatient services	\$ 4,013,287	\$ 3,658,694
Physician services	267,800	238,498
Other	7,755	18,739
Net patient service revenue	<u>\$ 4,288,842</u>	<u>\$ 3,915,931</u>

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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

- 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 uncollectible (implicit price concessions) 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 or determined to be uncollectible from patients are reported as reductions to 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 Corporation estimates the total direct and indirect costs to provide charity care were approximately \$48,257 and \$48,254 for the years ended June 30, 2021 and 2020, respectively.

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, and settlement payments on interest rate swaps that do not qualify for hedge accounting treatment. Settlement payments on interest rate swaps were approximately \$24,527 and \$18,444 for the years ended June 30, 2021 and 2020, respectively, and are reported within other nonoperating losses, net.

Derivative Financial Instruments

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

All derivative instruments are reported as other assets or interest rate swap liabilities in the consolidated balance sheets and measured at fair value. Currently, the Corporation is accounting for its interest rate swaps as economic hedges at fair value with changes in the fair value recognized in other nonoperating income and expenses.

Excess of Revenue over Expenses from Continuing Operations

The accompanying consolidated statements of operations and changes in net assets includes a performance indicator, excess of revenues over expenses from continuing operations. Changes in net assets without donor restrictions 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, and other items that are required by generally accepted accounting principles to be reported separately.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

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 net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions on the accompanying consolidated statements of operations.

Contributions to be received after one year are discounted at a fixed 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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Pension plan assets – The Corporation applies Accounting Standards Update (ASU) 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.
- 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

As of June 30, 2021 and 2020, the Level 2 assets and liabilities listed in the fair value hierarchy tables presented in Notes 3 and 11 utilize the following valuation techniques and inputs:

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.

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.

Corporate Obligations

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. 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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Alternative Investments

Alternative investments measured at fair value represent funds included on the consolidated balance sheet that are reported using net asset value (NAV) as a practical expedient. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partners. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners. Certain alternative investments are utilizing NAV to calculate fair value and are included in alternative investments in the fair value hierarchy tables presented in Notes 3.

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.

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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. COVID-19 Pandemic and the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses or lost revenues attributable to coronavirus and not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The U.S. Department of Health and Human Services' distributions from the Relief Fund include general distribution and targeted distributions to support hospitals in high impact areas and rural providers. For the years ended June 30, 2021 and 2020, the Corporation received and recognized as other operating revenue approximately \$155,700 and \$199,600, respectively, in relief funding.

In April 2020, the Corporation requested Medicare advanced payments under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment Program designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. The Medicare advanced payment program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. The Corporation received approximately \$641,300 of advanced payments with repayment to occur based upon the terms and conditions of the program. The remaining balance of \$569,651 represent contract liabilities under Topic 606, the current portion of \$419,651 is recorded in advances from third-party payors and the long-term portion of \$150,000 is recorded in other liabilities within the accompanying consolidated balance sheet as of June 30, 2021.

The CARES Act provided for deferred payment of the employer portion of social security taxes through December 31, 2020, with 50% of the deferred amount to December 31, 2021, and the remaining 50% due December 31, 2022. At June 30, 2021, the Corporation deferred \$76,662, which is recorded in accrued payroll and benefits and other long-term liabilities in the accompanying consolidated balance sheets.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use

The carrying values of assets limited as to use were as follows:

	June 30	
	2021	2020
Investments held for collateral	\$ 117,474	\$ 166,507
Debt service and reserve funds	56,384	37,696
Construction funds – held by trustee	496,355	204,366
Construction funds – held by the Corporation	128,756	174,675
Board designated funds	137,528	116,811
Self-insurance trust funds	277,274	215,162
Funds restricted by donors	115,853	91,975
Economic and beneficial interests in the net assets of related organizations <i>(Note 13)</i>	63,095	170,820
Total assets limited as to use	<u>1,392,719</u>	<u>1,178,012</u>
Less amounts available for current liabilities	<u>(54,457)</u>	<u>(64,026)</u>
Total assets limited as to use, less current portion	<u>\$ 1,338,262</u>	<u>\$ 1,113,986</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use (continued)

The carrying values of assets limited as to use were as follows:

	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
June 30, 2021								
Cash and cash equivalents	\$ 72,439	\$ 17,856	\$ 285,949	\$ 62,057	\$ 2,133	\$ 19,393	\$ –	\$ 459,827
Corporate obligations	–	–	–	3,206	6,653	–	–	9,859
Fixed income funds	–	–	–	10,127	–	17,063	–	27,190
U.S. Government and agency securities	45,035	38,528	339,162	927	7,667	1,208	–	432,527
Common stocks, including mutual funds	–	–	–	40,923	8,975	50,069	–	99,967
Alternative investments	–	–	–	20,288	7,787	28,120	–	56,195
Assets held by other organizations	–	–	–	–	244,059	–	63,095	307,154
Total assets limited as to use	<u>\$ 117,474</u>	<u>\$ 56,384</u>	<u>\$ 625,111</u>	<u>\$ 137,528</u>	<u>\$ 277,274</u>	<u>\$ 115,853</u>	<u>\$ 63,095</u>	<u>\$ 1,392,719</u>
June 30, 2020								
Cash and cash equivalents	\$ 136,101	\$ 15,851	\$ 260,606	\$ 37,409	\$ 591	\$ 13,093	\$ –	\$ 463,651
Corporate obligations	–	–	–	365	12,381	974	–	13,720
Fixed income funds	–	–	–	18,350	394	16,106	–	34,850
U.S. Government and agency securities	30,406	21,845	118,435	169	2,782	449	–	174,086
Common stocks, including mutual funds	–	–	–	43,630	5,799	29,569	–	78,998
Alternative investments	–	–	–	16,888	10,830	31,784	–	59,502
Assets held by other organizations	–	–	–	–	182,385	–	170,820	353,205
Total assets limited as to use	<u>\$ 166,507</u>	<u>\$ 37,696</u>	<u>\$ 379,041</u>	<u>\$ 116,811</u>	<u>\$ 215,162</u>	<u>\$ 91,975</u>	<u>\$ 170,820</u>	<u>\$ 1,178,012</u>

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 cash, stocks and fixed-income and corporate obligations. 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. These assets include the Corporation's portion of the investment pool shared with University of Maryland Faculty Physician, Inc., which is part of the University of Maryland School of Medicine.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use (continued)

The related restricted cash and cash equivalents included in investments held for collateral, debt service and reserve funds, construction funds (held by trustee), and funds restricted by donors are included in the accompanying consolidated statements of cash flows for the years ended June 30, 2021 and 2020.

The carrying values of investments were as follows:

	June 30	
	2021	2020
Cash and cash equivalents	\$ 229,597	\$ 54,553
Corporate obligations	18,569	56,424
Fixed income funds	86,415	91,095
U.S. Government and agency securities	36,013	26,062
Common stocks	304,043	235,673
Alternative investments:		
Hedge funds/private equity	222,861	193,250
Commingled funds	457,659	270,309
	<u>\$ 1,355,157</u>	<u>\$ 927,366</u>

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2021, 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 \$139,600 of the alternative investments were subject to 31–60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately \$78,000, 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 \$17,800 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 \$8,200 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 approximately \$5,006 of unfunded commitments in alternative investments as of June 30, 2021.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use (continued)

