# Consolidated Financial Statements and Supplementary Information

Luminis Health, Inc. and Subsidiaries
Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Luminis Health, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2020 and 2019

# Contents

Building a better
working world

Ernst & Young LLP
Suite 310
1201 Wills Street
Baltimore, MD 21231

Tel: +1 410 539 7940
Fax: +1 410 783 3832
ey.com

# Report of Independent Auditors

The Board of Trustees
Luminis Health, Inc.

We have audited the accompanying consolidated financial statements of Luminis Health, Inc. (a Maryland not-for-profit corporation) and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the 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. We did not audit the financial statements of Doctors Community Medical Center and subsidiaries, a wholly owned subsidiary, which statements reflect total assets of $320,453,000 as of June 30, 2020, and revenues and gains in excess of expenses of $4,460,000, for the year then ended or the financial statements of Cottage Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets of $38,974,000 and $39,535,000 as of June 30, 2020 and 2019, respectively, and net loss after elimination of intercompany revenues of $10,246,000 and $10,149,000, respectively, for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Doctors Community Medical Center and subsidiaries and Cottage Insurance Company, Ltd., are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Luminis Health, Inc. and subsidiaries at June 30, 2020 and 2019, 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.

**Adoption of New Accounting Pronouncements**

As discussed in Note 2 to the consolidated financial statements, Luminis Health, Inc. and subsidiaries changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, effective July 1, 2019. Our opinion is not modified with respect to this matter.

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

Ernst & Young LLP

October 23, 2020

## Luminis Health, Inc. and Subsidiaries

## Consolidated Balance Sheets

| | June 30 2020 | June 30 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 178,795,000** | $ 15,100,000 |
| Short-term investments | **1,365,000** | 15,261,000 |
| Current portion of assets whose use is limited | **15,912,000** | 15,190,000 |
| Patient receivables, net | **118,882,000** | 80,307,000 |
| Current portion of pledges receivable, net | **945,000** | 494,000 |
| Inventories | **21,789,000** | 8,650,000 |
| Prepaid expenses and other current assets | **19,857,000** | 14,125,000 |
| Total current assets | **357,545,000** | 149,127,000 |
| | | |
| Property and equipment | **1,096,845,000** | 918,666,000 |
| Less accumulated depreciation and amortization | **(538,353,000)** | (493,004,000) |
| Net property and equipment | **558,492,000** | 425,662,000 |
| | | |
| Other assets: | | |
| Investments | **338,985,000** | 386,056,000 |
| Investments in joint ventures | **14,024,000** | 8,886,000 |
| Pledges receivable, net | **3,192,000** | 2,802,000 |
| Assets whose use is limited | **41,020,000** | 35,973,000 |
| Restricted collateral for interest rate swap contract | **110,002,000** | 67,404,000 |
| Right of use asset | **44,995,000** | – |
| Other assets | **53,613,000** | 34,374,000 |
| Total assets | **$ 1,521,868,000** | $ 1,110,284,000 |

Luminis Health, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable | **$ 40,441,000** | $ 30,458,000 |
| Accrued salaries, wages, and benefits | **53,438,000** | 37,814,000 |
| Other accrued expenses | **32,413,000** | 18,389,000 |
| Current portion of long-term debt | **16,440,000** | 11,029,000 |
| Advances from third-party payors | **182,697,000** | 23,903,000 |
| Current portion of lease liability | **8,753,000** | – |
| Total current liabilities | **334,182,000** | 121,593,000 |
| | | |
| Long-term debt, less current portion and unamortized original issue premium | **470,308,000** | 359,735,000 |
| Interest rate swap contracts | **117,037,000** | 78,479,000 |
| Accrued pension liability | **29,276,000** | 6,076,000 |
| Lease liability, less current portion | **37,429,000** | – |
| Other long-term liabilities | **47,032,000** | 37,010,000 |
| Total liabilities | **1,035,264,000** | 602,893,000 |
| | | |
| Net assets: | | |
| Without donor restrictions | **460,552,000** | 482,661,000 |
| With donor restrictions | **23,861,000** | 24,730,000 |
| Non-controlling interest | **2,191,000** | – |
| Total net assets | **486,604,000** | 507,391,000 |
| Total liabilities and net assets | **$ 1,521,868,000** | $ 1,110,284,000 |

*See accompanying notes.*

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

| | Year Ended June 30 | |
|---|---|---|
| | **2020** | 2019 |
| Operating revenue: | | |
| Net patient service revenue | **$ 969,105,000** | $ 742,876,000 |
| Other operating revenue | **78,393,000** | 33,180,000 |
| Total operating revenue | **1,047,498,000** | 776,056,000 |
| Operating expenses: | | |
| Salaries and wages | **479,880,000** | 349,660,000 |
| Employee benefits | **75,930,000** | 56,356,000 |
| Supplies | **197,487,000** | 159,489,000 |
| Purchased services | **226,375,000** | 137,557,000 |
| Depreciation and amortization | **45,994,000** | 36,833,000 |
| Interest | **16,151,000** | 13,118,000 |
| Transaction costs | **–** | 3,279,000 |
| Total operating expenses | **1,041,817,000** | 756,292,000 |
| Operating income | **5,681,000** | 19,764,000 |
| Other (loss) income: | | |
| Investment (loss) income, net | **(9,700,000)** | 13,873,000 |
| Loss from joint ventures and other, net | **(673,000)** | (545,000) |
| Inherent contribution | **61,715,000** | – |
| Pension credit (expense), net | **1,116,000** | (4,777,000) |
| Unrealized (losses) gains on trading securities, net | **(15,151,000)** | 10,034,000 |
| Realized and unrealized losses on interest rate swap contracts, net | **(43,149,000)** | (23,361,000) |
| Total other loss, net | **(5,842,000)** | (4,776,000) |
| (Deficit) excess of revenue over expenses | **$ (161,000)** | $ 14,988,000 |

Luminis Health, Inc. and Subsidiaries

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Net assets, June 30, 2018 | $ 469,018,000 | $ 26,304,000 | $ 495,322,000 |
| Excess of revenues over expenses | 14,988,000 | – | 14,988,000 |
| Pension liability adjustment | (2,784,000) | – | (2,784,000) |
| Released from restrictions used for purchase of property and equipment | 163,000 | – | 163,000 |
| Transfers and other, net | 1,276,000 | – | 1,276,000 |
| Restricted gifts, bequests, and contributions | – | 5,451,000 | 5,451,000 |
| Unrealized losses on investments | – | (18,000) | (18,000) |
| Restricted investment income | – | 60,000 | 60,000 |
| Net assets released from restrictions | – | (7,964,000) | (7,964,000) |
| Other | – | 897,000 | 897,000 |
| Changes in net assets | 13,643,000 | (1,574,000) | 12,069,000 |
| Net assets, June 30, 2019 | 482,661,000 | 24,730,000 | 507,391,000 |
| Net assets acquired | **2,265,000** | **487,000** | **2,752,000** |
| Deficit of revenues over expenses | **(161,000)** | **–** | **(161,000)** |
| Pension liability adjustment | **(24,810,000)** | **–** | **(24,810,000)** |
| Released from restrictions used for purchase of property and equipment | **1,837,000** | **–** | **1,837,000** |
| Transfers and other, net | **951,000** | **(598,000)** | **353,000** |
| Restricted gifts, bequests, and contributions | **–** | **9,518,000** | **9,518,000** |
| Unrealized losses on investments | **–** | **(3,394,000)** | **(3,394,000)** |
| Restricted investment income | **–** | **693,000** | **693,000** |
| Net assets released from restrictions | **–** | **(7,575,000)** | **(7,575,000)** |
| Changes in net assets | **(19,918,000)** | **(869,000)** | **(20,787,000)** |
| Net assets, June 30, 2020 | **$ 462,743,000** | **$ 23,861,000** | **$ 486,604,000** |

*See accompanying notes.*

# Luminis Health, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

| | Year Ended June 30 | |
|---|---|---|
| | **2020** | **2019** |
| **Operating activities** | | |
| (Decrease) increase in net assets | **$ (20,787,000)** | $ 12,069,000 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Change in net unrealized losses (gains) on investments | **18,545,000** | (10,016,000) |
| Realized and unrealized losses on interest rate swap contracts, net | **43,149,000** | 23,361,000 |
| Pension liability adjustment | **24,810,000** | 2,784,000 |
| Equity in earnings of joint ventures and other | **804,000** | 854,000 |
| Restricted contributions and pledges, net | **(9,518,000)** | (5,374,000) |
| Depreciation and amortization | **45,994,000** | 36,833,000 |
| Restricted investment income | **(693,000)** | (60,000) |
| Decrease (increase) in investments – trading | **60,680,000** | (86,894,000) |
| (Increase) decrease in assets whose use is limited, net – trading | **(5,164,000)** | 625,000 |
| Inherent contribution and net assets acquired | **(64,467,000)** | – |
| Net change in operating assets and liabilities | **154,413,000** | 6,846,000 |
| Net cash provided by (used in) operating activities | **247,766,000** | (18,972,000) |
| | | |
| **Investing activities** | | |
| Purchases of property and equipment | **(62,284,000)** | (34,686,000) |
| Payments on interest rate swaps | **(4,591,000)** | (4,185,000) |
| Cash acquired | **34,168,000** | – |
| Net cash used in investing activities | **(32,707,000)** | (38,871,000) |
| | | |
| **Financing and fundraising activities** | | |
| Payoff amount for 2008 Term and Construction Loans | **–** | (61,920,000) |
| Proceeds received from real estate loan | **–** | 61,920,000 |
| Repayments of long-term debt | **(17,530,000)** | (11,310,000) |
| Restricted contributions received and other | **8,676,000** | 6,193,000 |
| Restricted income received | **693,000** | 60,000 |
| Net cash used in financing and fundraising activities | **(8,161,000)** | (5,057,000) |
| | | |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | **206,898,000** | (62,900,000) |
| Cash, cash equivalents, and restricted cash at beginning of year | **98,930,000** | 161,830,000 |
| Cash, cash equivalents, and restricted cash at end of year | **$ 305,828,000** | $ 98,930,000 |
| | | |
| Cash and cash equivalents | **$ 178,795,000** | $ 15,100,000 |
| Restricted cash, included in restricted collateral and assets whose use is limited | **127,033,000** | 83,830,000 |
| Cash, cash equivalents, and restricted cash at end of year | **$ 305,828,000** | $ 98,930,000 |

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

| | Year Ended June 30 | |
|---|---|---|
| | **2020** | **2020** |
| **Changes in operating assets and liabilities** | | |
| (Decrease) increase in operating assets: | | |
| Patient receivables, net | **$ 265,000** | $ (1,418,000) |
| Inventories | **(8,896,000)** | (674,000) |
| Prepaid expenses and other | **3,869,000** | (2,734,000) |
| Other assets | **11,797,000** | 10,425,000 |
| | **7,035,000** | 5,599,000 |
| Increase in operating liabilities: | | |
| Accounts payable | **(5,845,000)** | 8,543,000 |
| Accrued salaries, wages, and benefits | **(422,000)** | 1,714,000 |
| Other accrued expenses | **14,024,000** | (3,089,000) |
| Advances from third-party payors | **151,029,000** | 2,898,000 |
| Other long-term liabilities | **(11,408,000)** | (8,819,000) |
| | **147,378,000** | 1,247,000 |
| Net change in operating assets and liabilities | **$ 154,413,000** | $ 6,846,000 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid for interest | **$ 15,541,000** | $ 13,118,000 |

*See accompanying notes.*

## 1. Organization and Basis of Presentation

Luminis Health, Inc. (Luminis or the System), formerly known as Anne Arundel Health System, Inc. (AAHS), is a Maryland not-for-profit corporation. Luminis has the following wholly owned subsidiaries: Anne Arundel Medical Center, Inc. (the Hospital or AAMC) and its subsidiaries, Anne Arundel General Treatment Services, Inc. (GTS), Anne Arundel Mental Health Hospital, Inc., and Cottage Insurance Company, Ltd. (Cottage); Anne Arundel Medical Center Foundation, Inc. (the Foundation); Anne Arundel Health Care Services, Inc. (HCS); Anne Arundel Health Care Enterprises, Inc. (HCE); Physician Enterprise, LLC (PE) and its subsidiaries, Anne Arundel Physician Group, LLC, Orthopedic Physicians of Annapolis, Anne Arundel Medical Group Physical Therapy, LLC, and Community Clinics; Anne Arundel Real Estate Holding Company, Inc. (the Real Estate Company) and its subsidiaries, Pavilion Park, Inc. (PPI), Annapolis Exchange, LLC, and Blue Building, LLC; Anne Arundel Health System Research Institute, Inc. (RI); and Anne Arundel Medical Center Collaborative Care Network, LLC. AAMC is a private, not-for-profit corporation that operates a 349-licensed bed acute care hospital. AAMC, the Real Estate Company, and PPI own an interest in Kent Island Medical Arts, LLC (KIMA), a limited liability company that owns and operates a medical office building. PPI is the managing member of KIMA and has substantive participation rights in KIMA. The financial statements of KIMA are consolidated in the accompanying consolidated financial statements. The non-controlling interest in KIMA was 50% as of June 30, 2020 and 2019. The interest was $929,000 and $884,000 at June 30, 2020 and 2019, respectively, and is included within net assets without donor restriction on the accompanying consolidated balance sheets.

On July 1, 2019, Anne Arundel Health System, Inc. and Doctors Community Hospital and subsidiaries executed an affiliation agreement (the Agreement) providing for an affiliation between AAHS and Doctors Community Hospital and subsidiaries. In September 2019, Doctors Community Hospital and subsidiaries changed its name to Doctors Community Medical Center and subsidiaries (DCMC). This affiliation agreement resulted in DCMC becoming a wholly owned subsidiary of AAHS. DCMC is a Maryland health system that includes an acute care hospital and a network of other health care providers serving residents of Prince Georges County region near Lanham, Maryland, east of Washington, DC. On the date of the affiliation, the articles of incorporation and bylaws of DCMC were amended such that AAHS became the sole corporate member of the Doctors Community Medical Center and its subsidiaries. As part of the Agreement, AAHS committed approximately $138,000,000 over a five-year period in strategic investments to DCMC to expand health care services.

