

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

University of Maryland Medical System Corporation and Subsidiaries
Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



University of Maryland Medical System Corporation and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2020 and 2019

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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 Directors
University of Maryland Medical System Corporation

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statement of operations and changes in net assets, and cash flows for the year 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.

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2020, and the consolidated results of their operations, changes in net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Pronouncement

As discussed in Note 1(y) to the consolidated financial statements, the Corporation 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*, effective July 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating and combining/combined information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report of Other Auditors on June 30, 2019 Financial Statements

The consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries for the year ended June 30, 2019, were audited by other auditors who expressed an unmodified opinion on those statements on October 28, 2019.



October 28, 2020

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Balance Sheets (In Thousands)

	June 30	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 961,647	\$ 360,318
Assets limited as to use, current portion	64,026	64,910
Accounts receivable:		
Patient accounts receivable, net	472,351	458,437
Other	118,228	91,103
Inventories	105,879	70,478
Assets held for sale	149,563	116,828
Prepaid expenses and other current assets	60,178	48,055
Total current assets	1,931,872	1,210,129
Investments	927,366	885,640
Assets limited as to use, less current portion	1,113,986	1,227,384
Property and equipment, net	2,556,548	2,309,086
Investments in joint ventures	92,485	91,942
Other assets	517,654	409,188
Total assets	\$ 7,139,911	\$ 6,133,369
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 302,133	\$ 288,841
Accrued payroll and benefits	282,410	281,177
Advances from third-party payors	773,947	139,163
Lines of credit	193,500	161,300
Short-term financing	150,000	150,000
Other current liabilities	129,813	127,760
Liabilities held for sale	65,461	60,830
Long-term debt subject to short-term remarketing arrangements	28,794	18,895
Current portion of long-term debt	40,468	47,621
Total current liabilities	1,966,526	1,275,587
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,438,257	1,484,960
Other long-term liabilities	653,388	439,024
Interest rate swap liabilities	270,430	196,174
Total liabilities	4,328,601	3,395,745
Net assets:		
Without donor restrictions	2,055,346	1,973,405
With donor restrictions	755,964	764,219
Total net assets	2,811,310	2,737,624
Total liabilities and net assets	\$ 7,139,911	\$ 6,133,369

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

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

	Year Ended June 30	
	2020	2019
Operating revenue, gains, and other support:		
Net patient service revenue	\$ 3,915,931	\$ 4,017,054
State and county support	19,737	41,521
CARES Act – Provider relief funds	199,632	–
Other revenue	228,754	176,699
Total operating revenue, gains, and other support	4,364,054	4,235,274
Operating expenses:		
Salaries, wages and benefits	2,230,484	2,158,136
Expendable supplies	760,113	792,015
Purchased services	696,028	634,618
Contracted services	276,959	269,897
Depreciation and amortization	235,891	244,056
Interest expense	46,561	57,792
Total operating expenses	4,246,036	4,156,514
Income from continuing operations	118,018	78,760
Nonoperating income and expenses, net:		
Unrestricted contributions	9,293	5,607
Equity in net income of joint ventures	3,536	3,624
Investment income, net	24,635	30,632
Change in fair value of investments	(4,884)	24,421
Change in fair value of undesignated interest rate swaps	(75,811)	(47,995)
Other nonoperating losses, net	(24,376)	(33,045)
Excess of revenues over expenses from continuing operations	50,411	62,004
Gain (loss) on discontinued operations, net	19,599	(25,847)
Excess of revenues over expenses	\$ 70,010	\$ 36,157