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	\$ 229,597	\$ –	\$ –	\$ 229,597
Corporate obligations	–	18,569	–	18,569
Fixed income funds	86,415	–	–	86,415
U.S. Government and agency securities	22,643	13,370	–	36,013
Common stocks, including mutual funds	304,043	–	–	304,043
	<u>642,698</u>	<u>31,939</u>	<u>–</u>	<u>674,637</u>
Alternative investments, reported using NAV:				
Hedge funds/private equity				222,861
Commingled funds				457,659
Total Investments				<u>1,355,157</u>
Assets limited as to use:				
Cash and cash equivalents	459,827	–	–	459,827
Corporate obligations	–	9,859	–	9,859
Fixed income funds	27,190	–	–	27,190
U.S. Government and agency securities	421,558	10,969	–	432,527
Common stocks, including mutual funds	99,967	–	–	99,967
Investments held by other organizations	–	63,095	–	63,095
	<u>\$ 1,008,542</u>	<u>\$ 83,923</u>	<u>\$ –</u>	<u>1,092,465</u>
Alternative investments, reported using NAV:				
Investments held by other organizations*				244,059
Hedge funds/private equity				20,058
Commingled funds				36,137
				<u>\$ 1,392,719</u>

**“Investments held by other organizations” recorded using the NAV as a practical expedient includes assets of the MMCIP Self-insurance Trust, which holds Level 1, Level 2 and alternative investments within its portfolios. Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2021, 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use (continued)

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	\$ 54,553	\$ –	\$ –	\$ 54,553
Corporate obligations	–	56,424	–	56,424
Fixed income funds	91,095	–	–	91,095
U.S. Government and agency securities	7,586	18,476	–	26,062
Common stocks, including mutual funds	235,673	–	–	235,673
	<u>388,907</u>	<u>74,900</u>	<u>–</u>	<u>463,807</u>
Alternative investments, reported at NAV:				
Hedge funds/private equity				270,309
Commingled funds				193,250
				<u>927,366</u>
Assets limited as to use:				
Cash and cash equivalents	463,651	–	–	463,651
Corporate obligations	–	13,720	–	13,720
Fixed income funds	34,850	–	–	34,850
U.S. Government and agency securities	170,795	3,291	–	174,086
Common stocks, including mutual funds	78,998	–	–	78,998
Investments held by other organizations	–	170,820	–	170,820
	<u>\$ 748,294</u>	<u>\$ 187,831</u>	<u>\$ –</u>	<u>936,125</u>
Alternative investments, reported using NAV:				
Investments held by other organizations*				182,385
Hedge funds/private equity				31,572
Commingled trusts				27,930
Total assets limited as to use				<u>\$ 1,178,012</u>

*“Investments held by other organizations” recorded using the NAV as a practical expedient includes assets of the MMCIP Self-insurance Trust, which holds Level 1, Level 2 and alternative investments within its portfolios. Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2020, 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Investments and Assets Limited as to Use (continued)

Changes to Level 1 and Level 2 securities between June 30, 2021 and 2020, were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

The Corporation's total return on its investments and assets limited as to use was as follows:

	Year Ended June 30	
	2021	2020
Dividends and interest, net of fees	\$ 12,011	\$ 17,775
Net realized gains	31,395	7,551
Change in fair value of trading securities and alternative investments	198,221	(4,368)
Total investment return	<u>\$ 241,627</u>	<u>\$ 20,958</u>

Total investment return is classified in the accompanying consolidated statements of operations as follows:

	Year Ended June 30	
	2021	2020
Nonoperating investment income, net	\$ 41,377	\$ 24,635
Change in fair value of unrestricted investments	184,661	(4,884)
Investment gains on net assets with donor restrictions	15,589	1,207
Total investment return	<u>\$ 241,627</u>	<u>\$ 20,958</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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Property and Equipment

The following is a summary of property and equipment:

	June 30	
	2021	2020
Land	\$ 182,586	\$ 203,544
Buildings	1,833,517	1,495,471
Building and leasehold improvements	1,118,868	1,080,875
Equipment	2,182,368	1,986,526
Construction in progress	500,982	635,895
	5,818,321	5,402,311
Less accumulated depreciation and amortization	(3,065,261)	(2,845,763)
	\$ 2,753,060	\$ 2,556,548

Remaining contractual commitments on construction projects were approximately \$128,500 at June 30, 2021, of which approximately \$28,800 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.

5. Investments in Joint Ventures

The Corporation has equity method investments of approximately \$103,098 and \$92,485 at June 30, 2021 and 2020, respectively, in the following unconsolidated joint ventures:

	Ownership %	2021	2020
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	50%	\$ 78,478	\$ 69,025
Terrapin Insurance	50%	975	975
Other investments	10%–51%	23,645	22,485
		\$ 103,098	\$ 92,485

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

5. Investments in Joint Ventures (continued)

The Corporation recorded equity in net income of \$11,230 and \$3,536 related to these joint ventures for the years ended June 30, 2021 and 2020, 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:

	2021			
	Mt.			
	Washington	Terrapin	Others	Total
Current assets	\$ 38,597	\$ 27,718	\$ 42,638	\$ 108,953
Noncurrent assets	133,176	347,714	57,369	538,259
Total assets	<u>\$ 171,773</u>	<u>\$ 375,432</u>	<u>\$ 100,007</u>	<u>\$ 647,212</u>
Current liabilities	\$ 20,715	\$ 1,145	\$ 22,819	\$ 44,679
Noncurrent liabilities	7,018	372,337	13,592	392,947
Net assets	144,040	1,950	63,596	209,586
Total liabilities and net assets	<u>\$ 171,773</u>	<u>\$ 375,432</u>	<u>\$ 100,007</u>	<u>\$ 647,212</u>
Total operating revenue	\$ 65,855	\$ 18,318	\$ 94,130	\$ 178,303
Total operating expenses	(61,478)	(40,848)	(77,157)	(179,483)
Total nonoperating gains (losses), net	10,579	22,530	493	33,602
Contributions from (to) owners	-	-	(10,797)	(10,797)
Other changes in net assets, net	6,852	-	(2,288)	4,564
Increase (decrease) in net assets	<u>\$ 21,808</u>	<u>\$ -</u>	<u>\$ 4,381</u>	<u>\$ 26,189</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

5. Investments in Joint Ventures (continued)

	2020			
	Mt. Washington	Terrapin	Others	Total
Current assets	\$ 36,255	\$ 23,194	\$ 36,993	\$ 96,442
Noncurrent assets	107,664	294,881	46,096	448,641
Total assets	<u>\$ 143,919</u>	<u>\$ 318,075</u>	<u>\$ 83,089</u>	<u>\$ 545,083</u>
Current liabilities	\$ 13,560	\$ 705	\$ 18,914	\$ 33,179
Noncurrent liabilities	7,746	315,420	12,979	336,145
Net assets	122,613	1,950	51,196	175,759
Total liabilities and net assets	<u>\$ 143,919</u>	<u>\$ 318,075</u>	<u>\$ 83,089</u>	<u>\$ 545,083</u>
Total operating revenue	\$ 61,670	\$ 36,445	\$ 102,477	\$ 200,592
Total operating expenses	(61,533)	(38,494)	(87,599)	(187,626)
Total nonoperating gains (losses), net	2,320	2,049	(80)	4,289
Contributions from (to) owners	–	–	(10,400)	(10,400)
Other changes in net assets, net	3,780	–	(288)	3,492
Increase (decrease) in net assets	<u>\$ 6,237</u>	<u>\$ –</u>	<u>\$ 4,110</u>	<u>\$ 10,347</u>

6. Leases

The Corporation determines if an arrangement is a lease at inception. Operating leases are included in other assets, other current liabilities, and other long-term liabilities on the consolidated balance sheet. Finance leases are included in property, plant and equipment, other current liabilities, and other long-term liabilities on the accompanying consolidated balance sheet.