## 1. Organization and Basis of Presentation (continued)

DCMC includes the following: Doctors Community Hospital, Inc. and its subsidiaries Doctors Community Medical Group, LLC; Doctors Community Healthcare Programs, LLC; Doctors Community Hospital Clinic, LLC; Doctors Community Health Ventures, Inc.; Doctors Regional Cancer Center LLC; Southern Maryland Integrated Care LLC; and Doctors Community Hospital Foundation, Inc. Doctors Community Hospital, Inc. is a nonprofit corporation that operates an acute care general hospital facility licensed for 190 beds. The accompanying consolidated financial statements include non-controlling interest held by third parties in less than wholly owned subsidiaries. The interest at DCMC was $2,191,000 at June 30, 2020, and is included within net assets without donor restriction on the accompanying consolidated balance sheets.

In September 2019, Anne Arundel Health System, Inc. changed its name to Luminis Health, Inc.

### Global Pandemic

In response to the ongoing COVID-19 pandemic, the Governor of the state of Maryland proclaimed a state of emergency and catastrophic health emergency within the state of Maryland on March 5, 2020, and renewed on March 17, 2020, April 10, 2020, and May 6, 2020. Effective March 16, 2020, all Maryland hospitals were ordered by the Maryland Department of Health to cease all elective and non-urgent medical procedures for the duration of the catastrophic health emergency. The Governor issued a state-wide stay-at-home order effective March 30, 2020.

Effective May 7, 2020, the Maryland Department of Health allowed resumption of elective and non-urgent medical procedures, and effective May 15, 2020, major provisions of the Governor's stay-at-home order were rescinded.

In response to the global pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other health care 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/margins attributable to coronavirus and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The HSCRC has publicly announced its intention to support Maryland hospitals during the state of emergency and catastrophic health emergency within the state of Maryland and its collaboration with other Maryland regulatory agencies to remove licensure, regulatory, and other barriers to

**1. Organization and Basis of Presentation (continued)**

hospitals in the provision of emergency health care services. Recognizing that hospitals will experience volume decline due to self-quarantining and canceled elective surgeries, the HSCRC has stated that Maryland hospitals will be permitted to increase rate corridors up to the 10% threshold or by an additional 5% from their current charging position, whichever is greater. This action is intended to allow hospitals that are undercharged under their Global Budget Revenue due to volume losses to increase their charges in order to make up for lost revenue and prepare for the eventual increase in COVID-19-related patient volume. The HSCRC has stated that this rate corridor increase will be a temporary, onetime adjustment to ensure financial viability of Maryland hospitals as they prepare for increased volume in COVID-19 patients. The HSCRC has also stated that it will consider additional corridor relief beyond this new policy on a case-by-case basis.

To further accommodate any Global Budget Revenue that Maryland hospitals may be unable to bill in fiscal year 2020 due to fluctuating volumes resulting from the COVID-19 pandemic, the HSCRC has stated that it will suspend undercharge penalties and allow Maryland hospitals to recoup those undercharges over the 12 months of fiscal year 2021 as a onetime adjustment net of the application of CARES Act relief funding. The HSCRC is proposing to reduce the System's undercharge by an amount derived from the CARES Act funding. Maryland hospitals will be allowed to bill any net undercharge in the next fiscal year, thus allowing them to recoup a portion of lost revenue associated with the catastrophic health emergency period. Further action by the HSCRC is expected in order to aid Maryland hospitals with regard to the increased expenses resulting from the COVID-19 pandemic.

The COVID-19 pandemic has severely impacted global financial markets and travel and commerce generally. As a result of the COVID-19 pandemic, many businesses and retail establishments in the United States, including Maryland, have closed or reduced business activity. Many potential patients are now unemployed, have been furloughed or their work hours have been reduced, which results in reduced wages and potential loss of health care insurance. The System cannot determine at this time the long-term impact of the COVID-19 pandemic on the System's ability to conduct its operations and the costs of its operations, its financial condition, or the returns and value of its investments and any effect on its pension funding and contribution obligations. In addition, while the suspension with respect to elective and non-urgent medical procedures was lifted, to date the volume of elective and non-urgent medical procedures, and the revenues resulting from such procedures, have not returned to pre-suspension levels and the amount of time needed to establish the volume of such procedures to pre-suspension levels cannot be determined.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Luminis and its wholly owned subsidiaries. The financial results of Doctors Community Medical Center and subsidiaries are only included from the date of acquisition, which was July 1, 2019. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

### Acquisition of Doctors' Hospital, Inc.

On July 1, 2019, AAHS completed a transaction that resulted in Doctors Community Hospital and subsidiaries becoming a wholly owned subsidiary of AAHS. This transaction was accounted for as an acquisition under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Mergers and Acquisitions*, during the year ended June 30, 2020.

The System elected to apply pushdown accounting whereby individual assets and liabilities were adjusted to the new basis of accounting as of the acquisition date.

**2. Summary of Significant Accounting Policies (continued)**

The following information summarizes the recorded fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

| | |
|---|---|
| Cash and cash equivalents | $ 34,168,000 |
| Patient accounts receivable, net | 38,840,000 |
| Other receivables | 5,620,000 |
| Inventories | 4,243,000 |
| Prepaid expenses | 3,981,000 |
| Marketable securities | 18,258,000 |
| Joint ventures and equity investments | 5,942,000 |
| Property and equipment | 116,540,000 |
| Other noncurrent assets | 30,093,000 |
| Total assets acquired | 257,685,000 |
| | |
| Accounts payable and accrued expenses | 31,875,000 |
| Advances from third-party payors | 7,765,000 |
| Current portion of long-term debt | 4,448,000 |
| Long-term debt | 128,123,000 |
| Net pension liability | 5,001,000 |
| Deferred compensation and claims incurred but not reported | 16,006,000 |
| Total liabilities assumed | 193,218,000 |
| Non-controlling interest | 2,265,000 |
| Net assets acquired, net of non-controlling interest | $ 62,202,000 |

An inherent contribution of $61,715,000 was recorded by Luminis on its consolidated statements of operations and changes in net assets resulting from the difference between the net assets acquired, net of non-controlling interest and net assets with donor restrictions at Doctors Community Hospital and subsidiaries as of the acquisition date. Net assets with donor restrictions of $487,000 was recorded within changes in net assets with donor restrictions.

## 2. Summary of Significant Accounting Policies (continued)

### Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking and savings accounts, money market accounts, and short-term certificates of deposit with original maturities of 90 days or less, excluding those held in short-term investments and those classified as long-term investments. Cash balances and collateral held by a counterparty are principally uninsured and are subject to normal credit risks. At June 30, 2020 and 2019, and at various times during the year, the System maintained cash-in-bank balances in excess of the $250,000 federally insured limits.

### Derivative Instruments

On May 10, 2006, the Hospital entered into a forward variable-to-fixed interest rate swap agreement with an effective date of November 1, 2008. This contract was entered into in an effort to reduce the risk of variable interest rate debt and has a term through July 1, 2048. Under ASC 815, *Derivatives and Hedging*, the Hospital has recognized its derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. As these derivative instruments are not designated as hedges, the unrealized gain or loss on these contracts has been recognized on the accompanying consolidated statements of operations and changes in net assets as realized and unrealized gains (losses) on interest rate swap contracts, net. The fair market values of the derivative instruments include a credit valuation adjustment (CVA) as required by ASC 820, *Fair Value Measurement*. When applying the CVA, the valuation of the variable-to-fixed interest rate swap contract was decreased by $375,000 and $361,000 as of June 30, 2020 and 2019, respectively.

On March 23, 2016, in an effort to reduce the amount of restricted cash pledged as collateral with the original counterparty, the Hospital entered into a novation agreement with a second counterparty. Immediately prior to the novation agreement, the System modified the existing swap to bifurcate the existing swap into a five-year swap with the remainder into a 2021 through 2048 swap. The terms of the bifurcated swap remain identical to the original swap. The novation agreement resulted in the return of $29,164,000 as of June 30, 2016.

**2. Summary of Significant Accounting Policies (continued)**

A summary of the Hospital's derivative instruments and related activity at June 30 and for the years then ended, is as follows:

| | Fair Value Liability | |
|---|---|---|
| **Description of Derivative Instrument** | **2020** | **2019** |
| Variable-to-fixed interest rate swap contract (maturity date March 2021) | **$ (4,442,000)** | $ (8,126,000) |
| Variable-to-fixed interest rate swap contract (maturity date July 2048) | **(112,595,000)** | (70,353,000) |
| | **$(117,037,000)** | $ (78,479,000) |

The change in unrealized losses recognized in (deficit) excess of revenues over expenses for the years ended June 30, 2020 and 2019, were $38,558,000 and $19,176,000, respectively.

At June 30, 2020 and 2019, the net termination value (i.e., mark-to-market value) of the derivative instruments totaled $119,671,000 and $78,840,000, respectively. The Hospital may be exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreements, the risk of which is reflected in the fair value of the instruments under ASC 820. However, the Hospital does not anticipate nonperformance by the counterparty.

During fiscal year 2020 and 2019, the Hospital paid net payments under its interest rate swap program of $4,591,000 and $4,185,000, respectively. These amounts are included within realized and unrealized gains (losses) on interest rate swap contracts, net on the accompanying consolidated statements of operations and changes in net assets and within investing activities on the accompanying consolidated statements of cash flows.

Under the derivative contract for the 2021 through 2048 swap, the Hospital must transfer collateral for the benefit of the counterparty, to the extent that the termination values exceed certain limits. The Hospital's collateral requirement for the benefit of the counterparty was approximately $110,002,000 and $67,404,000 at June 30, 2020 and 2019, respectively. The ongoing mark-to-market values and resulting collateral requirements of the Hospital's interest rate swap contract are subject to variability based on market factors (primarily changes in interest rates). Collateral requirements under this interest rate swap contract are excluded from unrestricted cash and investments for purposes of determining the System's compliance with its liquidity covenants

**2. Summary of Significant Accounting Policies (continued)**

under its Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) revenue bond agreements and its derivative agreements. Collateral amounts are included in noncurrent assets on the accompanying consolidated balance sheets. Approximately $575,000 and $2,795,000 of collateral was due to the financial institution as of June 30, 2020 and 2019.

The amount due to the financial institution is included in other accrued expenses on the accompanying consolidated balance sheet as of June 30, 2020 and 2019, and is reflected within investing activities on the accompanying consolidated statement of cash flows.

**Assets Whose Use is Limited and Investments**

Assets whose use is limited are principally composed of certain funds established to be held and invested by a trustee. These funds are related to the issuance of the Hospital's revenue bonds, investments held at Cottage, and certain permanently restricted endowment assets.

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Current: | | |
| Principal, interest and other – bonds | **$ 12,382,000** | $ 12,258,000 |
| Investments held at trustee | **3,530,000** | 2,932,000 |
| | **$ 15,912,000** | $ 15,190,000 |
| Noncurrent: | | |
| Endowment assets | **$ 15,482,000** | $ 16,641,000 |
| Investments held at trustee | **25,538,000** | 19,332,000 |
| | **$ 41,020,000** | $ 35,973,000 |

The fair values of publicly traded securities and mutual funds are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Alternative investments, some of which are structured so that the System holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Valuations of these investments, and therefore the System's holdings, may be determined by the investment manager or general partner and for fund-of-funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or

## 2. Summary of Significant Accounting Policies (continued)

other estimates that require varying degrees of judgment. Investment income or loss from all unrestricted investments is included on the accompanying consolidated statements of operations and changes in net assets as part of other income (loss).

Investment income or loss on investments of assets with donor restrictions is added to or deducted from the restricted fund balance if the income is restricted. The cost of securities sold is based on the specific-identification method.

All investment balances are principally uninsured and subject to normal credit risk. Investments are classified as either current or noncurrent based on the maturity dates and the availability for current operations. Investments included in noncurrent assets consist of board-designated investment funds of $338,985,000 and $386,056,000 as of June 30, 2020 and 2019, respectively. Based on the System's investment policy, such amounts could be liquidated, at the discretion of the board, to satisfy short-term requirements.

Substantially all investments, other than borrowed funds required to be expended for capital projects, are classified as trading securities, with unrealized gains and losses included in (deficit) excess of revenues over expenses.

Borrowed funds required to be expended for capital projects are classified as other-than-trading and are included in assets whose use is limited.

### Patient Receivables

Patient receivable include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid, and other insurers. The provision for price concessions is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance.

Insurance coverage and credit information are obtained from patients, when available. No collateral is obtained for accounts receivable.

## 2. Summary of Significant Accounting Policies (continued)

### Inventories

Inventories, which primarily consist of medical supplies and drugs, are carried at the lower of cost or market. Cost is determined using the first-in, first-out method (FIFO) or a similar method that approximates FIFO.

### Property and Equipment

Property and equipment are stated at cost or fair value as of the acquisition date for DCMC property and equipment. Included in computers and software are capitalized labor costs of $14,344,000 and $11,594,000 as of June 30, 2020 and 2019, respectively. Depreciation and amortization, including amortization of assets recorded under capital leases, are recorded on the straight-line method over the estimated useful lives of the assets.

The following is a summary of property and equipment:

| | Estimated Useful Lives | June 30 2020 | June 30 2019 |
|---|---|---|---|
| Land | | **$ 22,823,000** | $ 14,901,000 |
| Land improvements | 20 years | **23,480,000** | 22,413,000 |
| Buildings and improvements | 20–40 years | **592,593,000** | 491,022,000 |
| Fixed equipment | 5–20 years | **55,510,000** | 10,824,000 |
| Leasehold improvements | 5–10 years | **62,389,000** | 55,651,000 |
| Movable equipment | 7–10 years | **221,851,000** | 203,404,000 |
| Computers and software | 3–5 years | **96,079,000** | 88,528,000 |
| Construction-in-progress | – | **22,120,000** | 31,923,000 |
| | | **$ 1,096,845,000** | $ 918,666,000 |

Construction-in-progress consists of direct costs associated with hospital department renovations, certain leasehold improvements, and smaller capital projects. As these projects are completed, the related assets are transferred out of construction-in-progress and into the appropriate asset category and are depreciated over the applicable useful lives.

## 2. Summary of Significant Accounting Policies (continued)

### Investments in Joint Ventures

Luminis accounts for its investments in joint ventures using the equity method of accounting. During 2011, the Real Estate Company and another party formed West County, LLC, a joint venture that owns and operates a medical office building that opened in December 2012. The Real Estate Company has a 50% interest in this joint venture, with each owner's investment being $7,575,000 and $7,242,000 as of June 30, 2020 and 2019, respectively.

Doctors Community Health Ventures, Inc. (Health Ventures) has a $5,388,000 joint venture investment in Magnolia Gardens LLC. This investment is consistent with the mission and strategic plan of Doctors Community Medical Center. The investment in Magnolia Gardens LLC represents a 51% interest and is not consolidated with the financial statements of Luminis because Health Ventures does not control the investee.