University of Maryland Medical System Corporation and Subsidiaries

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2018	\$ 1,952,422	\$ 742,667	\$ 2,695,089
Excess of revenues over expenses from continuing operations	62,004	–	62,004
Loss on discontinued operations, net	(25,847)	–	(25,847)
Investment gains, net	–	1,666	1,666
State support for capital	–	5,565	5,565
Contributions, net	–	26,782	26,782
Net assets released from restrictions used for operations and nonoperating activities	–	(4,279)	(4,279)
Net assets released from restrictions used for purchase of property and equipment	14,130	(14,130)	–
Change in economic and beneficial interests in the net assets of related organizations	–	1,982	1,982
Change in funded status of defined benefit pension plans	(26,886)	–	(26,886)
Other	(2,418)	3,966	1,548
Increase in net assets	20,983	21,552	42,535
Balance at June 30, 2019	1,973,405	764,219	2,737,624
Excess of revenues over expenses from continuing operations	50,411	–	50,411
Gain on discontinued operations, net	19,599	–	19,599
Investment gains, net	–	1,206	1,206
State support for capital	–	20,803	20,803
Contributions, net	–	18,111	18,111
Net assets released from restrictions used for operations and nonoperating activities	–	(6,307)	(6,307)
Net assets released from restrictions used for purchase of property and equipment	18,791	(18,791)	–
Change in economic and beneficial interests in the net assets of related organizations	27,283	(27,283)	–
Change in funded status of defined benefit pension plans	(36,971)	–	(36,971)
Other	2,828	4,006	6,834
Increase (decrease) in net assets	81,941	(8,255)	73,686
Balance at June 30, 2020	\$ 2,055,346	\$ 755,964	\$ 2,811,310

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2020	2019
Operating activities		
Increase in net assets	\$ 73,686	\$ 42,535
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	235,891	244,056
Amortization of bond premium and deferred financing costs	1,477	1,477
Net realized gains and change in fair value of investments	(3,183)	(41,626)
Equity in net income of joint ventures	(3,536)	(3,624)
Change in economic and beneficial interests in net assets of related organizations	27,281	(1,982)
Change in fair value of interest rate swaps	74,256	46,385
Change in funded status of defined benefit pension plans	36,971	26,886
Restricted contributions, grants and other support, net	(40,120)	(22,503)
Change in operating assets and liabilities:		
Patient accounts receivable	(13,027)	(26,772)
Other receivables, prepaid expenses, other current assets and other assets	(76,747)	152,963
Inventories	(35,401)	298
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	74,235	14,617
Advances from third-party payors	634,784	(14,704)
Net cash provided by operating activities	<u>986,567</u>	<u>418,006</u>
Investing activities		
Purchases and sales of investments and assets limited as to use, net	125,958	(98,355)
Purchases of alternative investments	(79,572)	(66,267)
Sales of alternative investments	101,417	89,948
Purchase of UM Ambulatory Care, LLC, net cash acquired	(608)	-
Purchases of property and equipment	(461,896)	(394,588)
Distributions from (contributions to) joint ventures, net	1,922	(1,238)
Net cash used in investing activities	<u>(312,779)</u>	<u>(470,500)</u>

University of Maryland Medical System Corporation and Subsidiaries

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

	Year Ended June 30	
	2020	2019
Financing activities		
Proceeds from long-term debt	\$ —	\$ 10,016
Repayment of long-term debt and capital leases	(45,434)	(78,394)
Draws on lines of credit, net	32,200	62,000
Restricted contributions, grants and other support	40,120	22,503
Net cash provided by financing activities	<u>26,886</u>	<u>16,125</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	700,674	(36,369)
Cash, cash equivalents and restricted cash, beginning of year	511,949	548,318
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,212,623</u>	<u>\$ 511,949</u>
Cash and cash equivalents	\$ 961,647	\$ 360,318
Restricted cash included in assets limited as to use	250,976	151,631
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,212,623</u>	<u>\$ 511,949</u>
Discontinued operations		
Operating activities	<u>\$ 19,374</u>	<u>\$ 2,150</u>
Investing activities	<u>\$ (569)</u>	<u>\$ (3,131)</u>
Financing activities	<u>\$ —</u>	<u>\$ —</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, net of amounts capitalized	<u>\$ 54,306</u>	<u>\$ 58,860</u>
Amount included in accounts payable for construction in progress	<u>\$ 45,415</u>	<u>\$ 35,414</u>
Supplemental disclosures of noncash information		
Capital leases	<u>\$ —</u>	<u>\$ 427</u>

See accompanying notes to consolidated financial statements.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (In Thousands)

June 30, 2020

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation or UMMS) is a private, not-for-profit corporation providing comprehensive healthcare services through an integrated regional network of hospitals and related clinical enterprises. UMMS was created in 1984 when its founding hospital was privatized by the State of Maryland. Prior to that time, the founding hospital was state-owned, operated and financed as part of the University of Maryland, now a part of the University System. As part of the privatization process, the Maryland General Assembly and the University of Maryland's Board of Regents adopted legislation (the Governance Legislation) separating the major health care delivery components from the University System to UMMS. This Governance Legislation provides for certain level of oversight by the State of Maryland to ensure UMMS' founding purposes are consistently set forth in its functions and operating practices.