The Corporation's leases primarily consist of real estate leases for medical and administrative office buildings and the Corporation determines if an arrangement is a lease at inception of the contract. Operating leases are included in other assets, other current liabilities, and other long-term liabilities on the consolidated balance sheet. Finance leases are included in property, plant and equipment, other current liabilities, and other long-term liabilities on the accompanying consolidated balance sheet.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Leases (continued)

Lease liabilities are recognized based on the present value, net of the future minimum lease payments over the lease term using the Corporation's incremental borrowing rate based on the information available at commencement. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in purchased services, net, but are not included in the ROU asset or liability balances. Lease agreements may include one or more renewal options which are at the Corporation's sole discretion. The Corporation does not consider the renewal options to be reasonably likely to be exercised, therefore they are not included in ROU assets and lease liabilities. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

In accordance with ASC 842, the Corporation has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. The Corporation recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

The following table summarizes the components of operating and finance lease assets and liabilities classified as current and noncurrent on the accompanying consolidated balance sheets:

	Balance Sheet Classification	June 30	
		2021	2020
Operating leases			
Operating lease ROU asset	Other assets	\$ 98,378	\$ 92,333
Operating lease obligation – current	Other current liabilities	(14,551)	(12,724)
Operating lease obligation – long-term	Other long-term liabilities	(87,039)	(81,951)
Finance leases			
Finance lease ROU asset	Property and equipment, net	\$ 38,144	\$ 47,598
Current finance lease liabilities	Other current liabilities	(433)	(760)
Long-term finance lease liabilities	Other long-term liabilities	(44,370)	(55,310)

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

6. Leases (continued)

The components of lease expense were as follows:

	Year Ended June 30	
	2021	2020
Finance lease expense:		
Amortization of ROU assets	\$ 3,819	\$ 1,518
Interest on lease liabilities	2,519	1,992
Total finance lease expense	<u>6,338</u>	3,510
Operating lease expense	20,765	16,159
Short-term/variable lease expense	14,713	12,848
Total lease expense	<u>\$ 41,816</u>	<u>\$ 32,517</u>

Commitments related to noncancelable operating and finance leases for each of the next five years and thereafter as of June 30, 2021, are as follows:

	Operating	Finance
2022	\$ 15,249	\$ 2,006
2023	14,463	2,006
2024	15,069	2,006
2025	14,861	2,006
2026	12,594	2,006
Thereafter	48,980	49,055
Total	<u>121,216</u>	<u>59,085</u>
Less: Present value discount	(19,626)	(14,282)
Lease liabilities	<u>\$ 101,590</u>	<u>\$ 44,803</u>

Other information is as follows:

	Year Ended June 30	
	2021	2020
Weighted average remaining lease terms (in years):		
Finance leases	9.52	11.17
Operating leases	9.44	10.25
Weighted average discount rate:		
Finance leases	3.53%	3.72%
Operating leases	3.25%	3.58%

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Line of Credit

For the years ended June 30, 2021 and 2020, the Corporation had a \$250,000 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 25, 2022. Interest is calculated based on an optional base rate or percentage of 1-month LIBOR plus a credit spread. As of June 30, 2021 and 2020, the amount outstanding on the line of credit was \$113,000 and \$193,500, respectively. The calculated interest rates as of June 30, 2021 and 2020, was a range from 0.89% to 3.25%.

For the year ended June 30, 2020, the Corporation had \$225,000 in additional lines of credit consisting of separate agreements with three banking partners. The borrowing facilities were put in place to provide additional access to liquidity in the event it would be needed during the COVID-19 pandemic, and each of the facilities expired no later than May 2021. As of June 30, 2020, there were \$0 outstanding on these lines of credit, and the lines of credit expired as of June 30, 2021.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Long-Term Debt and Other Borrowings

Long-term debt consists of the following:

	Interest Rate	Payable in Fiscal Year(s)	June 30	
			2021	2020
MHHEFA project revenue bonds:				
Corporation issue, payments due annually UCHS Term Loan:				
Series 2020B/D Bonds	3.05%–5.00%	2045–2049	\$ 752,680	\$ –
Series 2017D/E Bonds	4.00%–4.17%	2045–2049	189,965	189,965
Series 2017B/C Bonds	2.23%–5.00%	2018–2040	250,150	256,455
Series 2017A Bonds	Variable rate	2017–2043 ⁽¹⁾	41,635	42,840
Series 2016A–F Bonds	Variable rate	2017–2042 ⁽¹⁾	304,565	309,500
Series 2015 Bonds	3.63%–5.00%	2016–2042	72,140	73,630
Series 2013 Bonds	4.00%–5.00%	2014–2044	115,055	335,545
Series 2010 Bonds	4.75%–5.25%	2011–2032	–	41,510
Series 2008D/E Bonds	Variable rate	2025–2042	105,000	105,000
Series 2008F Bonds	4.50%–5.25%	2009–2024	–	20,630
Series 2007A Bonds	Variable rate	2008–2035	73,280	76,425
MHHEFA Pooled Loan Program	Variable rate	2017–2035	15,200	16,149
Other long-term debt:				
UCHS Term Loan	Variable rate	2021	–	150,000
Term loans	1.86%–4.44%	2009–2022	6,331	7,356
Other loans, mortgages and notes payable	3.25%–6.50%	Monthly, 2001–2035	12,678	12,678
Total debt			1,938,679	1,637,683
Less current portion of long-term debt			29,751	40,468
Less short-term financing			–	150,000
Less long-term debt subject to short-term remarketing agreements			153,510 ⁽¹⁾	28,794
			1,755,418	1,418,421
Plus unamortized premiums and discounts, net			44,215	28,713
Plus unamortized deferred financing costs			(11,573)	(8,877)
			<u>\$ 1,788,060</u>	<u>\$ 1,438,257</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). As of the date of issuance, the obligated group is in the process of extending or replacing the agreements with mandatory purchase options due in 2022.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Long-Term Debt and Other Borrowings (continued)

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 3).

The Corporation had a term loan in the amount of \$150,000 related to the acquisition of Upper Chesapeake, which the Corporation obtained long term financing during fiscal year 2021 to repay the term loan prior to its maturity date, and has classified this obligation as a short-term financing at June 30, 2020, in the consolidated balance sheet. See further discussion below in Series 2020B and 2020E issuance.

In December 2018, MHHEFA issued \$145,265 of tax-exempt Revenue Bonds, Series 2017D, and \$44,700 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Long-Term Debt and Other Borrowings (continued)

On July 2, 2020, MHHEFA issued \$152,680 of tax-exempt Revenue Bonds, Series 2020B, and \$600,000 taxable Revenue Bonds, Series 2020D. The proceeds were used for the purpose of refinancing existing debt, including the repayment of the Upper Chesapeake term loan (see above) and the redemption of the Series 2008F, 2010, and 2013A Bonds. The remaining proceeds are to be used for the purpose of financing a portion of the costs of construction and equipping of certain capital projects related to Medical Center, Baltimore Washington, Shore Regional, Upper Chesapeake and Capital Region.

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:

2022	\$ 183,261
2023	101,857
2024	182,547
2025	40,037
2026	36,707
Thereafter	<u>1,394,270</u>
	<u>\$ 1,938,679</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 2022 through 2026. 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, 2021 and 2020.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Long-Term Debt and Other Borrowings (continued)

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

	June 30	
	2021	2020
Series 2008D Bonds	0.02%	0.11%
Series 2008E Bonds	0.01	0.12
Series 2007A Bonds	0.02	0.09
Series 2016A Bonds	1.07	1.13
Series 2016B Bonds	0.95	1.01
Series 2016C Bonds	0.68	0.75
Series 2016D Bonds	0.91	0.98
Series 2016E Bonds	0.80	0.87
Series 2016F Bonds	0.78	0.84
Series 2017A Bonds	0.60	0.67
Series 1985 Pooled Loan Program (MHHEFA)	0.50	1.00
UCHS Term Loan	–	0.89

9. 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Interest Rate Risk Management (continued)

At June 30, 2021 and 2020, the Corporation's notional values of outstanding interest rate swaps were \$723,266 and \$735,015, respectively, the details of which were as follows:

	Notional Amount	Pay Rate	Receive Rate	Maturity Date	Mark to Market
June 30, 2021					
Swap #1	\$ 78,551	3.59%	70% 1-month LIBOR	7/1/2031	\$ (10,785)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(33,829)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(9,346)
Swap #4	30,800	3.99	67% 1-month LIBOR	7/1/2034	(6,709)
Swap #5	24,380	3.54	70% 1-month LIBOR	7/1/2031	(3,297)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(78,952)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(22,021)
Swap #8	71,825	4.00	67% 1-month LIBOR	7/1/2034	(15,698)
Swap #9	2,075	3.63	67% 1-month LIBOR	7/1/2032	(209)
Swap #10	92,475	3.92	67% 1-month LIBOR	1/1/2043	(28,611)
Swap #11	73,160	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	1,887
	<u>723,266</u>				<u>(207,660)</u>
Valuation adjustments					4,051
Total	<u>\$ 723,266</u>				<u>\$ (203,609)</u>
June 30, 2020					
Swap #1	\$ 79,800	3.59%	70% 1-month LIBOR	7/1/2031	\$ (15,036)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(45,040)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(12,364)
Swap #4	32,025	3.99	67% 1-month LIBOR	7/1/2034	(8,987)
Swap #5	24,770	3.54	70% 1-month LIBOR	7/1/2031	(4,606)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(105,113)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(28,855)
Swap #8	74,700	4.00	67% 1-month LIBOR	7/1/2034	(21,020)
Swap #9	2,465	3.63	67% 1-month LIBOR	7/1/2032	(307)
Swap #10	95,475	3.92	67% 1-month LIBOR	1/1/2043	(38,240)
Swap #11	75,780	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	2,351
	<u>735,015</u>				<u>(277,217)</u>
Valuation adjustments					6,787
Total	<u>\$ 735,015</u>				<u>\$ (270,430)</u>

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Interest Rate Risk Management (continued)

The Corporation recorded a net nonoperating gain (loss) on changes in the fair value of nonqualifying interest rate swaps of \$65,325 and \$(75,811) for the years ended June 30, 2021 and 2020, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of \$203,609 and \$270,430 as of June 30, 2021 and 2020, 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 \$117,600 and \$165,848 at June 30, 2021 and 2020, respectively. As of June 30, 2021 and 2020, the Corporation met its collateral posting requirement through the use of collateralized investments and cash equivalents, 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Other Liabilities

Other liabilities consist of the following:

	June 30	
	2021	2020
Professional and general malpractice liabilities	\$ 380,715	\$ 351,441
Advances from third party payors	150,000	–
Accrued pension obligations	66,011	130,903
Lease obligations – operating	101,590	94,675
Lease obligations – finance	44,803	56,070
Deferred payroll taxes	38,331	26,971
Accrued interest payable	27,883	22,200
Other miscellaneous	81,924	100,941
Total other liabilities	<u>891,257</u>	<u>783,201</u>
Less current portion	<u>(133,624)</u>	<u>(129,813)</u>
Other long-term liabilities	<u>\$ 757,633</u>	<u>\$ 653,388</u>

11. 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:

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Retirement Plans (continued)

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.

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.

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.

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 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).

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Retirement Plans (continued)

Dimensions Health Corporation Post Retirement Benefit Plans (Capital Region Post Retirement Benefit Plans) – A postretirement health care plan is provided to both salaried and non-salaried 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Retirement Plans (continued)

The following tables set forth the combined benefit obligations and assets of the defined benefit plans:

	June 30	
	2021	2020
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 448,997	\$ 425,709
Settlements	(18,623)	–
Service cost	3,378	3,337
Interest cost	13,168	15,299
Actuarial loss and other	4,973	30,743
Benefit payments	(16,826)	(26,091)
Projected benefit obligations at end of year	<u>\$ 435,067</u>	<u>\$ 448,997</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 318,094	\$ 317,176
Actual return on plan assets	63,831	9,529
Settlements	(18,623)	–
Employer contributions	22,580	17,480
Benefit payments	(16,826)	(26,091)
Fair value of plan assets at end of year	<u>\$ 369,056</u>	<u>\$ 318,094</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Retirement Plans (continued)

The funded status of the plans and amounts recognized as accrued payroll and benefits and other long-term liabilities in the accompanying consolidated balance sheets are as follows:

	June 30	
	2021	2020
Funded status, end of period:		
Fair value of plan assets	\$ 369,056	\$ 318,094
Projected benefit obligations	435,067	448,997
Net funded status	(66,011)	(130,903)
Accumulated benefit obligation at end of year	433,076	446,100
Amounts recognized in consolidated balance sheets at June 30:		
Accrued pension obligation	(66,011)	(130,903)
	(66,011)	(130,903)
Amounts recognized in net assets without donor restrictions at June 30:		
Net actuarial loss	(54,745)	(108,221)
Prior service cost	(990)	(86)
	\$ (55,735)	\$ (108,307)

The accrued pension obligation includes \$62,717 and \$98,365 as of June 30, 2021 and 2020, respectively, related to the Capital Region Pension Plan described above.

The estimated amounts that will be amortized from net assets without donor restrictions into net periodic pension cost in fiscal year 2022 are as follows:

Net actuarial loss	\$ 3,038
Prior service cost	149
	\$ 3,187

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Retirement Plans (continued)

The components of net periodic pension cost are as follows:

	Year Ended June 30	
	2021	2020
Service cost	\$ 3,378	\$ 3,337
Interest cost	13,168	15,299
Expected return on plan assets	(18,275)	(19,782)
Prior service cost recognized	72	72
Recognized losses	11,918	3,953
Net periodic pension cost	<u>\$ 10,261</u>	<u>\$ 2,879</u>

Components of net benefit cost other than the service cost of \$3,378 and \$3,337 in 2021 and 2020, respectively, were recorded in other nonoperating losses, net in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2021 and 2020. 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 following table presents the weighted average assumptions used to determine benefit obligations for the plans:

	June 30	
	2021	2020
Discount rate	2.34%–3.02%	2.34%–3.03%
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Retirement Plans (continued)

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

	Year Ended June 30	
	2021	2020
Discount rate	2.35%–3.05%	3.25%–3.70%
Expected long-term return on plan assets	5.50–6.00	6.00–6.50
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

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 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, 2021 and 2020, by asset category, are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets as of June 30	
		2021	2020
Cash and cash equivalents	0%–10%	5%	8%
Fixed income securities	20%–40%	35	29
Equity securities	30%–50%	41	38
Global assets allocation	10%–20%	11	16
Hedge funds/private equity	5%–15%	8	9
		100%	100%

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Retirement Plans (continued)

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 aggregated by the fair value hierarchy as described in Note 1(u):

	Level 1	Level 2	Level 3	Investments Reported at NAV*	Total
June 30, 2021					
Cash and cash equivalents	\$ 19,803	\$ –	\$ –	\$ –	\$ 19,803
Corporate obligations		12,798	–	–	12,798
Government and agency bonds	12,869	18,366	–	–	31,235
Fixed income funds	29,002	–	–	–	29,002
Common stocks	34,419	–	–	–	34,419
Equity mutual funds	89,229	–	–	–	89,229
Alternative investments:					
Hedge funds/private equity	–	–	–	30,149	30,149
Commingled funds	–	–	–	122,421	122,421
	\$ 185,322	\$ 31,164	\$ –	\$ 152,570	\$ 369,056
June 30, 2020					
Cash and cash equivalents	\$ 13,728	\$ 11,120	\$ –	\$ –	\$ 24,848
Corporate obligations	–	21,447	–	–	21,447
Government and agency bonds	7,565	9,993	–	–	17,558
Fixed income funds	–	–	–	12,639	12,639
Common stocks	25,047	–	–	–	25,047
Equity mutual funds	36,973	12,749	–	10,084	59,806
Other mutual funds	22,405	–	–	–	22,405
Alternative investments:					
Hedge funds/private equity	–	–	–	28,397	28,397
Commingled funds	–	–	–	105,947	105,947
	\$ 105,718	\$ 55,309	\$ –	\$ 157,067	\$ 318,094

*Fund investments reported at NAV as practical expedient.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Retirement Plans (continued)

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2021, 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 \$32,800, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$11,200 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$1,200 is subject to a lock-up restriction of three years. The Corporation had no unfunded commitments as of June 30, 2021.