### Deferred Debt Issuance Costs

Administrative, legal, financing, underwriting discount, and other miscellaneous expenses that were incurred in connection with debt financings were deferred and are being amortized over the lives of the bond issues using the straight-line method, which approximates the effective-interest method in all material respects. The amortization expense of the deferred debt issue costs was $479,000 and $297,000 for the years ended June 30, 2020 and 2019, respectively.

### Net Assets

Net resources that are not restricted by donors are included in net assets without donor restrictions. Gifts of long-lived operating assets, such as property, plant, or equipment, are reported as net assets without donor restrictions and excluded from income. Resources restricted by donors for a specified time or purpose are reported as net assets with donor restrictions.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to other operating revenues on the statement of operations and changes in net assets. Resources restricted by donors for additions to property, plant, and equipment are initially reported as net assets with donor restrictions and are transferred to net assets without donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as net assets with donor restrictions.

**2. Summary of Significant Accounting Policies (continued)**

Investment income related to net assets with donor restrictions is classified as net assets without donor restrictions based on the intent of the donor.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. This includes regulatory discounts allowed to Blue Cross, Medicare, Medicaid, and other third-party payors and charity care.

During 2020 and 2019, approximately 39% and 35%, respectively, of net patient service revenue was received under the Medicare program, 25% and 28% from Blue Cross, 26% and 30% from contracts with other third parties, and 10% and 7% from other sources.

The following table sets forth the detail of net patient service revenue:

| | Year Ended June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Gross patient service revenue | **$ 1,262,664,000** | $ 955,469,000 |
| Revenue deductions: | | |
| Charity care | **15,409,000** | 5,326,000 |
| Contractual and other allowances | **278,148,000** | 207,267,000 |
| Net patient service revenue | **$ 969,105,000** | $ 742,876,000 |

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. The System adopted the new standard effective July 1, 2018, using the modified retrospective method of transition. The most significant change from the adoption of the new standard relates to the System's estimation for the allowance for doubtful accounts. Under the previous standards, the System's estimate for amounts not expected to be collected based upon historical experience, were reflected as provision for bad debts and deducted from net patient service revenue to arrive at net patient service revenue less provision for bad debts. Under the new standard, those amounts will continue to be recognized as a reduction to net patient service revenue, however, not reflected separately as provision for bad debts, and accordingly the caption net patient service revenue less provision for bad debts will no longer be presented on the consolidated statements of operations and changes in net assets. Subsequent changes in the

**2. Summary of Significant Accounting Policies (continued)**

estimate of collectibility due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses. This adoption of the new standard did not have a material impact on the accompanying consolidated financial statements.

Additionally, the System's revenues may be subject to adjustment as a result of examination by government agencies or contractors and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18, *Revenue from Contacts with Customers*, and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections; business and economic conditions; trends in federal, state, and private employer health care coverage; and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of the System's revenues and patient receivable as a primary source of information in estimating the collectibility of patient receivable.

Luminis employs physicians in several hospital-based specialties (including, but not limited to, obstetrics, intensive care, and hospitalists). Net physician revenue is recognized when the services are provided and recorded at the estimated net realizable amount based on the contractual arrangements with third-party payors and the expected payments from the third-party payors and

**2. Summary of Significant Accounting Policies (continued)**

the patients. The difference between the billed charges and the estimated net realizable amounts are recorded as a reduction in physician revenue when the services are provided. The System recognized net physician revenue of $149,933,000 and $141,202,000 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, $15,097,000 and $10,764,000, respectively, of net physician accounts receivable are included in patient receivables on the accompanying consolidated balance sheets.

### Charity Care

AAMC provides charity care to patients who meet certain criteria established under its charity care guidelines. Because members of AAMC do not pursue the collection of amounts determined to qualify as charity care, they are not reported as revenue on the accompanying consolidated statements of operations and changes in net assets. The direct and indirect costs associated with providing this care are $4,531,000 and $4,493,000 for the years ended June 30, 2020 and 2019, respectively. These costs are calculated by applying a ratio of operating expenses over gross patient charges to the charity care provided at established rates. The state of Maryland’s rate system includes components within the rates to partially compensate hospitals for uncompensated care.

The cost of charity care provided by DCMC totaled $9,528,010 for the year ended June 30, 2020. Rates charged by DCMC for regulated services are determined based on assessment of direct and indirect cost calculated pursuant to the methodology established by the Commission, and therefore the cost of charity services noted above for DCMC are equivalent to its established rates for those services. For any charity services rendered by subsidiaries other than from the DCMC, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the DCMC’s non-Hospital affiliates. These charges are excluded from consolidated net patient service revenue.

### Other Operating Revenue

Other operating revenue is composed of grant revenue, cafeteria revenue, net assets released from restrictions for operating purposes, and other miscellaneous items.

On April 2, 2020, the System received $45,472,000 in provider relief funds authorized in the CARES Act from the U.S. Department of Health and Human Services (HHS). The System expects that these relief funds will be forgivable, but uncertainty exists as to the final outcome of the terms

**2. Summary of Significant Accounting Policies (continued)**

and conditions associated with the relief funds. Management will continue to monitor compliance with the terms and conditions of the Relief Fund and the impact of the pandemic on the System's revenues and expenses. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted. Furthermore, the HSCRC is proposing to reduce the System's ability to recoup undercharges from its GBR reimbursement program in future years by an amount derived from these provider relief funds. The final outcome of the HSCRC's decisions on treatment of the undercharge resulting from the Global Budget Reimbursement Revenue program and application of CARES Act funding to GBR limits is still being evaluated. Luminis recognized these funds in other operating revenue during the period as the conditions for use were deemed to have been met.

**Advances From Third-Party Payors**

On April 10, 2020, the System received $151,767,000 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. This program provides hospitals with working capital advances that begin to become payable 120 days from the date of receipt of the funds and must be fully repaid within one year through an automatic reduction of claims receipts from CMS. As of June 30, 2020, none of these funds have been used. These funds, which represent contract liabilities as defined in ASC 606, have been recorded within advances from third-party payors on the accompanying consolidated balance sheet at June 30, 2020.

**Transaction Costs**

During fiscal year 2019, the System incurred $3,279,000 for administrative and marketing costs that resulted from the transaction for Doctors Community Medical Center and subsidiaries becoming a wholly owned subsidiary of Luminis Health, Inc.

**Donations and Bequests**

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value on the date the gift is received. The gifts are reported as donor-restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, the asset is reclassified to without donor restrictions on the accompanying consolidated statements of operations and changes in net assets. Donor-restricted contributions

## 2. Summary of Significant Accounting Policies (continued)

whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Contributions that are unrestricted are reflected as other operating revenue on the accompanying consolidated statements of operations and changes in net assets.

Scheduled payments for pledges receivable for the years ending June 30 are as follows:

| | |
|---|---|
| 2021 | $ 2,599,000 |
| 2022–2024 | 658,000 |
| 2025 and thereafter | 1,605,000 |
| Less: | |
| Impact of discounting pledges receivable to net present value | 352,000 |
| Allowance for uncollectible pledges | 373,000 |
| Net pledges receivable | $ 4,137,000 |

Pledges receivable are discounted using rates between 1.2% and 2.5%.

### (Deficit) Excess of Revenues Over Expenses

The accompanying consolidated statements of operations and changes in net assets include (deficit) excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from (deficit) excess of revenues over expenses, consistent with industry practice, include contributions received and used for additions of long-lived assets and certain changes in pension liabilities.

### Group Purchasing Organization Initial Public Offering

The Hospital has participated and owned equity in the Premier Limited Partnership (Premier), which has served as a group purchasing organization for many years. This participation provides purchasing contract rates and rebates the System would not be able to obtain on its own. The Hospital accounts for its investment in Premier using the equity method of accounting.

During the year ended June 30, 2014, Premier restructured from a privately held company to a public company in an initial public offering (IPO) and several financial transactions have occurred with those holding equity in Premier before the IPO, including the System. As a result, the System

## 2. Summary of Significant Accounting Policies (continued)

received a cash payment of approximately $1,500,000 in exchange for 16% of its previous ownership in Premier. In addition, in exchange for the extension of the group purchasing contract, the System received partial ownership of the new public company (the Class B units).

The System received 309,580 Class B units that are earned in seven separate tranches over an 85-month period ending October 31, 2020. At June 30, 2020 and 2019, this investment was $10,388,000 and $13,094,000, respectively, and is reflected in other assets on the consolidated balance sheets. The opportunity will exist in the future for these Class B units to be converted to the Premier public company stock. Prior to vesting, the Class B units may be transferred or sold with the approval of Premier. During the years ended June 30, 2020 and 2019, the System recognized approximately $1,216,000 and $1,988,000, respectively, of income related to tranches 6 and 7 of the Class B units, which is included as a reduction of supplies expense on the consolidated statement of operations and changes in net assets. The value of the Class B units is tied to the group purchasing contract and is considered a vendor incentive.

### Income Tax Status

Luminis, the Hospital, the Foundation, HCS, GTS, PE, and RI have received determination letters from the Internal Revenue Service (IRS) stating that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). The Real Estate Company has received a determination letter from the IRS stating that it is exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code. Doctors Community Hospital and the Doctors Community Hospital Foundation are exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code as public charities. Both entities are entitled to rely on this determination as long as there are no substantial changes in their character, purposes, or methods of operation. Management has concluded that there have been no such changes, and therefore the status of the various entities as public charities exempt from federal income taxation remain in effect.

Anne Arundel Mental Health Hospital is organized and operated as a tax-exempt organization, and has applied for IRS recognition of exemption from federal income tax under Section 501(c)(3) of the Code, but has not yet received IRS recognition of exemption.

The state in which the various entities operate also provides a general exemption from state income taxation for organizations that are exempt from federal income taxation. However, both entities are subject to federal and state income taxation at corporate tax rates on unrelated business income.

**2. Summary of Significant Accounting Policies (continued)**

Exemption from other state and local taxes, such as real and personal property taxes is separately determined. The various entities had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which unrelated business income was recognized, a tax return was filed in order to report any unrelated business income as well as any taxes due.

HCE and PPI are subject to federal and state income taxes. These income taxes are immaterial to the accompanying consolidated financial statements.

Certain limited liability companies within the consolidated group are not subject to income taxes. Taxable income or loss is passed through to and reportable by the members individually.

Under the Cayman Islands Tax Concessions Law (Revised), the Governor-in-Cabinet issued an undertaking regarding Cottage on November 29, 2005, exempting it from all local income, profit, or capital gains taxes. The undertaking has been issued for a period of 20 years and, at the present time, no such taxes are levied in the Cayman Islands. Accordingly, no provision for taxes is made in these consolidated financial statements.

Doctors Regional Cancer Center, LLC (DRCC) and Southern Maryland Integrated Healthcare, LLC (ACO) are Maryland limited liability companies that have not elected to be taxed as corporations under current Treasury regulations. Both are owned by more than one member. DRCC and ACO are subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986 (IRC), as amended. Under these rules neither is subject to federal or state income tax, but must file annual information returns indicating their gross and taxable income to determine the tax results to their members.

The Doctors Community Sleep Center, LLC (Sleep Center) and Doctors Community Healthcare Programs (CHP) are Maryland limited liability companies that have not elected to be taxed as corporations under current treasury regulations. Sleep Center and CHP are wholly owned by the Hospital. As such, the Sleep Center and CHP are considered “disregarded entities” under current IRC regulations.

Under the requirements of ASC 740, *Income Taxes*, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Luminis has determined that it does not have any uncertain tax positions through June 30, 2020.

## 2. Summary of Significant Accounting Policies (continued)

### Use of Estimates

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

### Recent Accounting Pronouncements

Effective July 1, 2018, the System adopted FASB Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of transition. This ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not materially impact the consolidated financial statements.

Effective June 30, 2019, the System adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not- for-Profit Entities (Topic 958)*. This ASU changed certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The System adopted the ASU in the prior year and adjusted the presentation in these consolidated financial statements accordingly. The ASU was applied retrospectively to all periods presented.

Effective July 1, 2019, the System adopted the FASB ASU 2016-02, *Leases (Topic 842)*, using the modified retrospective transition approach as of the period of adoption, or fiscal year 2020. The FASB issued ASU 2016-02 in order to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The System's financial statements for periods prior to July 1, 2019, were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASU 2016-02 and previous U.S. GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating under previous U.S. GAAP.

Upon the adoption of ASU 2016-02, the System recorded the following balances on the consolidated balance sheet: $54,977,000 in right-of-use asset long term; $10,056,000 of current liabilities in lease liability short term; and $44,976,000 of long-term liabilities in lease liability

## 2. Summary of Significant Accounting Policies (continued)

long term. The standard did not materially impact the System's accompanying consolidated statement of operations and changes in net assets or consolidated statement of cash flows for the year ended June 30, 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Luminis has adopted ASU 2016-18 using a retrospective transition method, and as such, certain reclassifications were made to 2019 amounts previously reported on the consolidated statement of cash flows.

### New Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. The System is evaluating the impact of this guidance, which will be effective in 2021.

## 3. Regulatory Environment

### Medicare and Medicaid

The Medicare and Medicaid reimbursement programs represent a substantial portion of Luminis' revenues. Luminis' operations are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care

**3. Regulatory Environment (continued)**

programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation. Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on Luminis.

In 1983, Congress approved a Medicare prospective payment plan for most inpatient services as part of the Social Security Amendment Act of 1983. Hospitals in Maryland were granted a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. The waiver would remain in effect as long as the Maryland rate of increase in payments per admission remained below the national average rate of increase.

In January 2014, the Centers for Medicare and Medicaid Services approved a modernized waiver that includes both inpatient and outpatient revenue. The new waiver will be in place as long as Maryland hospitals achieve significant quality improvements and limit the per capita growth for all payors for Maryland residents.

**Maryland Health Services Cost Review Commission**

AAMC and Doctors Community Hospital's rate structure for all hospital-based services is subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC or the Commission). Under the HSCRC rate-setting system, the Hospital's inpatient and outpatient charges are the same for all patients, regardless of payor, including Medicare and Medicaid.

Beginning in fiscal year 2014, AAMC and Doctors Community Hospital entered into an agreement with the HSCRC to participate in the Global Budget Revenue (GBR) program. The GBR model is a revenue constraint and quality improvement system to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in health care costs and improve health care delivery processes and outcomes. Under the GBR, total revenue is capped at a predetermined fixed amount. The annual approved revenue is calculated using a permanent base revenue with positive or negative adjustments for inflation, assessments, performance in quality-based programs, infrastructure requirements, and population. Revenue may also be adjusted annually for market share levels and shifts of regulated services to unregulated settings.