Over its 35-year history, UMMS evolved into a multi-hospital system with academic, community and specialty service missions reaching primarily across Maryland. In continuing partnership with the University of Maryland School of Medicine, UMMS operates healthcare programs that improve the physical and mental health of thousands of people each day.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in Note 5. The significant operating divisions of the Corporation are described in further detail below.

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

(i) Recent Acquisitions and Divestitures

During the year ended June 30, 2020, the Corporation signed a letter of intent to sell the assets and liabilities of UM Health Plans. The sale, which will include both the Medicaid Plan and Medicare Advantage Plan, is expected to be completed within the next 12 months. Based on the criteria in Accounting Standards Codification (ASC) 205, *Discontinued Operations*, it was determined that the pending sale met the criteria for discontinued operations treatment. The carrying amount of the assets and liabilities held for sale are stated at their net realizable value as of June 30, 2020 and any gain or loss on the sale is considered to be immaterial to the consolidated financial statements of the Corporation. As of June 30, 2020 and 2019, assets held for sale were approximately \$149,600 and \$116,800 and liabilities held for sale were approximately \$65,500 and \$60,800, respectively. For the years ended June 30, 2020 and 2019, operating revenues from discontinued operations were approximately \$361,618 and \$379,630, respectively. For the years ended June 30, 2020 and 2019, operating and nonoperating expenses from discontinued operations were approximately \$342,019 and \$405,477, respectively.

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

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

The Medical Center, which is a major component of UMMS, is a 806-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. As part of the privatization in 1984, only clinical faculty members of the School of Medicine may serve as medical staff of the Medical Center.

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

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

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2020 and 2019 was approximately \$168,438 and \$159,043, respectively.

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

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

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

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

Midtown is located in Baltimore city and is comprised of University of Maryland Midtown Hospital (UM Midtown), with 177 licensed beds, including 100 acute care beds and 77 chronic care beds and a wholly owned subsidiary providing primary care.

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of University of Maryland Baltimore Washington Medical Center (UM Baltimore Washington), a 285-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

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

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

Shore Regional is a health system located on the Eastern Shore of Maryland. Shore Regional owns and operates University of Maryland Memorial Hospital (UM Memorial), a 132-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; University of Maryland Dorchester Hospital (UM Dorchester), a 34-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; University of Maryland Chester River Hospital Center (UM Chester River), a 21-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Shore Emergency Center at Queenstown (Shore Emergency Center), a free-standing emergency center; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Memorial; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Chester River; and several other subsidiaries providing various outpatient and home care services.

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

Charles Regional owns and operates University of Maryland Charles Regional Medical Center (UM Charles Regional), which is comprised of a 99-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

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

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UM St. Joseph), a 219-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

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

Upper Chesapeake is a health system located in Harford County, Maryland. Upper Chesapeake's healthcare delivery system includes two acute care hospitals, University of Maryland Upper Chesapeake Medical Center (UM Upper Chesapeake), a 174-bed acute care hospital and University of Maryland Harford Memorial Hospital (UM Harford Memorial), an 82-bed acute care hospital; a physician practice; a land holding company; and Upper Chesapeake Health Foundation.

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

Capital Region is a health system located in Prince George's County. Capital Region owns and operates UM Prince George's Hospital Center (UM Prince George's), a 230-bed acute care teaching hospital providing an array of services including emergency medicine, behavioral health, cardiac surgery and a Level II Trauma Center; UM Laurel Medical Center (UM Laurel), a free standing medical facility providing emergency medicine and outpatient surgery and UM Bowie Health Center (UM Bowie) a free standing medical facility providing emergency medicine and diagnostic imaging and lab services.