The Corporation expects to contribute \$19,725 to its defined benefit pension plans for the fiscal year ended June 30, 2022.

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:

2022	\$	23,433
2023		24,394
2024		24,143
2025		24,518
2026		24,734
2027–2031		122,055

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2021.

Defined Contribution Plans

The Corporation offers a number of defined contribution benefits through 403(b) and 401(k) programs that were established by its affiliate hospitals. These plans allow for deferral of compensation or employer matching of compensation subject to vesting requirements.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$51,023 and \$50,456 for the years ended June 30, 2021 and 2020, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

12. Net Assets with Donor Restrictions

Net assets are restricted primarily for the following purposes:

	June 30	
	2021	2020
Facility construction and renovations, research, education, and other:		
Capital Region	\$ 42,851	\$ 424,034
All others	196,794	161,110
Economic and beneficial interests in the net assets of related organizations	<u>63,095</u>	<u>170,820</u>
	<u>\$ 302,740</u>	<u>\$ 755,964</u>

Net assets were released from donor restrictions by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	Year Ended June 30	
	2021	2020
Purchases of equipment and construction costs	\$ 386,238	\$ 18,791
Research, education, uncompensated care, and other	7,597	6,307
	<u>\$ 393,835</u>	<u>\$ 25,098</u>

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.

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

12. Net Assets with Donor Restrictions (continued)

accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund are classified in net assets with donor restrictions 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.

Endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2021			
Donor-restricted endowment funds	\$ 126	\$ 60,287	\$ 60,413
June 30, 2020			
Donor-restricted endowment funds	\$ 43	\$ 67,165	\$ 67,208

Donor restricted endowment funds within net assets with donor restrictions whose use is restricted in perpetuity were \$57,271 and \$50,243 as of June 30, 2021 and 2020, respectively.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Net Assets with Donor Restrictions (continued)

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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

13. 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:

	June 30	
	2021	2020
Economic interests in:		
UCH Legacy Funding Corporation	\$ —	\$ 122,430
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	46,297	34,766
Baltimore Washington Medical Center Foundation, Inc.	12,297	9,213
Total economic interests	58,594	166,409
Beneficial interest in the net assets of:		
Dorchester General Hospital Foundation, Inc.	3,172	3,082
Prince George's Hospital Center Foundation, Inc.	1,267	1,267
Laurel Regional Hospital Auxiliary, Inc.	62	62
	\$ 63,095	\$ 170,820

The UCH Legacy Funding Corporation was formed in December 2013 to hold funds restricted for capital improvements at Upper Chesapeake. As a part of the July 2020 debt issuance, the Corporation obtained permanent financing for the capital projects and the funds are included in assets limited as to use (construction funds) in the June 30, 2021 balance sheet. The Corporation subsequently dissolved the UCH Legacy Funding Corporation effective December 2020.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

**13. Economic and Beneficial Interests in the Net Assets of Related Organizations
(continued)**

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. In the current year the Prince George's Hospital Center Foundation, Inc. changed its name to University of Maryland Capital Region Health Foundation, Inc. and the Laurel Regional Hospital Foundation, Inc. was closed, and its assets were transferred into the new University of Maryland Capital Region Health Foundation, Inc.

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

	June 30	
	2021	2020
Current assets	\$ 5,461	\$ 4,086
Noncurrent assets	57,735	166,835
Total assets	<u>\$ 63,196</u>	<u>\$ 170,921</u>
Current liabilities	\$ 101	\$ 101
Net assets	63,095	170,820
Total liabilities and net assets	<u>\$ 63,196</u>	<u>\$ 170,921</u>
Total operating revenue	\$ 6,179	\$ 1,897
Total operating expense	2,117	(1,380)
Other changes in net assets	(116,021)	(27,800)
Total decrease in net assets	<u>\$ (107,725)</u>	<u>\$ (27,283)</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

14. State and County Support

The Corporation received \$3,500 and \$3,400 in support for the Shock Trauma Center operations from the State of Maryland for the years ended June 30, 2021 and 2020, respectively.

In support of Capital Region operations, the Corporation received the following:

	Year Ended June 30	
	2021	2020
State of Maryland	\$ 15,000	\$ 15,000
Prince George's County government	483	295
Magruder Memorial Hospital Trust	1,042	1,042
	<u>\$ 16,525</u>	<u>\$ 16,337</u>

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 \$15,189 and \$20,803 during the years ended June 30, 2021 and 2020, respectively.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

15. 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:

	Healthcare Service				Corporate Services, Other, and	Total
	Hospital & Ambulatory	Retail Pharmacy	Physician Practices	Risk Taking	Eliminations	
Year ended June 30, 2021						
Operating expenses:						
Salaries, wages, and benefits	\$ 1,808,585	\$ 7,167	\$ 292,180	\$ 3,950	\$ 316,808	\$ 2,428,690
Expendable supplies	727,209	98,385	39,515	31	17,826	882,966
Purchased services:						
Purchased services	940,438	13,611	70,092	1,673	(319,967)	705,847
Contracted services	311,675	–	36,209	–	(42,611)	305,273
Depreciation and amortization	234,050	–	2,268	–	7,959	244,277
Interest expense	41,429	–	–	–	(8,962)	32,467
Total operating expenses	<u>\$ 4,063,386</u>	<u>\$ 119,163</u>	<u>\$ 440,264</u>	<u>\$ 5,654</u>	<u>\$ (28,947)</u>	<u>\$ 4,599,520</u>
Year ended June 30, 2020						
Operating expenses:						
Salaries, wages, and benefits	\$ 1,682,480	\$ 5,928	\$ 272,804	\$ 4,887	\$ 264,385	\$ 2,230,484
Expendable supplies	626,029	90,169	34,401	16	9,498	760,113
Purchased services:						
Purchased services	884,976	14,488	70,665	2,978	(277,079)	696,028
Contracted services	291,951	–	28,243	–	(43,235)	276,959
Depreciation and amortization	236,360	–	2,022	–	(2,491)	235,891
Interest expense	47,426	–	–	696	(1,561)	46,561
Total operating expenses	<u>\$ 3,769,222</u>	<u>\$ 110,585</u>	<u>\$ 408,135</u>	<u>\$ 8,577</u>	<u>\$ (50,483)</u>	<u>\$ 4,246,036</u>

Corporate services are allocated primarily using percentage of net patient service revenue.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

16. Liquidity and Availability of Resources

The Corporation had financial assets available to management for general expenditure within one year of the financial reporting date, or June 30, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 858,543	\$ 961,647
Receivables, net	753,374	590,579
Assets limited as to use – Board designated	137,528	116,811
Investments	<u>1,355,157</u>	<u>927,366</u>
Total financial assets available within one year	3,104,602	2,596,403
Less:		
Amounts unavailable for general expenditures within one year due to:		
Alternative investments subject to lockup restrictions	<u>26,000</u>	<u>19,900</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 3,078,602</u>	<u>\$ 2,576,503</u>

17. Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. The accrued liabilities for these programs were as follows:

	<u>June 30</u>	
	<u>2021</u>	<u>2020</u>
Professional and general malpractice liabilities	\$ 380,715	\$ 351,441
Employee health	23,358	27,201
Employee long-term disability	3,792	4,751
Workers' compensation	<u>25,627</u>	<u>23,430</u>
Total self-insured liabilities	433,493	406,823
Less current portion	<u>(64,189)</u>	<u>(64,550)</u>
	<u>\$ 369,305</u>	<u>\$ 342,273</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

17. Insurance (continued)

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. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$253,670 and \$243,143 as of June 30, 2021 and 2020, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1,000 on individual claims and \$3,000 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 \$1,000 individually and \$3,000 in the aggregate up to \$150,000 individually and \$175,000 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 5, 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, net of investment earnings on the MMCIP self-insurance trust assets, during the years ended June 30, 2021 and 2020, was approximately \$29,661 and \$69,374, respectively.