**3. Regulatory Environment (continued)**

Starting in January 2019, Maryland's hospitals began operating under a new ten-year contract with the federal government entitled Maryland Performance Adjustment (MPA). The MPA is designed to test whether the improvements hospitals have made under the previous modernized waiver can be expanded to all health care providers. The GBR methodology will remain in place for hospital rate setting under the MPA. In addition, programs aimed to measure and reduce total health care spending for attributed Medicare patients, including pre- and post-acute care by all providers, are being introduced during this contract period.

The Commission's rate-setting methodology compares the approved rate with the actual average rate charged. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The System was undercharged by $54,399,000 and overcharged by $260,000 for the years ended June 30, 2020 and 2019, respectively. The undercharge of $54,399,000 for the year ended June 30, 2020 did not include amounts recognized in CARES Act funding discussed in the other operating revenue section in Note 2.

While the System is expecting the HSCRC to allow for recovery in future periods of the undercharge experienced during the year, mainly due to lower volume as the result of the COVID-19 pandemic, uncertainty exists as to the final outcome of HSCRC rate-setting decision making.

The timing of HSCRC's rate adjustments for the System could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur, and there is at least a possibility that the amounts may be material.

The AAMC and DCMC's policy is to recognize revenue based on actual charges for services to patients in the year in which the services are performed. The Hospital's revenues may be subject to adjustment as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until a subsequent period than which the services were rendered.

## 4. Investments

Investments, including assets whose use is limited, are stated at fair value. Borrowed funds that are required to be expended on specified capital projects under MHHEFA revenue bond agreements are classified as available for sale. All other investments and assets whose use is limited are classified as trading securities.

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Assets whose use is limited: | | |
| Endowment assets: | | |
| Cash and cash equivalents | **$ 1,145,000** | $ 1,237,000 |
| Equity mutual funds | **9,279,000** | 9,661,000 |
| Fixed income mutual funds | **5,058,000** | 5,737,000 |
| | **15,482,000** | 16,635,000 |
| Amounts held by trustee: | | |
| Cash and cash equivalents | **12,382,000** | 12,320,000 |
| U.S. Government obligations | **7,000** | 7,000 |
| | **12,389,000** | 12,327,000 |
| Amounts held by Cottage: | | |
| Cash and cash equivalents | **3,504,000** | 2,869,000 |
| Equity mutual funds | **11,334,000** | 6,581,000 |
| Fixed income mutual funds | **14,223,000** | 12,751,000 |
| | **29,061,000** | 22,201,000 |
| Total assets whose use is limited | **56,932,000** | 51,163,000 |
| Less current portion | **15,912,000** | 15,190,000 |
| | **$ 41,020,000** | $ 35,973,000 |

**4. Investments (continued)**

Amounts held by the trustee are broken down as follows:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Bond indenture | **$ 12,389,000** | $ 12,270,000 |

Other investments:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Cash and cash equivalents | **$ 14,388,000** | $ 15,368,000 |
| Equity mutual funds | **173,069,000** | 178,576,000 |
| Fixed income mutual funds | **100,475,000** | 133,747,000 |
| Alternative investments | **52,418,000** | 73,626,000 |
| | **340,350,000** | 401,317,000 |
| Less short-term investments | **1,365,000** | 15,261,000 |
| Investments | **$ 338,985,000** | $ 386,056,000 |

The components of investment (loss) income, net are as follows:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Interest and dividend income, net | **$ 132,000** | $ 10,257,000 |
| Realized (losses) gains, net | **(9,832,000)** | 3,616,000 |
| | **$ (9,700,000)** | $ 13,873,000 |

**5. Fair Value Measurements**

ASC 820 defines fair value and establishes a framework for measuring fair value in accordance with U.S. GAAP. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 – Defined as observable inputs, such as quoted prices in active markets
- Level 2 – Defined as inputs other than quoted prices in active markets that are either directly or indirectly observable
- Level 3 – Defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while Luminis believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ASC 820 requires that the fair value of derivative contracts include adjustments related to the credit risks of both parties associated with the derivative transactions. The fair value of Luminis' derivative contracts reflected in the accompanying consolidated financial statements includes adjustments related to the credit risks of the parties to the transactions.

## 5. Fair Value Measurements (continued)

The following tables present the fair value hierarchy for Luminis' financial assets and liabilities measured at fair value on a recurring basis.

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 178,795,000 | $ 178,126,000 | $ 669,000 | $ – |
| Trading securities and assets whose use is limited: | | | | |
| Cash and cash equivalents | 31,296,000 | 18,257,000 | 13,039,000 | – |
| Equity securities | 194,977,000 | 194,977,000 | – | – |
| Fixed income securities | 122,785,000 | 119,753,000 | 3,032,000 | – |
| U.S. Government obligation securities | 6,000 | 6,000 | – | – |
| Alternative investments | 52,418,000 | 22,663,000 | – | 29,755,000 |
| Total | 401,482,000 | 355,656,000 | 16,071,000 | 29,755,000 |
| Collateral for interest rate swap: | | | | |
| Cash and cash equivalents | 110,002,000 | 110,002,000 | – | – |
| Less investments included in other assets | 4,200,000 | 4,200,000 | – | – |
| Total assets | $ 686,079,000 | $ 639,584,000 | $ 16,740,000 | $ 29,755,000 |
| | | | | |
| **Liabilities** | | | | |
| Derivative instruments | $ (117,037,000) | $ – | $ (117,037,000) | $ – |
| Total liabilities | $ (117,037,000) | $ – | $ (117,037,000) | $ – |

**5. Fair Value Measurements (continued)**

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Cash and cash equivalents | $ 15,100,000 | $ 15,100,000 | $ – | $ – |
| Trading securities and assets whose use is limited: | | | | |
| Cash and cash equivalents | 31,794,000 | 31,794,000 | – | – |
| Equity securities | 194,818,000 | 194,818,000 | – | – |
| Fixed income securities | 152,235,000 | 152,235,000 | – | – |
| U.S. Government obligation securities | 6,000 | 6,000 | – | – |
| Alternative investments | 73,627,000 | 37,997,000 | – | 35,630,000 |
| Total | 452,480,000 | 416,850,000 | – | 35,630,000 |
| Collateral for interest rate swap: | | | | |
| Cash and cash equivalents | 67,404,000 | 67,404,000 | – | – |
| Total assets | $ 534,984,000 | $ 499,354,000 | $ – | $ 35,630,000 |
| | | | | |
| **Liabilities** | | | | |
| Derivative instruments | $ (78,479,000) | $ – | $ (78,479,000) | $ – |
| Total liabilities | $ (78,479,000) | $ – | $ (78,479,000) | $ – |

Luminis' Level 1 securities primarily consist of U.S. Treasury securities, exchange-traded mutual funds, and cash. Luminis determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

Luminis' Level 2 securities primarily consist of cash and cash equivalents. Luminis determines the estimated fair value for these Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curve volatilities, default rates), and inputs that are derived principally from or corroborated by other observable market data. Part of AAMC's alternative investments, approximately $22,663,000 and $35,800,000 at June 30, 2020 and 2019, respectively, are invested in international

**5. Fair Value Measurements (continued)**

equity funds and are considered Level 1 investments due to quoted price being readily available. The majority of the remaining alternative investments $24,489,000 and $29,653,000 at June 30, 2020 and 2019, respectfully are invested in a fund focused on energy infrastructure and are considered Level 3 investments due to quoted price not being readily available. The underlying assets of the fund are publicly traded energy-related master limited partnerships and equity securities. Certain alternative investments require written notification over a certain period prior to redemption.

Luminis' Level 2 securities also consist of derivative instruments, which are reported using valuation models commonly used for derivatives. Valuation models require a variety of inputs, including contractual terms, market-fixed prices, inputs from forward price yield curves, notional quantities, measures of volatility, and correlations of such inputs.

The following table sets forth a summary of changes in the fair value of the Level 3 assets:

| | |
|---|---|
| Balance at June 30, 2019 | $ 35,630,000 |
| Realized and unrealized gains and losses | (5,875,000) |
| Balance at June 30, 2020 | $ 29,755,000 |

Luminis also has pledges receivable, which are measured at fair value on a nonrecurring basis and are discounted to the net present value upon receipt using an appropriate risk-free discount rate based on the term of the receivable. Since these inputs are not observable, pledges receivable would be considered Level 3 fair value measurements upon their initial recording. Pledges receivable are recorded net of an allowance for uncollectible pledges. The following table provides a reconciliation of the beginning and ending balances of pledges receivable that used significant unobservable inputs.

| | **Year Ended June 30** | |
|---|---|---|
| | **2020** | **2019** |
| Pledges receivable: | | |
| Balance at July 1 | **$ 3,296,000** | $ 4,115,000 |
| New pledges | **2,967,000** | 2,542,000 |
| Collections of pledges | **(2,028,000)** | (3,146,000 |
| Write-off of pledges | **(160,000)** | (168,000) |
| Change in reserves | **62,000** | (47,000) |
| Balance at June 30 | **$ 4,137,000** | $ 3,296,000 |

## 6. Long-Term Debt and Line of Credit

For AAMC and affiliates, long-term debt consists of the following:

| | Interest Rate | Maturity Dates | June 30 2020 | June 30 2019 |
|---|---|---|---|---|
| Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2017 | 2.0%–5.0% | 2018–2043 | **$ 56,905,000** | $ 58,935,000 |
| Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2014 | 2.0%–5.0% | 2015–2040 | **113,817,000** | 116,200,000 |
| Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2012 | 2.0%–5.0% | 2013–2035 | **56,991,000** | 59,735,000 |
| Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2009B | Variable | 2041–2044 | **60,000,000** | 60,000,000 |
| Kent Island term loan from a bank | Variable | 2021 | **5,617,000** | 5,908,000 |
| Real Estate Loan | Variable | 2028 | **55,850,000** | 59,492,000 |
| | | | **349,180,000** | 360,270,000 |
| Less current portion of long-term debt | | | **11,461,000** | 11,029,000 |
| Less deferred debt issue costs | | | **3,531,000** | 3,803,000 |
| Unamortized original issue premium, net | | | **13,354,000** | 14,297,000 |
| Long-term debt | | | **$ 347,542,000** | $ 359,735,000 |

These debt instruments are secured by the receipts of the AAMC obligated group and substantially all of the property and equipment of the consolidated Group.

## 6. Long-Term Debt and Line of Credit (continued)

For AAMC and affiliates, principal payments due under all debt instruments as of June 30, 2020, are as follows:

| | |
|---|---|
| 2021 | $ 11,461,000 |
| 2022 | 16,589,000 |
| 2023 | 11,667,000 |
| 2024 | 11,987,000 |
| 2025 | 12,332,000 |
| Thereafter | 285,144,000 |
| | $ 349,180,000 |

### Series 2017 Revenue Bonds

In November 2017, AAMC entered into a loan agreement with the MHHEFA for the issuance of Series 2017 Revenue Bonds (referred to as the 2017 Bonds). The proceeds of the 2017 Bonds were used to advance refund the Series 2010 Bonds previously provided by MHHEFA. The bonds being refunded were originally obtained to finance the expansion of the parking garage for AAMC's acute care pavilion, and costs related to the issuance. The 2017 Bonds provide for annual principal payments each July 1 from 2018 through 2043. Interest is payable annually each July 1 starting in July 2018. The 2017 Bonds bear stated interest rates between 2.00% and 5.00% and were issued at a premium of $4,590,000, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The effective annual interest rate for the 2017 Bonds for the year ended June 30, 2020 and June 30, 2019, was 3.64% and 1.93%, respectively.

### Series 2014 Revenue Bonds

In November 2014, AAMC entered into a loan agreement with the MHHEFA for the issuance of Series 2014 Revenue Bonds (referred to as the 2014 Bonds). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously provided by MHHEFA. The bonds being refunded were originally obtained to finance a portion of the costs of construction for an eight-story patient care building, two parking garages, and costs related to the issuance. The 2014 Bonds provide for annual principal payments each July 1 from 2015 through 2040. Interest is payable semiannually each July 1 and January 1, beginning in January 2015. The 2014 Bonds bear stated interest rates between 2.00% to 5.00% and were issued at a premium of $7,520,000, which

## 6. Long-Term Debt and Line of Credit (continued)

is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The effective annual interest rate for the 2014 Bonds for the years ended June 30, 2020 and 2019, was 4.49% and 2.24%, respectively.

### Series 2012 Revenue Bonds

In October 2012, AAMC entered into a loan agreement with MHHEFA for the issuance of $73,625,000 of Series 2012 Revenue Bonds (referred to as the 2012 Bonds). The proceeds of the 2012 Bonds were used to repay the Series 2004A Bonds and the Series 1998 Bonds previously provided by the Authority. The bonds being refinanced were originally obtained to finance a new replacement hospital (Series 1998 Bonds) and to finance major renovations to AAMC's Cancer Center and land acquisition (Series 2004A Bonds). The 2012 Bonds provide for annual principal payments each July 1 from 2013 through 2035. Interest is payable semiannually on each July 1 and January 1, beginning July 1, 2013. The 2012 Bonds bear stated interest at rates of 2.00% to 5.00% and were issued at a premium of $6,746,000. The effective annual interest rates for the 2012 Bonds for the years ended June 30, 2020 and 2019, were 4.34% and 2.16%, respectively.

The provisions of the 2017, 2014, and 2012 Bonds, together with the Series 2009 Bonds, require Luminis and certain subsidiaries to comply with certain covenants on an annual basis, including a debt service coverage requirement, a debt-to-capitalization requirement, and a liquidity requirement. Luminis, AAMC, and HCS are members of the AAMC obligated group for all of the above stated revenue bonds issued by MHHEFA.