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

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

(xii) University of Maryland Quality Care Network (QCN)

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

(b) Basis of Presentation

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

(c) Cash and Cash Equivalents

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

(d) Investments and Assets Limited as to Use

The Corporation's investment portfolios are classified as trading and are reported in the consolidated balance sheets, as long-term assets, at their fair value, based on quoted market prices, at June 30, 2020 and 2019. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

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

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations (Note 13).

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

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

(e) Inventories

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

(f) Economic Interests in Financially Interrelated Organizations

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

(g) Property and Equipment

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

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

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

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

(h) Deferred Financing Costs

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

(i) Intangible Assets and Goodwill

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The carrying value of goodwill is evaluated at least annually for impairment.

The Corporation has one reporting unit within continuing operations.

There was no impairment loss recognized for the year ended June 30, 2020 and 2019.

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

	Health Care Delivery
Goodwill at June 30, 2018	\$ 48,810
Acquisitions	—
Write-downs	—
Goodwill at June 30, 2019	48,810
Acquisitions	—
Write-downs	—
Goodwill at June 30, 2020	<u>\$ 48,810</u>

(j) Impairment of Long-Lived Assets

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

No impairment losses were recorded for the years ended June 30, 2020 or 2019.

University of Maryland Medical System Corporation and Subsidiaries

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

(l) Organization and Summary of Significant Accounting Policies (continued)

(k) Investments in Joint Ventures

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

(l) Self-Insurance

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

(m) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects, and funding of specific hospital operations and community outreach programs.

(n) Net Patient Service Revenue and Patient Accounts Receivable

In accordance with ASC 606, *Revenue from Contracts with Customers*, net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient services revenue, is recorded at the transaction price estimated by the Corporation to reflect the total consideration due from patients and third-party payors (including commercial payers and government programs) and others. Revenue is recognized over time as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

recorded as these goods and services are provided. The services provided to a patient during an inpatient stay or outpatient visit represent a bundle of goods and services that are distinct and accounted for as a single performance obligation.

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

The standard charges for goods and services for the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, Upper Chesapeake, and Capital Region reflects actual charges to patients based on rates established by the state of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered. See Note 20 for further discussion on the HSCRC and regulated rates.

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

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

	Year Ended June 30	
	2020	2019
Hospital inpatient and outpatient services	\$ 3,658,694	\$ 3,734,201
Physician services	238,498	245,150
Other	18,739	37,703
Net patient service revenue	<u>\$ 3,915,931</u>	<u>\$ 4,017,054</u>

(o) Charity Care

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

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

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

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

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The Corporation estimates the total direct and indirect costs to provide charity care were \$48,254 and \$48,821 for the years ended June 30, 2020 and 2019, respectively.

University of Maryland Medical System Corporation and Subsidiaries

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

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

(p) Nonoperating Income and Expenses, Net

Other activities that are only indirectly related to the Corporation's primary business of delivering healthcare services are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, inherent contributions, changes in fair value of investments, changes in fair value of undesignated interest rate swaps, and settlement payments on interest rate swaps that do not qualify for hedge accounting treatment. Settlement payments on interest rate swaps were approximately \$18,444 and \$15,124 for the years ended June 30, 2020 and 2019, respectively, and are reported within other nonoperating losses, net.

(q) Derivative Financial Instruments

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

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

(l) Organization and Summary of Significant Accounting Policies (continued)

(r) Excess of Revenue over Expenses from Continuing Operations

The accompanying consolidated statements of operations and changes in net assets includes a performance indicator, excess of revenues over expenses from continuing operations. Changes in net assets without donor restrictions that are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets), changes in the funded status of defined benefit pension plans, and other items that are required by generally accepted accounting principles to be reported separately.

(s) Income Taxes

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

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

(t) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions on the accompanying consolidated statements of operations.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

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

(u) Fair Value Measurements

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

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

Pension plan assets – The Corporation applies Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, to its pension plan assets. The guidance permits, as a practical expedient, fair value of investments within its scope to be estimated using the net asset value (NAV) or its equivalent. The alternative investments classified within the fair value hierarchy have been recorded using the NAV.