18. 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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(In Thousands)

18. Business and Credit Concentrations (continued)

The Corporation had receivables from patients and third-party payors as follows:

	June 30	
	2021	2020
Medicare	31%	27%
Medicaid	29	32
Commercial insurance and HMOs	20	20
Blue Cross	13	14
Self-pay and others	7	7
	100%	100%

The Corporation recorded net patient service revenues from patients and third-party payors as follows:

	Year Ended June 30	
	2021	2020
Medicare	41%	37%
Medicaid	24	24
Commercial insurance and HMOs	20	24
Blue Cross	11	10
Self-pay and others	4	5
	100%	100%

19. 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;

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

19. Certain Significant Risks and Uncertainties (continued)

- 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.

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.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

20. 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, UM Midtown, UM Baltimore Washington, UM Charles Regional, UM St. Joseph, UM Memorial, UM Dorchester, UM Chester River, Shore Emergency Center, UM Upper Chesapeake, UM Harford Memorial, UM Prince George's, and UM Laurel. 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, 2021 and 2020. 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 yearend. Any overcharge or undercharge versus the GBR cap is prospectively subtracted from the subsequent year's GBR cap. Although the GBR cap is fixed each year, it does not adjust for changes in volume or service mix. The GBR cap is also 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 excess 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.

21. Subsequent Events

The Corporation evaluated all events and transactions that occurred after June 30, 2021 and through October 28, 2021, the date the consolidated financial statements were issued. Other than described below, the Corporation did not have any material subsequent events during the period.

Supplementary Information

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet – Hospital Format
(In Thousands)

June 30, 2021

	University of Maryland Medical Center	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		University of Maryland Capital Region Health Hospitals	All Other Entities	Eliminations	Consolidated Total
									Medical Center	Harford Memorial				
Assets														
Current assets:														
Cash and cash equivalents	\$ –	\$ 17,504	\$ 5,106	\$ 65,866	\$ 62,349	\$ 39,258	\$ 24,063	\$ 58,886	\$ 80,786	\$ 18,326	\$ 83,143	\$ 436,224	\$ (32,968)	\$ 858,543
Assets limited as to use, current portion	–	–	–	–	–	–	–	–	–	–	–	54,457	–	54,457
Accounts receivable:														
Patient accounts receivable, net	234,436	14,549	24,469	41,646	24,050	1,435	14,453	33,071	33,910	8,305	72,727	33,935	(7,161)	529,825
Other	599,051	91	7,967	39,622	2,501	277	20,780	1,525	38,944	(2)	33,637	118,364	(639,208)	223,549
Inventories	41,095	1,296	3,517	7,838	3,489	694	1,942	5,699	5,482	3,009	7,111	23,904	–	105,076
Prepaid expenses and other current assets	2,654	254	492	441	1,041	–	989	122	112	1,205	971	23,952	–	32,233
Total current assets	877,236	33,694	41,551	155,413	93,430	41,664	62,227	99,303	159,234	30,843	197,589	690,836	(679,337)	1,803,683
Investments	403,399	53,775	11,773	211,606	141,158	–	34,313	20,404	208,519	117,994	14,403	141,413	(3,600)	1,355,157
Assets limited as to use, less current portion:														
Investments held for collateral	–	1,125	1,735	9,005	4,126	223	2,745	–	–	–	–	98,515	–	117,474
Debt service funds	–	–	–	–	–	–	–	–	–	–	–	13,365	–	13,365
Construction funds	181,534	18,700	14,634	66,586	48,216	4,110	20,518	–	200,777	–	–	76,949	(6,913)	625,111
Board designated and escrow funds	–	–	–	–	25,000	5,000	–	–	45,000	–	–	62,709	(181)	137,528
Self-insurance trust funds	–	–	–	–	3,728	–	–	–	–	–	–	262,108	–	265,836
Funds restricted by donor	–	–	1,116	–	6,072	–	–	–	–	–	–	108,665	–	115,853
Economic interests in the net assets of related organizations	88,304	48,092	541	12,297	100,470	8,007	6,273	9,503	–	–	1,330	1,903	(213,625)	63,095
	269,838	67,917	18,026	87,888	187,612	17,340	29,536	9,503	245,777	–	1,330	624,214	(220,719)	1,338,262
Property and equipment, net	660,706	44,614	146,581	252,442	149,788	14,051	78,627	236,473	198,507	52,469	502,395	416,407	–	2,753,060
Investments in joint ventures and other assets	88,266	14,077	1,287	2,902	39,009	859	5,858	30,883	90,699	5,724	13,037	1,401,950	(1,089,601)	604,950
Total assets	\$ 2,299,445	\$ 214,077	\$ 219,218	\$ 710,251	\$ 610,997	\$ 73,914	\$ 210,561	\$ 396,566	\$ 902,736	\$ 207,030	\$ 728,754	\$ 3,274,820	\$ (1,993,257)	\$ 7,855,112

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet – Hospital Format (continued)

(In Thousands)

June 30, 2021

	University of Maryland Medical Center	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 Medical Center	Harford Memorial	University of Maryland Capital Region Health Hospitals	All Other Entities	Eliminations	Consolidated Total
Liabilities and net assets														
Current liabilities:														
Trade accounts payable	\$ 148,920	\$ 9,392	\$ 21,691	\$ 19,102	\$ 19,370	\$ 3,740	\$ 5,100	\$ 20,727	\$ 9,555	\$ 6,426	\$ 99,413	\$ 98,564	\$ (32,968)	\$ 429,032
Accrued payroll and benefits	103,246	6,485	12,021	25,787	15,693	2,333	8,454	21,453	30,330	6,191	24,965	86,812	–	343,770
Advances from third-party payors	222,917	16,927	24,753	59,759	49,026	6,345	23,494	58,882	44,602	14,828	39,126	3,274	–	563,933
Lines of credit	–	–	–	–	–	–	–	–	–	–	–	113,000	–	113,000
Other current liabilities	35,413	2,165	5,908	3,467	5,155	7,159	2,567	13,555	4,932	22,793	43,408	644,165	(657,063)	133,624
Long-term debt subject to short-term remarketing arrangements	–	–	–	–	–	–	–	–	–	–	–	153,510	–	153,510
Current portion of long-term debt	11,585	342	527	4,089	2,953	68	826	3,833	7,940	–	–	326	(2,738)	29,751
Total current liabilities	522,081	35,311	64,900	112,204	92,197	19,645	40,441	118,450	97,359	50,238	206,912	1,099,651	(692,769)	1,766,620
Long-term debt, less current portion	618,652	17,574	26,992	210,594	113,965	3,443	42,797	197,310	386,019	22,908	58,997	86,378	2,738	1,788,367
Other long-term liabilities	88,861	5,433	10,766	21,008	55,236	3,640	12,904	106,241	17,631	6,159	83,485	444,965	(98,696)	757,633
Interest rate swap liabilities	–	–	–	–	–	–	–	–	–	–	–	203,609	–	203,609
Total liabilities	1,229,594	58,318	102,658	343,806	261,398	26,728	96,142	422,001	501,009	79,305	349,394	1,834,603	(788,727)	4,516,229
Net assets:														
Without donor restrictions	1,020,290	107,667	54,985	354,148	306,834	41,248	114,419	(25,435)	366,713	127,725	374,296	1,263,334	(1,070,081)	3,036,143
With donor restrictions	49,561	48,092	61,575	12,297	42,765	5,938	–	–	35,014	–	5,064	176,883	(134,449)	302,740
Total net assets	1,069,851	155,759	116,560	366,445	349,599	47,186	114,419	(25,435)	401,727	127,725	379,360	1,440,217	(1,204,530)	3,338,883
Total liabilities and net assets	\$ 2,299,445	\$ 214,077	\$ 219,218	\$ 710,251	\$ 610,997	\$ 73,914	\$ 210,561	\$ 396,566	\$ 902,736	\$ 207,030	\$ 728,754	\$ 3,274,820	\$ (1,993,257)	\$ 7,855,112