### Series 2009 Revenue Bonds

In January 2009, AAMC entered into a loan agreement with the MHHEFA for the issuance of $120,000,000 of Series 2009A Revenue Bonds (the 2009A Bonds) and in February 2009, $60,000,000 of Series 2009B Revenue Bonds (the 2009B Bonds) (collectively referred to as the 2009 Bonds). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously provided by the MHHEFA. The proceeds of the 2009 Bonds were used to finance a portion of the costs of construction of an eight-story patient care building, two new parking garages, and certain costs relating to the issuance. The 2009B Bonds provide for annual principal payments each July 1, from 2041 through 2044. Interest is payable semiannually on each July 1 and January 1, beginning July 1, 2009. The 2009B Bonds bear interest at variable rates, as set forth in the loan agreement. The maximum interest rate is 12% for the 2009B Bonds. The effective annual interest rates for the 2009B Bonds for the years ended June 30, 2020 and 2019,

**6. Long-Term Debt and Line of Credit (continued)**

were 1.18% and 1.65%, respectively. The principal and interest payments on the Series 2009B Bonds are secured by a letter of credit equal to the original principal of the bonds plus an amount equal to 40 days' interest thereon, calculated at the maximum rate. The current letter of credit, which was extended on May 1, 2019, expires on July 1, 2024. Under certain circumstances, AAMC would need to fully redeem the 2009B Bonds upon expiration of the letter of credit, unless a conforming replacement letter of credit was secured prior to such expiration.

The related balances are included in assets whose use is limited and consist of the following:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Debt service funds | **$ 12,382,000** | $ 12,263,000 |
| Construction fund and capitalized interest fund | **7,000** | 7,000 |
| | **$ 12,389,000** | $ 12,270,000 |

**Bank Line of Credit and Real Estate Loan**

AAMC maintains two lines of credit with a bank providing available credit of $90,000,000. An agreement for $50,000,000 with the bank is reviewed for renewal on February 28 of each year. Interest on any borrowings accrues at the one-month London Interbank Offered Rate (LIBOR) plus 0.75%. A second agreement for $40,000,000 was completed on April 24, 2020, and is reviewed for renewal each year. Interest on any borrowing accrues at the one-month LIBOR plus 1.5%. At June 30, 2020 and 2019, AAMC had no balance on the lines of credit.

On October 23, 2008, the Real Estate Company secured a term loan in the amount of $55,000,000 with a bank. The proceeds from the term loan were used to refinance line of credit proceeds and fund certain construction costs related to a medical office building. The loan bore interest at a variable rate, based on the LIBOR market index rate plus 1.25%. The term loan required monthly payments of $235,000 with all remaining amounts due upon final maturity on November 5, 2018. The effective annual interest rate for the year ending June 30, 2019, was 2.25%. This loan was subsequently refinanced on October 17, 2018.

**6. Long-Term Debt and Line of Credit (continued)**

On October 23, 2008, the Real Estate Company entered into a construction loan in the amount of $30,000,000 with a bank to fund the construction of a medical office building. The loan was issued under the same loan agreement as the term loan discussed in the preceding paragraph. The debt is secured by the medical office building. Interest only was due during the construction period at a rate equal to the LIBOR market index rate plus 1.25%. The loan converted to a term loan after the completion of the construction in July 2009. The term loan provided for monthly principal and interest payments and has a final maturity of November 5, 2018. The effective annual interest rate for the year ended June 30, 2019, was 4.65%. This loan was subsequently refinanced on October 17, 2018.

On October 17, 2018, the Real Estate Company secured a real estate loan from the bank through a wholly owned subsidiary and the proceeds were used to pay off the 2008 Term Loan and 2008 Construction Loan previously provided by the bank. The loans being refinanced were originally obtained to finance certain medical office buildings owned by the Real Estate Company. The new loan requires flat monthly principal payments (amortized over 17 years) plus interest at one month Libor + 1.10% from 2018 through 2028 with a balloon payment due October 5, 2028, of $25,800,000. The effective interest rates for the years ended June 30, 2020 and 2019, were 2.65% and 4.65%.

**Kent Island Term Loan**

In August 2007, KIMA entered into a construction loan agreement with a bank in the amount of $9,000,000 that would convert to a term loan after the completion of the construction. The proceeds were used to construct a medical office building. The debt was secured by the medical office building. Interest only was due during the construction period at a rate of the 30-day LIBOR plus 1.0%. The construction was completed in June 2008.

On May 9, 2017, KIMA refinanced the term loan with a $6,567,000 promissory note. The promissory note provides for monthly principal and interest payments and has a final maturity of December 2021. The promissory note bears interest at a variable rate, based on the 30-day LIBOR plus 1.2%. The effective annual interest rates for the years ended June 30, 2020 and 2019, were 2.88% and 3.58%, respectively.

**6. Long-Term Debt and Line of Credit (continued)**

For DCMC, long-term debt consists of the following:

| | Interest Rate | Maturity Dates | June 30, 2020 |
|---|---|---|---|
| **Maryland Health and Higher Education Facilities** | | | |
| Authority Revenue Bonds, Series 2017B Bond | 2.18% | 2024 | $ 24,165,000 |
| Authority Revenue Bonds, Series 2016 Bond: | | | |
| Series 2016A – Tax-Exempt Private Placement 2007 Refunding | 2.57% | 2030 | 16,795,000 |
| Series 2016A – Tax-Exempt Private Placement 2010 Partial Refunding | 2.57% | 2030 | 15,150,000 |
| Authority Revenue Bonds, Series 2017A: | | | |
| Term bond | 5.00% | 2031 | 6,720,000 |
| Term bond | 5.00% | 2032 | 7,055,000 |
| Term bond | 5.00% | 2033 | 7,410,000 |
| Term bond | 5.00% | 2034 | 7,780,000 |
| Term bond | 5.00% | 2038 | 35,234,000 |
| | | | 120,309,000 |
| Less current portion of long-term debt | | | 4,979,000 |
| Less deferred debt issue costs | | | 1,340,000 |
| Premium, net of accumulated amortization | | | 8,776,000 |
| Long-term debt | | | $ 122,766,000 |

For DCMC, principal payments due under all debt instruments as of June 30, 2020, are as follows:

| | |
|---|---|
| 2021 | $ 4,979,000 |
| 2022 | 5,070,000 |
| 2023 | 5,195,000 |
| 2024 | 5,265,000 |
| 2025 | 5,965,000 |
| Thereafter | 93,835,000 |
| | $ 120,309,000 |

**6. Long-Term Debt and Line of Credit (continued)**

On June 28, 2016, MHHEFA issued $73,445,000 principal amount of Revenue Bonds, Series 2016A ($31,945,000), and Series 2016B ($41,500,000). The proceeds of this issue were used to retire the Series 2007A Bonds and Series 2010 Bonds (partial) previously provided by the Authority. In 2017, the Series 2016B taxable note was converted as planned to Series 2017B. On March 23, 2017, the Series 2016 were converted to Series 2017B bonds as planned when the 2016B bonds were issued in June 2016.

On February 8, 2017, MHHEFA issued $64,165,000 principal amount of Revenue Bonds, Series 2017A. The proceeds of this issue were used to retire the remainder of the Series 2010 Bonds previously provided by the Authority.

The obligated group for MHHEFA bond issuances issued to Doctors Community Medical Center includes Doctors Community Hospital, CHP, Foundation, Sleep Center, Doctors Community Medical Group and Doctors Integrated Healthcare Network and Health Ventures excluding the MAUI, Magnolia Gardens, DI LLC, ACO, and STM. The Series 2017A, Series 2017B, and Series 2016 Bonds are secured by the revenue and accounts receivable of the obligated group, and certain other property secured by a deed of trust. The obligated group is required to maintain certain compliance ratios and covenants as defined under the bond documents.

**7. Retirement Plans**

**Anne Arundel Medical Center Plan**

AAMC has a qualified noncontributory, defined benefit pension plan (the Plan) that covers substantially all employees. AAMC's policy is to fund pension costs as determined by its actuary. Adopted by the Board of Trustees on June 11, 2009, and effective September 1, 2009, AAMC amended the Plan to freeze future benefit accruals, and participants have not earned any additional benefits under the Plan since that date. However, subsequent to September 1, 2009, participants have continued to vest in benefits they have earned through September 1, 2009. The frozen benefit balance for the participants will only accrue interest credits until the participants' benefit commencement dates. FASB ASC 715, *Compensation – Retirement Benefits*, requires AAMC to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan on its consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The pension liability adjustment to net assets without donor restrictions represents the change in net unrecognized actuarial losses that have not

**7. Retirement Plans (continued)**

yet been recognized as part of (deficit) excess of revenues over expenses. These amounts are subsequently recognized as a net periodic benefit cost pursuant to AAMC's historical accounting policy for amortizing such amounts.

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended June 30 and the accumulated benefit obligation for the AAMC is as follows:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Accumulated benefit obligation | **$ 138,148,000** | $ 124,331,000 |
| Change in projected benefit obligation: | | |
| Projected benefit obligation at beginning of year | **$ 124,331,000** | $ 124,571,000 |
| Service cost | – | – |
| Interest cost | **4,047,000** | 4,758,000 |
| Actuarial loss | **16,039,000** | 8,705,000 |
| Benefits paid | **(2,446,000)** | (2,332,000) |
| Settlements paid | **(3,823,000)** | (11,371,000) |
| Projected benefit obligation at end of year | **138,148,000** | 124,331,000 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | **118,255,000** | 121,257,000 |
| Actual return on plan assets | **(1,421,000)** | 5,901,000 |
| Employer contribution | **4,832,000** | 4,800,000 |
| Benefits paid | **(2,446,000)** | (2,332,000) |
| Settlements paid | **(3,823,000)** | (11,371,000) |
| Fair value of plan assets at end of year | **115,397,000** | 118,255,000 |
| Net liability recognized | **$ (22,751,000)** | $ (6,076,000) |

**7. Retirement Plans (continued)**

| | June 30 2020 | June 30 2019 |
|---|---|---|
| Net amounts recognized on the consolidated balance sheets consist of: | | |
| Accrued pension costs | **$ (22,751,000)** | $ (6,076,000) |
| Amounts recognized in unrestricted net assets that have not been recognized in net periodic benefit costs consist of: | | |
| Net actuarial loss | **$ 95,271,000** | $ 71,988,000 |

The following table sets forth the weighted average assumptions used to determine the benefit obligations of AAMC:

| | June 30 2020 | June 30 2019 |
|---|---|---|
| Discount rate | **2.45%** | 3.35% |
| Rate of compensation increase | **N/A** | N/A |

The following table sets forth the weighted average assumptions used to determine the net periodic benefit cost of AAMC:

| | Year Ended June 30 2020 | Year Ended June 30 2019 |
|---|---|---|
| Discount rate | **3.35%** | 4.13% |
| Expected return on plan assets | **6.25%** | 7.00% |
| Rate of compensation increase | **N/A** | N/A |

**7. Retirement Plans (continued)**

AAMC's net periodic pension benefit cost included the following components:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Service cost | **$ –** | $ – |
| Interest cost | **4,047,000** | 4,758,000 |
| Expected return on plan assets | **(7,533,000)** | (8,403,000) |
| Amortization of prior service cost | **–** | – |
| Recognized net actuarial loss | **1,709,000** | 1,484,000 |
| Loss recognized from partial settlement of projected benefit obligation | **–** | 6,938,000 |
| Net periodic cost (credit) | **$ (1,777,000)** | $ 4,777,000 |

The estimated net loss of the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year for AAMC is $1,777,000.

AAMC's defined benefit plan invests in a diversified mix of traditional asset classes. Investments in certain types of U.S. equity securities and fixed-income securities are made to maximize long-term results while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. Risk tolerance of unexpected investment and actuarial outcomes is continually evaluated by understanding the pension plan's liability characteristics. Equity investments are used primarily to increase the overall plan returns. Debt securities provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

AAMC's target asset allocation percentages as of June 30, 2020, were as follows: 60% investment grade bonds, 16% international equity, 13% large cap domestic stocks, 4% small cap domestic stocks, and 7% alternative investments and exchange-traded notes.

## 7. Retirement Plans (continued)

The following tables present the fair value hierarchy of assets of the defined benefit pension plan of AAMC.

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 669,000 | $ – | $ 669,000 | $ – |
| Mutual funds: | | | | |
| Equity | 20,127,000 | 20,127,000 | – | – |
| Corporate bonds | 57,830,000 | 57,830,000 | – | – |
| International equity | 12,520,000 | 12,520,000 | – | – |
| International bonds | 8,715,000 | 8,715,000 | – | – |
| Closed-end funds ETF | 5,512,000 | 5,512,000 | – | – |
| Alternative investments: | | | | |
| Common/collective trust | 2,398,000 | 2,398,000 | – | – |
| Partnership | 2,395,000 | 2,395,000 | – | – |
| Other | 5,231,000 | – | – | 5,231,000 |
| | $ 115,397,000 | $ 109,497,000 | $ 669,000 | $ 5,231,000 |

**7. Retirement Plans (continued)**

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Cash and cash equivalents | $ 4,025,000 | $ – | $ 4,025,000 | $ – |
| Mutual funds: | | | | |
| Equity | 20,237,000 | 20,237,000 | – | – |
| Corporate bonds | 57,573,000 | 57,573,000 | – | – |
| International equity | 11,922,000 | 11,922,000 | – | – |
| International bonds | 9,382,000 | 9,382,000 | – | – |
| Alternative investments: | | | | – |
| Common/collective trust | 3,813,000 | – | 3,813,000 | – |
| Partnership | 3,248,000 | – | 3,248,000 | – |
| Other | 8,055,000 | – | 8,055,000 | – |
| | $ 118,255,000 | $ 99,114,000 | $ 19,141,000 | $ – |

Level 1 securities primarily consist of exchange-traded mutual funds. Level 2 securities primarily consist of money market funds. Methods consistent with those discussed in Note 5 are used to estimate the fair values of these securities. Level 3 securities consist of a fund focused on energy infrastructure and are considered Level 3 investments due to quoted price not being readily available. The underlying assets of the fund are publicly traded energy-related master limited partnerships and equity securities.

The overall expected rate of return on assets assumptions was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized considered the target rates of returns for the future, which have historically not changed.

AAMC currently intends to make voluntary contributions to the defined benefit pension plan of $4,800,000 in fiscal year 2021.

**7. Retirement Plans (continued)**

The following benefit payments for AAMC are expected to be paid:

| | |
|---|---|
| 2021 | $ 7,855,000 |
| 2022 | 7,470,000 |
| 2023 | 7,391,000 |
| 2024 | 7,071,000 |
| 2025 | 7,586,000 |
| 2026–2030 | 38,880,000 |

In addition to the noncontributory defined benefit pension plan, AAMC also offers an employee defined contribution plan. Participation in the plan is voluntary. Substantially all full-time employees of AAMC are eligible to participate. Employees may elect to contribute a minimum of 1% of compensation, and a maximum amount as determined by Sections 403(b) and 415 of the Internal Revenue Code. Any employee making contributions to the plan is entitled to a AAMC contribution that will match the employee contribution at the rate of 50% to 75%, depending on the number of years of service, up to a maximum of 5% of qualified compensation. Matching contributions under this defined contribution plan were $8,830,000 and $8,000,000 in fiscal years 2020 and 2019, respectively.