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

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

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

As of June 30, 2020, and 2019, the Level 2 assets and liabilities listed in the fair value hierarchy tables presented in Notes 3 and 11 utilize the following valuation techniques and inputs:

Cash Equivalents

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

U.S. Government and Agency Securities

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

Corporate Obligations

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds and foreign government bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options. The fair value of collateralized corporate obligations is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Derivative Liabilities

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

(v) Commitments and Contingencies

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

(w) Going Concern

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

(x) Use of Estimates

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

(y) New Accounting Pronouncements

The Corporation adopted ASU 2016-02, *Leases (ASC Topic 842)*, on July 1, 2019. ASC Topic 842 required the recognition of right-of-use assets (ROU) and lease liabilities on the accompanying consolidated balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. The guidance was adopted using a modified retrospective approach without restating prior comparative periods. The Corporation elected to utilize the transition practical expedient to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. Additionally, the Corporation also elected the practical expedient which allows the System to treat the lease and non-lease components of a contract as a single component and account for as a lease. The Corporation recognized operating ROU assets and corresponding operating lease liabilities of approximately \$99,000 in the accompanying consolidated balance sheet at July 1, 2019. See further discussion in Note 6.

Effective January 1, 2019, the Corporation adopted ASU 2016-18, *Statement of Cash Flows (Topic 320): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in total 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. See further discussion in Note 3.

University of Maryland Medical System Corporation and Subsidiaries

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

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

Maryland Governor Larry Hogan began preparing the State for the COVID-19 pandemic on January 29, 2020 by raising the State's emergency operations center threat to "enhanced." As a result of close monitoring of the pandemic's impact data, on March 5, 2020, Governor Hogan declared a State of Emergency in Maryland, an action that was succeeded by several others intended to limit the spread of COVID-19 in Maryland and ensure residents who required medical care were able to obtain it safely and efficiently. Notably, Governor Hogan issued an executive order on March 16, 2020 restricting elective procedures. As a result, volume in the months of March and April declined significantly and based on the State of Maryland's phased resumption of certain elective procedures in May and June, volumes increased compared to April 2020.

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

The U.S. Department of Health and Human Services' distributions from the Relief Fund include general distribution and targeted distributions to support hospitals in high impact areas and rural providers. For the year ended June 30, 2020, the Corporation received and recognized as other operating revenue, approximately \$199,600 in relief funding. Amounts recognized as revenue could change in the future based on evolving compliance guidance provided by HHS, among other factors, as discussed further in Note 21.

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

The CARES Act provided for deferred payment of the employer portion of social security taxes through December 31, 2020, with 50% of the deferred amount to December 31, 2021 and the remaining 50% due December 31, 2022. As of June 30, 2020, the Corporation deferred \$26,971, which is recorded in other long-term liabilities in the accompanying consolidated balance sheet.

(3) Investments and Assets Limited as to Use

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

	June 30	
	2020	2019
Investments held for collateral	\$ 166,507	\$ 113,586
Debt service and reserve funds	37,696	86,157
Construction funds – held by trustee	204,366	279,205
Construction funds – held by the Corporation	174,675	183,917
Board designated funds	116,811	140,689
Self-insurance trust funds	215,162	212,384
Funds restricted by donors	91,975	78,255
Economic and beneficial interests in the net assets of related organizations (<i>Note 13</i>)	170,820	198,101
Total assets limited as to use	<u>1,178,012</u>	1,292,294
Less amounts available for current liabilities	<u>(64,026)</u>	(64,910)
Total assets limited as to use, less current portion	<u>\$ 1,113,986</u>	<u>\$ 1,227,384</u>