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Statement of Operations – Hospital Format
(In Thousands)

Year Ended June 30, 2021

	University of Maryland Medical Center			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			All Other Entities	Eliminations	Consolidated Total																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
	University Hospital	Shock Trauma Center	Rehabilitation & Orthopaedic Institute			Memorial Hospital	Dorchester General	QAEC				Medical Center	Harford Memorial	Prince Georges	Laurel Regional	Bowie Health Center																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
Operating revenue, gains, and other support:																				Net patient service revenue	\$ 1,544,771	\$ 210,125	\$ 113,034	\$ 198,271	\$ 417,385	\$ 223,360	\$ 35,366	\$ 8,274	\$ 36,971	\$ 145,566	\$ 364,442	\$ 298,230	\$ 91,040	\$ 269,753	\$ 22,001	\$ 15,320	\$ 308,308	\$ (13,375)	\$ 4,288,842	State support	–	3,500	–	–	–	–	–	–	–	–	–	–	–	16,525	–	–	–	–	20,025	Premium revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	187,085	(187,085)	–	CARES Act – Provider relief funds	35,674	–	5,261	–	23,223	4,422	–	–	1,100	6,424	10,525	21,036	5,185	39,943	–	–	2,930	–	155,723	Other revenue	165,208	46	1,922	24,714	3,488	6,750	1,087	203	481	1,397	4,539	4,158	1,183	9,235	–	–	767,022	(686,182)	305,251	Total operating revenue, gains, and other support	1,745,653	213,671	120,217	222,985	444,096	234,532	36,453	8,477	38,552	153,387	379,506	323,424	97,408	335,456	22,001	15,320	1,265,345	(886,642)	4,769,841	Operating expenses:																				Salaries, wages, and benefits	656,731	74,694	55,808	109,442	205,023	91,753	14,798	2,902	14,025	60,893	145,068	138,232	54,110	149,909	13,371	8,634	830,683	(197,386)	2,428,690	Expendable supplies	440,206	27,978	14,158	39,405	70,406	30,377	4,894	926	3,858	23,689	68,607	52,769	7,884	33,946	2,708	2,390	60,336	(1,571)	882,966	Purchased services	345,804	50,924	23,969	48,812	87,002	43,092	6,937	1,278	16,360	34,724	67,555	53,024	22,023	122,423	14,665	6,468	389,051	(628,264)	705,847	Contracted services	144,275	15,416	9,953	33,517	40,238	32,505	5,185	407	9,122	11,750	40,487	25,803	9,092	31,715	4,042	1,189	(61,884)	(47,540)	305,273	Depreciation and amortization	87,107	7,386	7,261	13,855	26,722	14,224	2,295	453	3,459	7,045	23,507	19,521	4,806	10,054	2,601	1,329	12,652	–	244,277	Interest expense	16,839	–	106	933	4,717	1,810	449	87	123	1,448	8,527	5,417	943	–	–	–	2,949	(11,881)	32,467	Total operating expenses	1,690,962	176,398	111,255	245,964	434,108	213,761	34,558	6,053	46,947	139,549	353,751	294,766	98,858	348,047	37,387	20,010	1,233,787	(886,642)	4,599,520	Income (loss) from continuing operations	54,691	37,273	8,962	(22,979)	9,988	20,771	1,895	2,424	(8,395)	13,838	25,755	28,658	(1,450)	(12,591)	(15,386)	(4,690)	31,558	–	170,321	Nonoperating income and expenses, net:																				Contributions	–	–	–	–	–	–	–	–	–	120	–	–	–	–	–	–	3,762	–	3,882	Equity in net income of joint ventures	(629)	–	–	–	–	455	–	–	–	(121)	2,363	–	–	–	–	–	9,162	–	11,230	Investment income	9,267	–	1,355	353	5,213	6,637	–	–	248	542	–	5,001	3,088	12	–	–	9,661	–	41,377	Change in fair value of investments	49,876	–	7,461	2,274	29,027	19,909	–	–	457	4,134	4	29,013	17,913	3	–	–	24,590	–	184,661	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	65,325	–	65,325	Other nonoperating gains and losses	(9,686)	–	(369)	(3,913)	(4,042)	1,051	–	–	(71)	(1,359)	(4,141)	(3,658)	–	(630)	(61)	(41)	(11,968)	–	(38,888)	Loss on extinguishment of debt	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,565)	–	(8,565)	Total nonoperating income and expenses	48,828	–	8,447	(1,286)	30,198	28,052	–	–	634	3,316	(1,774)	30,356	21,001	(615)	(61)	(41)	91,967	–	259,022	Excess (deficiency) of revenues over expenses from continuing operations	103,519	37,273	17,409	(24,265)	40,186	48,823	1,895	2,424	(7,761)	17,154	23,981	59,014	19,551	(13,206)	(15,447)	(4,731)	123,525	–	429,343	Loss on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(529)	–	(529)	Excess (deficiency) of revenues over expenses	\$ 103,519	\$ 37,273	\$ 17,409	\$ (24,265)	\$ 40,186	\$ 48,823	\$ 1,895	\$ 2,424	\$ (7,761)	\$ 17,154	\$ 23,981	\$ 59,014	\$ 19,551	\$ (13,206)	\$ (15,447)	\$ (4,731)	\$ 122,996	\$ –	\$ 428,814
Net patient service revenue	\$ 1,544,771	\$ 210,125	\$ 113,034	\$ 198,271	\$ 417,385	\$ 223,360	\$ 35,366	\$ 8,274	\$ 36,971	\$ 145,566	\$ 364,442	\$ 298,230	\$ 91,040	\$ 269,753	\$ 22,001	\$ 15,320	\$ 308,308	\$ (13,375)	\$ 4,288,842																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
State support	–	3,500	–	–	–	–	–	–	–	–	–	–	–	16,525	–	–	–	–	20,025																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Premium revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	187,085	(187,085)	–																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
CARES Act – Provider relief funds	35,674	–	5,261	–	23,223	4,422	–	–	1,100	6,424	10,525	21,036	5,185	39,943	–	–	2,930	–	155,723																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Other revenue	165,208	46	1,922	24,714	3,488	6,750	1,087	203	481	1,397	4,539	4,158	1,183	9,235	–	–	767,022	(686,182)	305,251																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Total operating revenue, gains, and other support	1,745,653	213,671	120,217	222,985	444,096	234,532	36,453	8,477	38,552	153,387	379,506	323,424	97,408	335,456	22,001	15,320	1,265,345	(886,642)	4,769,841																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Operating expenses:																				Salaries, wages, and benefits	656,731	74,694	55,808	109,442	205,023	91,753	14,798	2,902	14,025	60,893	145,068	138,232	54,110	149,909	13,371	8,634	830,683	(197,386)	2,428,690	Expendable supplies	440,206	27,978	14,158	39,405	70,406	30,377	4,894	926	3,858	23,689	68,607	52,769	7,884	33,946	2,708	2,390	60,336	(1,571)	882,966	Purchased services	345,804	50,924	23,969	48,812	87,002	43,092	6,937	1,278	16,360	34,724	67,555	53,024	22,023	122,423	14,665	6,468	389,051	(628,264)	705,847	Contracted services	144,275	15,416	9,953	33,517	40,238	32,505	5,185	407	9,122	11,750	40,487	25,803	9,092	31,715	4,042	1,189	(61,884)	(47,540)	305,273	Depreciation and amortization	87,107	7,386	7,261	13,855	26,722	14,224	2,295	453	3,459	7,045	23,507	19,521	4,806	10,054	2,601	1,329	12,652	–	244,277	Interest expense	16,839	–	106	933	4,717	1,810	449	87	123	1,448	8,527	5,417	943	–	–	–	2,949	(11,881)	32,467	Total operating expenses	1,690,962	176,398	111,255	245,964	434,108	213,761	34,558	6,053	46,947	139,549	353,751	294,766	98,858	348,047	37,387	20,010	1,233,787	(886,642)	4,599,520	Income (loss) from continuing operations	54,691	37,273	8,962	(22,979)	9,988	20,771	1,895	2,424	(8,395)	13,838	25,755	28,658	(1,450)	(12,591)	(15,386)	(4,690)	31,558	