**Doctors Community Hospital Plan**

DCMC froze the defined benefit pension plan that it sponsors (the Plan) in 2011, which covered substantially all employees. The decision to terminate the Plan has not been made by the board of directors. The benefits are based on years of service and employee compensation during years of employment. DCMC's funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). DCMC expects to contribute $1,232,000 to the Plan during 2020 to keep the funding levels at the ERISA requirements. The measurement date of the Plan is June 30.

**7. Retirement Plans (continued)**

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended June 30 and the accumulated benefit obligation at June 30, 2020 for DCMC is as follows:

| | |
|---|---|
| Accumulated benefit obligation | $ 23,049,000 |
| | |
| Change in projected benefit obligation: | |
| Projected benefit obligation at beginning of year | $ 21,661,000 |
| Service cost | |
| Interest cost | 636,000 |
| Actuarial loss | 1,883,000 |
| Benefits paid | (112,000) |
| Settlements paid | (1,019,000) |
| Projected benefit obligation at end of year | 23,049,000 |
| | |
| Change in plan assets: | |
| Fair value of plan assets at beginning of year | 16,660,000 |
| Actual return on plan assets | 294,000 |
| Employer contribution | 664,000 |
| Benefits paid | (112,000) |
| Settlements paid | (982,000) |
| Fair value of plan assets at end of year | 16,524,000 |
| Net liability recognized | $ (6,525,000) |
| | |
| Net amounts recognized on the consolidated balance sheets consist of: | |
| Accrued pension costs | $ (6,525,000) |
| | |
| Amounts recognized in unrestricted net assets that have not been recognized in net periodic benefit costs consist of: | |
| Net actuarial loss | $ 9,634,000 |

**7. Retirement Plans (continued)**

The following table sets forth the weighted average assumptions used to determine the benefit obligations of DCMC as of June 30, 2020:

| | |
|---|---|
| Discount rate | 2.05% |
| Rate of compensation increase | N/A |

The following table sets forth the weighted average assumptions used to determine the net periodic benefit cost for the year ended June 30, 2020:

| | |
|---|---|
| Discount rate | 2.05% |
| Expected return on plan assets | 6.00% |
| Rate of compensation increase | N/A |

DCMC's net periodic pension benefit cost included the following components as of June 30, 2020:

| | |
|---|---|
| Interest cost | $ 636,000 |
| Expected return on plan assets | (956,000) |
| Recognized net actuarial loss | 570,000 |
| Effect of settlement | 411,000 |
| Net periodic cost | $ 661,000 |

The estimated net loss of the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year for DCMC is $1,499,000.

DCMC's target asset allocation percentages as of June 30, 2020, were as follows: 62% investment grade bonds, 3% international equity, 16% large cap domestic stocks, and 19% small cap domestic stocks.

## 7. Retirement Plans (continued)

The following table presents the fair value hierarchy of assets of the defined benefit pension plan of DCMC.

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Mutual funds: | | | | |
| Equity | $ 15,571,000 | $ 15,571,000 | $ – | $ – |
| Alternative investments: | | | | |
| Common/collective trust | 953,000 | – | 953,000 | – |
| | $ 16,524,000 | $ 15,571,000 | $ 953,000 | $ – |

DCMC currently intends to make voluntary contributions to the defined benefit pension plan of $1,232,000 in fiscal year 2021.

The following benefit payments for DCMC are expected to be paid:

| | |
|---|---|
| 2021 | $ 2,428,000 |
| 2022 | 1,292,000 |
| 2023 | 1,235,000 |
| 2024 | 1,257,000 |
| 2025 | 1,581,000 |
| 2026–2030 | 6,330,000 |

The combined pension liability of both entities is as follows:

| | |
|---|---|
| AAMC | $ 22,751,000 |
| DCMC | 6,525,000 |
| Total | $ 29,276,000 |

## 7. Retirement Plans (continued)

DCMC has a 403b defined contribution plan (the contribution plan) covering substantially all its employees. The contribution plan is employee and employer contributory. DCMC contributed a match of $0.50 for every $1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to $1,266,000 for 2020.

DCMC has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying consolidated balance sheets. The associated liability of an equal amount is included in other liabilities in the accompanying consolidated balance sheets. The liability recorded regarding the deferred compensation was $3,832,000 as of June 30, 2020.

DCMC is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by DCMC under the insurance contracts are approximately $9,000,000 as of June 30, 2020, are included in other assets on the consolidated balance sheets.

## 8. Concentrations of Credit Risk

Certain members of Luminis grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows for AAMC:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Medicare | **25%** | 26% |
| Medicaid | **4** | 5 |
| Blue Cross | **19** | 18 |
| Commercial, HMO, PPO, and other | **43** | 32 |
| Patients | **9** | 19 |
| | **100%** | 100% |

## 8. Concentrations of Credit Risk (continued)

The mix of receivables from patients and third-party payors was as follows for the DCMC as of June 30, 2020:

| | |
|---|---|
| Medicare | 28% |
| Medicaid | 21 |
| Blue Cross | 10 |
| Commercial, HMO, PPO, and other | 29 |
| Patients | 12 |
| | 100% |

## 9. Malpractice Insurance Costs and Self-Insured Professional Liability

Until August 1, 1998, AAMC and certain subsidiaries maintained insurance coverage for general and professional liability claims on a claims-made basis. The professional liability coverage included a per-case deductible of $250,000, up to a maximum out-of-pocket amount of $750,000 annually. Effective August 1, 1998, the Group changed its professional liability coverage to a full coverage claims-made policy with no annual deductibles. This policy included tail coverage for claims incurred prior to August 1, 1998, but reported subsequently. Effective August 1, 2002, AAMC changed its professional liability coverage back to a claims-made policy with a per-case deductible of $250,000, up to a maximum out-of-pocket amount of $750,000 annually. Also, AAMC did not purchase tail coverage for claims incurred prior to August 1, 2002, which were not yet reported.

Effective March 1, 2004, AAMC changed its professional liability coverage to a self-insurance trust with annual exposure limits of $2,000,000 per claim and $11,000,000 in the aggregate. AAMC carried an excess liability insurance policy for claims above these limits.

Effective July 1, 2005, Cottage was formed as a captive insurer to provide professional liability insurance for AAMC. Cottage is a wholly owned subsidiary of AAMC, which was formed in the Cayman Islands. The primary layer of professional and general liability insurance coverage is self-insured through Cottage and the secondary layer is fully reinsured through several highly rated commercial carriers.

**9. Malpractice Insurance Costs and Self-Insured Professional Liability (continued)**

For the period from July 1, 2005 to June 30, 2009, Cottage issued claims-made policies covering AAMC professional liability (including employed physicians) and on an occurrence basis, comprehensive general liability risks of AAMC and certain affiliates. Policy limits were $2,000,000 per claim with a $9,000,000 policy aggregate. Effective July 1, 2005, Cottage assumed existing liabilities from AAMC's self-insured trust discussed above on a claims-made basis. Effective July 1, 2009, Cottage issued a claims-made policy providing $2,000,000 per claim for AAMC professional liability coverage and $1,000,000 per claim for comprehensive general liability coverage, subject to a consolidated annual aggregate limit of $10,000,000. Effective July 1, 2018, policy limits were increased to $5,000,000 per claim with a $25,000,000 policy aggregate.

For the period from July 1, 2005 to June 30, 2008, Cottage also issued an excess umbrella coverage policy (covering AAMC professional liability) with limits of $20,000,000 per claim with a policy aggregate. For claims reported on and subsequent to July 1, 2008, the coverage limit provided is $30,000,000 per claim with a policy aggregate. These excess limits are in excess of the primary policy, and the umbrella policies are 100% reinsured with highly rated third-party commercial reinsurers.

The provision for estimated professional liability claims, general liability claims, and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. As of June 30, 2020, and 2019, the balance for outstanding claims reserves recorded at Cottage is $32,444,000 and $36,843,000 and reinsurance receivable is $9,884,000 and $17,286,000, respectively. The remaining tail liability for claims incurred but not reported is $11,667,000 and $10,607,000 as of June 30, 2020 and 2019, respectively, with $10,163,000 of the 2020 liability and $9,226,000 of the 2019 liability recorded at the AAMC. The remainder of the liability is recorded at PE. The Group has employed an independent actuary to estimate the ultimate settlement of such claims. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change by material amounts in the short term.

**9. Malpractice Insurance Costs and Self-Insured Professional Liability (continued)**

DCMC has coverage for professional and general liabilities on a claims-made basis from Freestate Healthcare Insurance Company, Ltd. (Freestate), a group captive formed by several Maryland hospitals. DCMC owns 20% interest in the captive and accounts for it using the cost method. The cost of $15,000 is recorded in other noncurrent assets on the accompanying consolidated balance sheets as of June 30, 2020. Premiums are expensed as incurred and are established based on the DCMC historical experience supplemented as necessary with industry experience. The total premium is allocated to each of the shareholders based on their experience. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment of credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2020. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals. The captive is responsible for claims up to $1,000,000 for each and every loss event. Additional coverage has been purchased by the captive for all claims in excess of $1,000,000 to a limit of $6,000,000 effective March 1, 2006, $10,000,000 effective March 1, 2012, and $15,000,000 effective March 1, 2019. The estimated unpaid loss liability reserved by the captive for DCMC was $9,466,000 at June 30, 2020. These amounts are included in long-term liabilities and the related anticipated insurance recoveries were reported in noncurrent assets on the accompanying consolidated balance sheets. The liability for all claims incurred but not reported for DCMC was $1,106,000 at June 30, 2020. The discount rate for unpaid losses is 3.5% for the year ended June 30, 2020. DCMC engages a consulting actuary to assist in the determination of all professional liability claims incurred but not reported.

## 10. Commitments and Contingencies

### Leases

The following table presents the components of the Luminis' right-of-use assets and liabilities related to ASC 842 leases and their classification in Luminis' consolidated balance sheets as of June 30, 2020:

| Component of Lease Balances | Classification in Consolidated Balance Sheet | June 30, 2020 |
|---|---|---|
| **Assets** | | |
| Operating lease assets | Right of use asset long term | $ 44,995,000 |
| Total leased assets | | $ 44,995,000 |
| **Liabilities** | | |
| Operating lease liabilities: | | |
| Current | Lease liability short term | $ 8,753,000 |
| Long term | Lease liability long term | 37,429,000 |
| Total operating lease liabilities | | $ 46,182,000 |

Luminis determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent Luminis' right to use the underlying assets for the lease term and the lease liabilities represent Luminis' obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Luminis uses a risk-free discount rate that is determined using Treasury securities of a comparable term to that of its leases when acting as a lessee.

Luminis' operating leases are primarily for real estate and equipment. Real estate leases include leases of medical facilities and office spaces. Equipment leases mainly include lease of copiers and medical equipment. Luminis' real estate lease agreements typically have initial terms of 3 to 20 years, and equipment lease agreements typically have initial terms of 3 to 5 years.

**10. Commitments and Contingencies (continued)**

Real estate leases may include one or more options to renew that can extend the lease term from five to ten years. The exercise of lease renewal options is at Luminis' sole discretion. In general, Luminis does not consider renewal options to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of Luminis' right-of-use assets and lease liabilities. Certain equipment leases also include options to purchase the leased equipment. The useful life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Luminis currently does not have any leases whereby there is a transfer of title or a purchase option that is reasonably certain to be exercised; hence, all of Luminis' leases are depreciated over the lease term.

Certain of the Luminis' lease agreements for real estate include payments based on actual common area maintenance expenses and other operating expenses. These variable lease payments are recognized in purchased services but are not included in the right of-use asset or liability balances. Luminis' lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Luminis elected the accounting policy practical expedients by class of underlying asset to: (i) exclude recording leases with an initial term of 12 months or less (short-term leases) as right-of-use assets and liabilities on the consolidated balance sheets; and (ii) combine associated lease and non-lease components into a single lease component. Non-lease components, which are not significant overall, are combined with lease components. Luminis' has elected these practical expedients for real estate, equipment, and all other asset classes when acting as a lessee.

Luminis' also elected the practical expedient package not to reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases.

**10. Commitments and Contingencies (continued)**

The following table presents the components of the Luminis' lease expense for the year ended June 30, 2020:

| | |
|---|---|
| Operating lease expense | $ 11,826,000 |
| Finance lease expense: | |
| Amortization of leased assets | 27,000 |
| Interest on lease liabilities | 2,000 |
| Total finance lease expense | 11,855,000 |
| Variable lease expense | 60,000 |
| Short-term lease expense | 5,000 |
| Total lease expense | $ 11,920,000 |

Total rent expense under operating leases was $9,875,000 for the year ended June 30, 2019, and is included in purchased services on the accompanying consolidated statement of operations and changes in net assets.

The weighted average lease terms and discount rates for operating and finance leases are as follows as of June 30, 2020:

| | |
|---|---|
| Weighted average remaining lease term (years): | |
| Operating leases | 8.1 |
| Finance leases | 2.2 |
| Weighted average discount rate: | |
| Operating leases | 3.2% |
| Finance leases | 1.8% |

Cash flow and other information related to leases are included in the following table for the year ended June 30, 2020:

| | |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows from operating leases | $ 21,756,000 |
| Operating cash outflows from finance leases | 1,000 |
| Financing cash outflows from finance leases | 26,000 |
| | |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | 8,507,000 |
| Finance leases | 27,000 |

**10. Commitments and Contingencies (continued)**

The following table summarizes the maturity lease obligations as of June 30, 2020:

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2021 | $ 8,922,000 | $ 63,000 | $ 8,985,000 |
| 2022 | 7,706,000 | 28,000 | 7,734,000 |
| 2023 | 5,817,000 | 5,000 | 5,822,000 |
| 2024 | 4,544,000 | – | 4,544,000 |
| 2025 | 2,830,000 | – | 2,830,000 |
| Thereafter | 16,999,000 | – | 16,999,000 |
| Total lease payments | 46,818,000 | 96,000 | 46,914,000 |
| Less: Imputed interest | 729,000 | 3,000 | 732,000 |
| Total lease liabilities | $ 46,089,000 | $ 93,000 | $ 46,182,000 |

**Contingencies**

Members of Luminis have been named as defendants in various legal proceedings arising from the performance of their normal activities. In the opinion of management, after consultation with legal counsel and after consideration of applicable insurance, the amount of the Luminis' ultimate liability under all current legal proceedings will not have a material adverse effect on its consolidated financial position or results of operations.

Luminis' revenues may be subject to adjustment as a result of examination by government agencies or contractors, based upon differing interpretations of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered. Section 302 of the Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare overpayments and underpayments made to providers. Management has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, management will incur additional costs to respond to requests for records and pursue the reversal of payment denials. As of June 30, 2020 and 2019, Luminis has recorded an

## 10. Commitments and Contingencies (continued)

estimated reserve regarding the Medicare overpayments. In the opinion of the Luminis' management, the ultimate settlement of this matter will not have a material adverse effect on the consolidated financial position of Luminis.

During the year ended June 30, 2018, the System recorded a $3,500,000 accrual related to an inquiry by the Department of Justice regarding a potential billing discrepancy. A final settlement was signed in June 2019 and the payment amount approximated the amount accrued at June 30, 2018. A corporate integrity agreement (CIA) was also signed in June 2019 with the Office of Inspector General of the Department of Health and Human Services. The CIA will be in place for five years and will require periodic reporting of various matters by an independent review organization and the System.

During the year ended June 30, 2020, DCMC recorded an accrual related to a billing error that it intends to self-report to the Department of Health and Human Services. DCMC expects to work with the Federal Government to come to a resolution on this matter. It is possible that other regulatory conditions may be part of the final resolution. Based on consultation with legal counsel, management believes the final resolution will not have a material adverse effect on the June 30, 2020 financial statements.

## 11. Functional Expenses

Members of Luminis provide general health care services to residents within their service area. Expenses related to providing these services are as follows:

| | Health Care Services | General and Administrative | Total |
|---|---|---|---|
| **Year ended June 30, 2020** | | | |
| Salaries and wages | $ 401,827,000 | $ 78,053,000 | $ 479,880,000 |
| Employee benefits | 63,580,000 | 12,350,000 | 75,930,000 |
| Supplies | 189,335,000 | 8,152,000 | 197,487,000 |
| Purchases services | 113,213,000 | 113,162,000 | 226,375,000 |
| Depreciation and amortization | 22,742,000 | 23,252,000 | 45,994,000 |
| Interest | 16,151,000 | – | 16,151,000 |
| Total operating expenses | $ 806,848,000 | $ 234,969,000 | $ 1,041,817,000 |

**11. Functional Expenses (continued)**

| | Health Care Services | General and Administrative | Total |
|---|---|---|---|
| **Year ended June 30, 2019** | | | |
| Salaries and wages | $ 293,400,000 | $ 56,260,000 | $ 349,660,000 |
| Employee benefits | 45,157,000 | 11,199,000 | 56,356,000 |
| Supplies | 158,348,000 | 1,141,000 | 159,489,000 |
| Purchases services | 70,001,000 | 67,556,000 | 137,557,000 |
| Depreciation and amortization | 26,647,000 | 10,186,000 | 36,833,000 |
| Interest | 13,118,000 | – | 13,118,000 |
| Transaction costs | – | 3,279,000 | 3,279,000 |
| Total operating expenses | $ 606,671,000 | $ 149,621,000 | $ 756,292,000 |

**12. Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, patient receivables, prepaid expenses and other current assets, accounts payable, accrued salaries, wages and benefits, other accrued expenses, and advances from third-party payors approximate fair value, given the short-term nature of these financial instruments or their methods of valuation. The following methods and assumptions were used by Luminis in estimating the fair value of other financial instruments.

**Investments and Assets Whose Use is Limited**

Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

**Pledges Receivable**

Luminis estimates that the carrying value of pledges receivable approximates fair value, given the discount rates applied.

## 13. Net Assets

Net assets with donor restrictions are restricted for use, as follows:

| | June 30 2020 | June 30 2019 |
|---|---|---|
| Hospital capital additions | **$ 7,248,000** | $ 6,382,000 |
| Hospital operating programs | **16,613,000** | 16,207,000 |
| | **$ 23,861,000** | $ 22,589,000 |

## 14. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following as of June 30, 2020:

| | |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash and cash equivalent | $ 178,795,000 |
| Short-term investments | 1,365,000 |
| Current portion of assets whose use is limited | 15,912,000 |
| Patient receivables, net | 118,882,000 |
| Current portion of pledges receivable, net | 945,000 |
| Prepaid expenses and other current assets | 19,857,000 |
| Investments* | 338,985,000 |
| Total financial assets | $ 674,741,000 |

*While these investments are long-term in nature, they are available for general expenditures within one year of the balance sheet date if necessary.

AAMC's bond covenant requires AAMC to maintain unrestricted cash and marketable securities on hand to meet 90 days of normal operating expenses. The AAMC obligated group was compliant with all financial covenants as of June 30, 2020 and 2019.

DCMC's bond covenant requires DCMC to maintain unrestricted cash and marketable securities on hand to meet 60 days of normal operating expenses. The DCMC obligated group was compliant with all financial covenants as of June 30, 2020.

## 15. Subsequent Events

Luminis has evaluated the impact of subsequent events through October 23, 2020, representing the date at which the accompanying consolidated financial statements were issued.

On July 20, 2020, Luminis received $20,019,000 in provider relief funds authorized in the CARES Act from HHS. Luminis expects that these relief funds will be forgivable, but uncertainty exists as to the final outcome of the terms and conditions associated with the relief funds. Management will continue to monitor compliance with the terms and conditions of the Relief Fund and the impact of the pandemic on the System's revenues and expenses. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted. Furthermore, the HSCRC is proposing to reduce Luminis' ability to recoup undercharges from its GBR reimbursement program in future years by an amount derived from these provider relief funds. The final outcome of the HSCRC's decisions on treatment of the undercharge resulting from the Global Budget Reimbursement Revenue program and application of CARES Act funding to GBR limits is still being evaluated.

On October 22, 2020, HHS released additional reporting requirements for health care entities that received distributions from the Provider Relief Fund. The Post-Payment Notice of Reporting Requirements (the Notice) supplements the previous notice issued on July 20, 2020, and amended on August 14, 2020 and September 19, 2020. The System considered the effects of the changes included in the Notice and concluded these changes represent non-recognized (i.e., Type II) subsequent events in accordance with ASC 855, *Subsequent Events*, since the reporting requirements included in the Notice provide evidence about conditions that did not exist at the balance sheet date, but instead are conditions that arose after that date but before financial statements were issued. Based on the expectations of the revenue to be recognized through December 31, 2020, the Company does not believe the new guidance will result in a material change to amounts recorded in the June 30, 2020, financial statements related to the Provider Relief Funds. The System will continue to monitor changes in reporting guidance or additional clarifications that may be issued by HHS, which would affect the accounting for distributions from the Provider Relief Fund. In addition, the System will continue to monitor guidance from the HSCRC related to how the HSCRC will interpret the new HHS guidance.

On October 1, 2020, a new law was signed that included modifications to the CMS Accelerated and Advance Payment Program. These modifications included an extension to the previous terms discussed within Note 2. The changes in payments terms are considered a non-recognized subsequent event in accordance with ASC 855.

Except for those events mentioned above, no events have occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

# Supplementary Information

# Luminis Health, Inc. and Subsidiaries

## Supplementary Consolidating Balance Sheet

June 30, 2020

| | Luminis Health, Inc. | Anne Arundel Medical Center, Inc. and Subsidiaries | Anne Arundel Health Care Services, Inc. | Anne Arundel Health Care Enterprises, Inc. | Anne Arundel Real Estate Holding Company, Inc. and Subsidiaries | AAHS Research Institute, Inc. | Physician Enterprise, LLC | Anne Arundel Medical Center Collaborative Care Network LLC | Anne Arundel Medical Center Foundation, Inc. | Doctors Community Medical Center and Subsidiaries | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | |
| Cash and cash equivalents | $ (7,700,000) | $ 80,540,000 | $ 423,000 | $ (19,000) | $ 1,191,000 | $ 7,000 | $ 716,000 | $ 2,000 | $ 4,414,000 | $ 99,221,000 | $ – | $ 178,795,000 |
| Short-term investments | – | 912,000 | – | – | – | – | – | – | 453,000 | – | – | 1,365,000 |
| Current portion of assets whose use is limited | – | 15,912,000 | – | – | – | – | – | – | – | – | – | 15,912,000 |
| Patient receivables, net | – | 69,769,000 | 2,448,000 | – | – | 677,000 | 10,519,000 | – | – | 35,469,000 | – | 118,882,000 |
| Current portion of pledges receivable, net | – | – | – | – | – | – | – | – | 945,000 | – | – | 945,000 |
| Inventories | – | 15,677,000 | – | – | – | – | 525,000 | – | – | 5,587,000 | – | 21,789,000 |
| Prepaid expenses and other current assets | 11,000 | 8,033,000 | 93,022,000 | 4,900,000 | 23,468,000 | 775,000 | 2,104,000 | 5,030,000 | 33,678,000 | 5,380,000 | (156,544,000) | 19,857,000 |
| Total current assets | (7,689,000) | 190,843,000 | 95,893,000 | 4,881,000 | 24,659,000 | 1,459,000 | 13,864,000 | 5,032,000 | 39,490,000 | 145,657,000 | (156,544,000) | 357,545,000 |
| | | | | | | | | | | | | |
| Property and equipment | 123,000 | 772,018,000 | 28,349,000 | 3,732,000 | 138,279,000 | 77,000 | 27,376,000 | – | 2,013,000 | 124,878,000 | – | 1,096,845,000 |
| Less accumulated depreciation and amortization | – | (418,394,000) | (26,372,000) | (1,905,000) | (66,552,000) | (77,000) | (14,741,000) | – | (146,000) | (10,166,000) | – | (538,353,000) |
| Net property and equipment | 123,000 | 353,624,000 | 1,977,000 | 1,827,000 | 71,727,000 | – | 12,635,000 | – | 1,867,000 | 114,712,000 | – | 558,492,000 |
| | | | | | | | | | | | | |
| Other assets: | | | | | | | | | | | | |
| Investments | – | 317,410,000 | – | – | – | – | – | – | 1,552,000 | 20,023,000 | – | 338,985,000 |
| Investments in joint ventures | – | – | – | 254,000 | 7,575,000 | – | – | – | – | 6,195,000 | – | 14,024,000 |
| Pledges receivable, net | – | – | – | – | – | – | – | – | 3,192,000 | – | – | 3,192,000 |
| Assets whose use is limited | – | 25,538,000 | – | – | – | – | – | – | 15,482,000 | – | – | 41,020,000 |
| Beneficial interest in net assets of AAMC Foundation, Inc. | – | 23,450,000 | – | – | – | – | – | – | – | – | (23,450,000) | – |
| Restricted collateral for interest rate swap contract | – | 110,002,000 | – | – | – | – | – | – | – | – | – | 110,002,000 |
| Right of use asset | – | 8,539,000 | 882,000 | 785,000 | 11,648,000 | – | 18,597,000 | – | – | 4,544,000 | – | 44,995,000 |
| Other assets | 576,829,000 | 22,581,000 | – | – | 1,338,000 | – | 1,392,000 | – | 387,000 | 29,322,000 | (578,236,000) | 53,613,000 |
| Total assets | $ 569,263,000 | $ 1,051,987,000 | $ 98,752,000 | $ 7,747,000 | $ 116,947,000 | $ 1,459,000 | $ 46,488,000 | $ 5,032,000 | $ 61,970,000 | $ 320,453,000 | $ (758,230,000) | $ 1,521,868,000 |

## Luminis Health, Inc. and Subsidiaries

## Supplementary Consolidating Balance Sheet (continued)

June 30, 2020

| | Luminis Health, Inc. | Anne Arundel Medical Center, Inc. and Subsidiaries | Anne Arundel Health Care Services, Inc. | Anne Arundel Health Care Enterprises, Inc. | Anne Arundel Real Estate Holding Company, Inc. and Subsidiaries | AAHS Research Institute, Inc. | Physician Enterprise, LLC | Anne Arundel Medical Center Collaborative Care Network LLC | Anne Arundel Medical Center Foundation, Inc. | Doctors Community Medical Center and Subsidiaries | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Accounts payable | $ 69,678,000 | $ 63,319,000 | $ 899,000 | $ 1,536,000 | $ 316,000 | $ 1,224,000 | $ 8,283,000 | $ 214,000 | $ 6,659,000 | $ 10,274,000 | $ (121,961,000) | $ 40,441,000 |
| Accrued salaries, wages, and benefits | 12,901,000 | 19,112,000 | 312,000 | 1,056,000 | – | 149,000 | 5,177,000 | – | 77,000 | 14,654,000 | – | 53,438,000 |
| Other accrued expenses | 1,369,000 | 15,934,000 | – | 4,000 | 3,599,000 | – | 1,740,000 | | 31,784,000 | 13,953,000 | (35,970,000) | 32,413,000 |
| Current portion of long-term debt | – | 7,428,000 | – | – | 4,033,000 | – | – | – | – | 4,979,000 | – | 16,440,000 |
| Advances from third-party payors | – | 120,479,000 | – | – | 661,000 | – | 7,977,000 | 1,675,000 | – | 51,905,000 | – | 182,697,000 |
| Current portion of lease liability | – | 2,862,000 | 124,000 | 450,000 | 1,283,000 | – | 2,850,000 | – | – | 1,184,000 | – | 8,753,000 |
| Total current liabilities | 83,948,000 | 229,134,000 | 1,335,000 | 3,046,000 | 9,892,000 | 1,373,000 | 26,027,000 | 1,889,000 | 38,520,000 | 96,949,000 | (157,931,000) | 334,182,000 |
| Long-term debt, less current portion and unamortized original issue premium | – | 290,254,000 | – | – | 57,288,000 | – | – | – | – | 122,766,000 | – | 470,308,000 |
| Interest rate swap contract | – | 117,037,000 | – | – | – | – | – | – | – | – | – | 117,037,000 |
| Accrued pension liability | – | 22,751,000 | – | – | – | – | – | – | – | 6,525,000 | – | 29,276,000 |
| Lease liability, less current portion | – | 5,759,000 | 767,000 | 335,000 | 10,511,000 | – | 15,982,000 | – | – | 4,075,000 | – | 37,429,000 |
| Other long-term liabilities | – | 32,444,000 | – | – | – | – | 167,000 | – | – | 14,421,000 | – | 47,032,000 |
| Total liabilities | 83,948,000 | 697,379,000 | 2,102,000 | 3,381,000 | 77,691,000 | 1,373,000 | 42,176,000 | 1,889,000 | 38,520,000 | 244,736,000 | (157,931,000) | 1,035,264,000 |
| Net assets: | | | | | | | | | | | | |
| Without donor restrictions | 462,606,000 | 331,670,000 | 96,650,000 | 4,366,000 | 39,256,000 | 86,000 | 4,312,000 | 3,143,000 | (608,000) | 73,058,000 | (553,987,000) | 460,552,000 |
| With donor restrictions | 22,709,000 | 22,938,000 | – | – | – | – | – | – | 24,058,000 | 468,000 | (46,312,000) | 23,861,000 |
| Non-controlling interest | – | – | – | – | – | – | – | – | – | 2,191,000 | – | 2,191,000 |
| Total net assets | 485,315,000 | 354,608,000 | 96,650,000 | 4,366,000 | 39,256,000 | 86,000 | 4,312,000 | 3,143,000 | 23,450,000 | 75,717,000 | (600,299,000) | 486,604,000 |
| Total liabilities and net assets | $ 569,263,000 | $ 1,051,987,000 | $ 98,752,000 | $ 7,747,000 | $ 116,947,000 | $ 1,459,000 | $ 46,488,000 | $ 5,032,000 | $ 61,970,000 | $ 320,453,000 | $ (758,230,000) | $ 1,521,868,000 |