–	170,321	Nonoperating income and expenses, net:																				Contributions	–	–	–	–	–	–	–	–	–	120	–	–	–	–	–	–	3,762	–	3,882	Equity in net income of joint ventures	(629)	–	–	–	–	455	–	–	–	(121)	2,363	–	–	–	–	–	9,162	–	11,230	Investment income	9,267	–	1,355	353	5,213	6,637	–	–	248	542	–	5,001	3,088	12	–	–	9,661	–	41,377	Change in fair value of investments	49,876	–	7,461	2,274	29,027	19,909	–	–	457	4,134	4	29,013	17,913	3	–	–	24,590	–	184,661	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	65,325	–	65,325	Other nonoperating gains and losses	(9,686)	–	(369)	(3,913)	(4,042)	1,051	–	–	(71)	(1,359)	(4,141)	(3,658)	–	(630)	(61)	(41)	(11,968)	–	(38,888)	Loss on extinguishment of debt	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,565)	–	(8,565)	Total nonoperating income and expenses	48,828	–	8,447	(1,286)	30,198	28,052	–	–	634	3,316	(1,774)	30,356	21,001	(615)	(61)	(41)	91,967	–	259,022	Excess (deficiency) of revenues over expenses from continuing operations	103,519	37,273	17,409	(24,265)	40,186	48,823	1,895	2,424	(7,761)	17,154	23,981	59,014	19,551	(13,206)	(15,447)	(4,731)	123,525	–	429,343	Loss on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(529)	–	(529)	Excess (deficiency) of revenues over expenses	\$ 103,519	\$ 37,273	\$ 17,409	\$ (24,265)	\$ 40,186	\$ 48,823	\$ 1,895	\$ 2,424	\$ (7,761)	\$ 17,154	\$ 23,981	\$ 59,014	\$ 19,551	\$ (13,206)	\$ (15,447)	\$ (4,731)	\$ 122,996	\$ –	\$ 428,814																																																																																																																																												
Salaries, wages, and benefits	656,731	74,694	55,808	109,442	205,023	91,753	14,798	2,902	14,025	60,893	145,068	138,232	54,110	149,909	13,371	8,634	830,683	(197,386)	2,428,690																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Expendable supplies	440,206	27,978	14,158	39,405	70,406	30,377	4,894	926	3,858	23,689	68,607	52,769	7,884	33,946	2,708	2,390	60,336	(1,571)	882,966																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Purchased services	345,804	50,924	23,969	48,812	87,002	43,092	6,937	1,278	16,360	34,724	67,555	53,024	22,023	122,423	14,665	6,468	389,051	(628,264)	705,847																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Contracted services	144,275	15,416	9,953	33,517	40,238	32,505	5,185	407	9,122	11,750	40,487	25,803	9,092	31,715	4,042	1,189	(61,884)	(47,540)	305,273																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Depreciation and amortization	87,107	7,386	7,261	13,855	26,722	14,224	2,295	453	3,459	7,045	23,507	19,521	4,806	10,054	2,601	1,329	12,652	–	244,277																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Interest expense	16,839	–	106	933	4,717	1,810	449	87	123	1,448	8,527	5,417	943	–	–	–	2,949	(11,881)	32,467																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Total operating expenses	1,690,962	176,398	111,255	245,964	434,108	213,761	34,558	6,053	46,947	139,549	353,751	294,766	98,858	348,047	37,387	20,010	1,233,787	(886,642)	4,599,520																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Income (loss) from continuing operations	54,691	37,273	8,962	(22,979)	9,988	20,771	1,895	2,424	(8,395)	13,838	25,755	28,658	(1,450)	(12,591)	(15,386)	(4,690)	31,558	–	170,321																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Nonoperating income and expenses, net:																				Contributions	–	–	–	–	–	–	–	–	–	120	–	–	–	–	–	–	3,762	–	3,882	Equity in net income of joint ventures	(629)	–	–	–	–	455	–	–	–	(121)	2,363	–	–	–	–	–	9,162	–	11,230	Investment income	9,267	–	1,355	353	5,213	6,637	–	–	248	542	–	5,001	3,088	12	–	–	9,661	–	41,377	Change in fair value of investments	49,876	–	7,461	2,274	29,027	19,909	–	–	457	4,134	4	29,013	17,913	3	–	–	24,590	–	184,661	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	65,325	–	65,325	Other nonoperating gains and losses	(9,686)	–	(369)	(3,913)	(4,042)	1,051	–	–	(71)	(1,359)	(4,141)	(3,658)	–	(630)	(61)	(41)	(11,968)	–	(38,888)	Loss on extinguishment of debt	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,565)	–	(8,565)	Total nonoperating income and expenses	48,828	–	8,447	(1,286)	30,198	28,052	–	–	634	3,316	(1,774)	30,356	21,001	(615)	(61)	(41)	91,967	–	259,022	Excess (deficiency) of revenues over expenses from continuing operations	103,519	37,273	17,409	(24,265)	40,186	48,823	1,895	2,424	(7,761)	17,154	23,981	59,014	19,551	(13,206)	(15,447)	(4,731)	123,525	–	429,343	Loss on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(529)	–	(529)	Excess (deficiency) of revenues over expenses	\$ 103,519	\$ 37,273	\$ 17,409	\$ (24,265)	\$ 40,186	\$ 48,823	\$ 1,895	\$ 2,424	\$ (7,761)	\$ 17,154	\$ 23,981	\$ 59,014	\$ 19,551	\$ (13,206)	\$ (15,447)	\$ (4,731)	\$ 122,996	\$ –	\$ 428,814																																																																																																																																																																																																																																																																																																																																
Contributions	–	–	–	–	–	–	–	–	–	120	–	–	–	–	–	–	3,762	–	3,882																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Equity in net income of joint ventures	(629)	–	–	–	–	455	–	–	–	(121)	2,363	–	–	–	–	–	9,162	–	11,230																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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Change in fair value of investments	49,876	–	7,461	2,274	29,027	19,909	–	–	457	4,134	4	29,013	17,913	3	–	–	24,590	–	184,661																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	65,325	–	65,325																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Other nonoperating gains and losses	(9,686)	–	(369)	(3,913)	(4,042)	1,051	–	–	(71)	(1,359)	(4,141)	(3,658)	–	(630)	(61)	(41)	(11,968)	–	(38,888)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Loss on extinguishment of debt	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,565)	–	(8,565)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Total nonoperating income and expenses	48,828	–	8,447	(1,286)	30,198	28,052	–	–	634	3,316	(1,774)	30,356	21,001	(615)	(61)	(41)	91,967	–	259,022																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Excess (deficiency) of revenues over expenses from continuing operations	103,519	37,273	17,409	(24,265)	40,186	48,823	1,895	2,424	(7,761)	17,154	23,981	59,014	19,551	(13,206)	(15,447)	(4,731)	123,525	–	429,343																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
Loss on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(529)	–	(529)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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