# Luminis Health, Inc. and Subsidiaries

## Supplementary Consolidating Statement of Operations

### Year Ended June 30, 2020

| | Luminis Health, Inc. | Anne Arundel Medical Center, Inc. and Subsidiaries | Anne Arundel Health Care Services, Inc. | Anne Arundel Health Care Enterprises, Inc. | Anne Arundel Real Estate Holding Company, Inc. and Subsidiaries | AAHS Research Institute, Inc. | Physician Enterprise, LLC | Anne Arundel Medical Center Collaborative Care Network LLC | Anne Arundel Medical Center Foundation, Inc. | Doctors Community Medical Center and Subsidiaries | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue: | | | | | | | | | | | | |
| Net patient service revenue | $ – | $ 564,209,000 | $ 28,206,000 | $ – | $ – | $ – | $ 137,567,000 | $ – | $ – | $ 239,123,000 | $ – | $ 969,105,000 |
| Other operating revenue | 1,332,000 | 33,627,000 | 630,000 | 20,323,000 | 22,447,000 | 1,893,000 | 41,378,000 | 1,483,000 | 4,993,000 | 21,884,000 | (71,597,000) | 78,393,000 |
| Total operating revenue | 1,332,000 | 597,836,000 | 28,836,000 | 20,323,000 | 22,447,000 | 1,893,000 | 178,945,000 | 1,483,000 | 4,993,000 | 261,007,000 | (71,597,000) | 1,047,498,000 |
| Operating expenses: | | | | | | | | | | | | |
| Salaries and wages | – | 231,182,000 | 6,146,000 | 11,897,000 | – | 1,701,000 | 118,815,000 | (92,000) | 1,402,000 | 108,829,000 | – | 479,880,000 |
| Employee benefits | – | 42,106,000 | 1,120,000 | 2,087,000 | – | 349,000 | 12,993,000 | 37,000 | 232,000 | 17,006,000 | – | 75,930,000 |
| Supplies | – | 140,029,000 | 1,102,000 | 92,000 | 153,000 | 7,000 | 20,977,000 | 3,000 | 36,000 | 35,088,000 | – | 197,487,000 |
| Purchased services | 1,129,000 | 136,454,000 | 13,508,000 | 7,448,000 | 9,768,000 | 932,000 | 44,846,000 | 2,009,000 | 892,000 | 80,684,000 | (71,295,000) | 226,375,000 |
| Foundation transfer to AAMC and subsidiaries | – | (3,515,000) | – | – | – | – | – | – | 3,749,000 | – | (234,000) | – |
| Depreciation and amortization | – | 28,919,000 | 852,000 | 20,000 | 3,751,000 | 2,000 | 2,009,000 | – | 28,000 | 10,413,000 | – | 45,994,000 |
| Interest | – | 10,136,000 | – | – | 1,763,000 | – | 2,000 | – | – | 4,318,000 | (68,000) | 16,151,000 |
| Total operating expenses | 1,129,000 | 585,311,000 | 22,728,000 | 21,544,000 | 15,435,000 | 2,991,000 | 199,642,000 | 1,957,000 | 6,339,000 | 256,338,000 | (71,597,000) | 1,041,817,000 |
| Operating income (loss) | 203,000 | 12,525,000 | 6,108,000 | (1,221,000) | 7,012,000 | (1,098,000) | (20,697,000) | (474,000) | (1,346,000) | 4,669,000 | – | 5,681,000 |
| Other (loss) income: | | | | | | | | | | | | |
| Investment (loss) income, net | – | (12,993,000) | – | – | 5,000 | – | – | – | 2,827,000 | 461,000 | – | (9,700,000) |
| Loss from joint ventures and other, net | (61,175,000) | (74,000) | – | (1,166,000) | 314,000 | – | – | – | – | 253,000 | 61,175,000 | (673,000) |
| Inherent contribution | 61,715,000 | – | – | – | | – | – | – | – | – | – | 61,715,000 |
| Pension credit (expense), net | – | 1,777,000 | – | – | – | – | – | – | – | (661,000) | – | 1,116,000 |
| Change in unrealized (losses) gains on trading securities, net | – | (11,597,000) | – | – | 185,000 | – | – | – | (3,477,000) | (262,000) | – | (15,151,000) |
| Realized and unrealized losses on interest rate swap contracts, net | – | (43,149,000) | – | – | – | – | – | – | – | – | – | (43,149,000) |
| Total other income (loss), net | 540,000 | (66,036,000) | – | (1,166,000) | 504,000 | – | – | – | (650,000) | (209,000) | 61,175,000 | (5,842,000) |
| (Deficit) excess of revenue over expenses | $ 743,000 | $ (53,511,000) | $ 6,108,000 | $ (2,387,000) | $ 7,516,000 | $ (1,098,000) | $ (20,697,000) | $ (474,000) | $ (1,996,000) | $ 4,460,000 | $ 61,175,000 | $ (161,000) |

Anne Arundel Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet

June 30, 2020

| | Anne Arundel Medical Center, Inc. | Anne Arundel General Treatment Services, Inc. | Anne Arundel Mental Health Hospital, Inc. | Cottage Insurance Company Ltd. | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 80,459,000 | $ 19,000 | $ 62,000 | $ | $ – | $ 80,540,000 |
| Short-term investments | 912,000 | – | – | – | – | 912,000 |
| Current portion of assets whose use is limited | 12,382,000 | – | – | 3,530,000 | – | 15,912,000 |
| Patient receivables, net | 68,164,000 | 210,000 | 1,395,000 | – | – | 69,769,000 |
| Inventories | 15,677,000 | – | – | – | – | 15,677,000 |
| Due from affiliates, net | 500,000 | 1,363,000 | – | – | (1,514,000) | 349,000 |
| Prepaid expenses and other current assets | 7,653,000 | 2,000 | – | 29,000 | – | 7,684,000 |
| Total current assets | 185,747,000 | 1,594,000 | 1,457,000 | 3,559,000 | (1,514,000) | 190,843,000 |
| | | | | | | |
| Property and equipment | 735,814,000 | 9,057,000 | 27,147,000 | – | – | 772,018,000 |
| Less accumulated depreciation and amortization | (413,435,000) | (4,744,000) | (215,000) | – | – | (418,394,000) |
| Net property and equipment | 322,379,000 | 4,313,000 | 26,932,000 | – | – | 353,624,000 |
| | | | | | | |
| Other assets: | | | | | | |
| Investments | 317,410,000 | – | – | – | – | 317,410,000 |
| Investments in joint ventures | – | – | – | – | – | – |
| Assets whose use is limited | 7,000 | – | – | 25,531,000 | – | 25,538,000 |
| Beneficial interest in net assets of Anne Arundel Medical Center Foundation, Inc. | 23,450,000 | – | – | – | – | 23,450,000 |
| Notes receivable from affiliate | 1,559,000 | – | – | – | – | 1,559,000 |
| Restricted collateral for interest rate swap contract | 110,002,000 | – | – | – | – | 110,002,000 |
| Right of use asset | 8,539,000 | – | – | – | – | 8,539,000 |
| Other assets | 23,327,000 | – | – | 9,884,000 | (12,189,000) | 21,022,000 |
| Total assets | $ 992,420,000 | $ 5,907,000 | $ 28,389,000 | $ 38,974,000 | $ (13,703,000) | $ 1,051,987,000 |

## Anne Arundel Medical Center, Inc. and Subsidiaries

## Supplementary Consolidating Balance Sheet (continued)

June 30, 2020

| | Anne Arundel Medical Center, Inc. | Anne Arundel General Treatment Services, Inc. | Anne Arundel Mental Health Hospital, Inc. | Cottage Insurance Company Ltd. | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ 24,219,000 | $ 24,000 | $ 50,000 | $ 56,000 | $ – | $ 24,349,000 |
| Accrued salaries, wages, and benefits | 18,831,000 | 167,000 | 114,000 | – | – | 19,112,000 |
| Other accrued expenses | 15,933,000 | 1,000 | – | – | – | 15,934,000 |
| Current portion of long-term debt | 7,428,000 | – | – | – | – | 7,428,000 |
| Intercompany payables | 12,280,000 | – | 28,225,000 | – | (1,535,000) | 38,970,000 |
| Advances from third-party payors | 120,479,000 | – | – | – | – | 120,479,000 |
| Current portion of lease liability | 2,862,000 | – | – | – | – | 2,862,000 |
| Total current liabilities | 202,032,000 | 192,000 | 28,389,000 | 56,000 | (1,535,000) | 229,134,000 |
| Long-term debt, less current portion and unamortized original issue premium | 290,254,000 | – | – | – | – | 290,254,000 |
| Interest rate swap contract | 117,037,000 | – | – | – | – | 117,037,000 |
| Accrued pension liability | 22,751,000 | – | – | – | – | 22,751,000 |
| Lease liability, less current portion | 5,759,000 | – | – | – | – | 5,759,000 |
| Other long-term liabilities | – | – | – | 32,444,000 | – | 32,444,000 |
| Total liabilities | 637,833,000 | 192,000 | 28,389,000 | 32,500,000 | (1,535,000) | 697,379,000 |
| Net assets: | | | | | | |
| Without donor restrictions | 331,649,000 | 5,715,000 | – | 6,474,000 | (12,168,000) | 331,670,000 |
| With donor restrictions | 22,938,000 | – | – | – | – | 22,938,000 |
| Total net assets | 354,587,000 | 5,715,000 | – | 6,474,000 | (12,168,000) | 354,608,000 |
| Total liabilities and net assets | $ 992,420,000 | $ 5,907,000 | $ 28,389,000 | $ 38,974,000 | $ (13,703,000) | $ 1,051,987,000 |

# Anne Arundel Medical Center, Inc. and Subsidiaries

## Supplementary Consolidating Statement of Operations

### Year Ended June 30, 2020

| | **Anne Arundel Medical Center, Inc.** | **Anne Arundel General Treatment Services, Inc.** | **Anne Arundel Mental Health Hospital, Inc.** | **Cottage Insurance Company Ltd.** | **Consolidating and Eliminating Entries** | **Consolidated** |
|---|---|---|---|---|---|---|
| Operating revenue: | | | | | | |
| Net patient service revenue | $ 557,943,000 | $ 4,810,000 | $ 1,456,000 | $ – | $ – | $ 564,209,000 |
| Other operating revenue | 36,221,000 | 489,000 | 839,000 | 8,121,000 | (12,043,000) | 33,627,000 |
| Total operating revenue | 594,164,000 | 5,299,000 | 2,295,000 | 8,121,000 | (12,043,000) | 597,836,000 |
| Operating expenses: | | | | | | |
| Salaries and wages | 225,875,000 | 4,054,000 | 1,253,000 | – | – | 231,182,000 |
| Employee benefits | 41,222,000 | 583,000 | 301,000 | – | – | 42,106,000 |
| Supplies | 139,555,000 | 616,000 | 92,000 | – | (234,000) | 140,029,000 |
| Purchased services | 133,365,000 | 921,000 | 693,000 | 9,771,000 | (8,296,000) | 136,454,000 |
| Foundation transfer to Anne Arundel Medical Center Foundation, Inc. and subsidiaries | – | – | – | – | (3,515,000) | (3,515,000) |
| Depreciation and amortization | 28,378,000 | 329,000 | 212,000 | – | – | 28,919,000 |
| Interest | 10,136,000 | – | – | – | – | 10,136,000 |
| Total operating expenses | 578,531,000 | 6,503,000 | 2,551,000 | 9,771,000 | (12,045,000) | 585,311,000 |
| Operating income (loss) | 15,633,000 | (1,204,000) | (256,000) | (1,650,000) | 2,000 | 12,525,000 |
| Other (loss) income: | | | | | | |
| Investment loss, net | (12,645,000) | – | – | (348,000) | – | (12,993,000) |
| (Loss) income from joint venture and other, net | (3,657,000) | – | – | – | 3,583,000 | (74,000) |
| Pension credit | 1,777,000 | – | – | – | – | 1,777,000 |
| Change in unrealized losses on trading securities, net | (11,470,000) | – | – | (127,000) | – | (11,597,000) |
| Realized and unrealized losses on interest rate swap contracts, net | (43,149,000) | – | – | – | – | (43,149,000) |
| Total other (loss) income, net | (69,144,000) | – | – | (475,000) | 3,583,000 | (66,036,000) |
| (Deficit) excess of revenue over expenses | $ (53,511,000) | $ (1,204,000) | $ (256,000) | $ (2,125,000) | $ 3,585,000 | $ (53,511,000) |

Luminis Health, Inc. and Subsidiaries

Supplementary Description of Consolidating and Eliminating Entries

June 30, 2020

1. To eliminate intercompany payables and receivables

2. To eliminate investments in subsidiaries and related net asset accounts

3. To eliminate intercompany income and expense generated from management fees, staffing contracts, captive insurance premiums, and operating leases

4. To eliminate intercompany notes

5. To eliminate income of wholly owned subsidiaries

6. To eliminate intercompany revenue and expense for interest and other miscellaneous transactions

7. To eliminate the AAMC's beneficial interest in the Foundation

**EY** | Assurance | Tax | Strategy and Transactions | Consulting