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

	Investments Held for Collateral	Debt Service and Reserve Funds	Construction Funds	Board Designated Funds	Self- Insurance Trust Funds	Funds Restricted by Donors	Economic and Beneficial Interests	Total
June 30, 2020								
Cash and cash equivalents	\$ 136,101	\$ 15,851	\$ 260,606	\$ 37,409	\$ 591	\$ 13,093	\$ -	\$ 463,651
Corporate obligations	-	-	-	365	12,381	974	-	13,720
Fixed income funds	-	-	-	18,350	394	16,106	-	34,850
U.S. government and agency securities	30,406	21,845	118,435	169	2,782	449	-	174,086
Common stocks, including mutual funds	-	-	-	43,630	5,799	29,569	-	78,998
Alternative investments	-	-	-	16,888	10,830	31,784	-	59,502
Assets held by other organizations	-	-	-	-	182,385	-	170,820	353,205
Total assets limited as to use	<u>\$ 166,507</u>	<u>\$ 37,696</u>	<u>\$ 379,041</u>	<u>\$ 116,811</u>	<u>\$ 215,162</u>	<u>\$ 91,975</u>	<u>\$ 170,820</u>	<u>\$ 1,178,012</u>
June 30, 2019								
Cash and cash equivalents	\$ 31,394	\$ 25,070	\$ 265,160	\$ 19,216	\$ 8,473	\$ 13,924	\$ -	\$ 363,237
Corporate obligations	-	-	-	293	3,015	772	-	4,080
Fixed income funds	-	-	-	26,842	2,944	12,727	-	42,513
U.S. government and agency securities	82,192	61,087	197,962	153	11,151	402	-	352,947
Common stocks, including mutual funds	-	-	-	48,283	7,046	23,074	-	78,403
Alternative investments	-	-	-	45,902	-	27,356	-	73,258
Assets held by other organizations	-	-	-	-	179,755	-	198,101	377,856
Total assets limited as to use	<u>\$ 113,586</u>	<u>\$ 86,157</u>	<u>\$ 463,122</u>	<u>\$ 140,689</u>	<u>\$ 212,384</u>	<u>\$ 78,255</u>	<u>\$ 198,101</u>	<u>\$ 1,292,294</u>

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

The related restricted cash and cash equivalents included in Investments Held for Collateral, Debt Service and Reserve Funds, Construction Funds (held by trustee), and Funds Restricted by Donors are included in the accompanying Consolidated Statements of Cash Flows for the years ended June 30, 2020 and 2019.

The carrying values of investments were as follows:

	June 30	
	2020	2019
Cash and cash equivalents	\$ 54,553	\$ 61,004
Corporate obligations	56,424	55,023
Fixed income funds	91,095	83,822
U.S. government and agency securities	26,062	23,304
Common stocks	235,673	213,139
Alternative investments:		
Hedge funds/private equity	193,250	137,693
Commingled funds	270,309	311,655
	<u>\$ 927,366</u>	<u>\$ 885,640</u>

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2020, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately \$137,700 of the alternative investments were subject to 31–60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately \$72,500, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately \$14,200 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately \$5,700 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had \$5,240 of unfunded commitments in alternative investments as of June 30, 2020.

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

As of June 30, 2019, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately \$140,600 of the alternative investments were subject to 31–60 day notice requirements and can only be redeemed monthly, quarterly, or annually. Other funds, totaling approximately \$72,000, are subject to over 60-day notice requirements and can only be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately \$15,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately \$5,700 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years.

University of Maryland Medical System Corporation and Subsidiaries

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

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

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$463,559 and \$148,346 (\$88,844 of which is included within investments held by other organizations*), respectively, which are accounted for under the equity method at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	\$ 54,553	\$ –	\$ –	\$ 54,553
Corporate obligations	–	56,424	–	56,424
Fixed income funds	91,095	–	–	91,095
U.S. government and agency securities	7,586	18,476	–	26,062
Common and preferred stocks, including mutual funds	235,673	–	–	235,673
	388,907	74,900	–	463,807
Assets limited as to use:				
Cash and cash equivalents	463,651	–	–	463,651
Corporate obligations	–	13,720	–	13,720
Fixed income funds	34,850	–	–	34,850
U.S. government and agency securities	170,795	3,291	–	174,086
Common and preferred stocks, including mutual funds	78,998	–	–	78,998
Investments held by other organizations	–	264,361	–	264,361
	748,294	281,372	–	1,029,666
	\$ 1,137,201	\$ 356,272	\$ –	\$ 1,493,473

*“Investments held by other organizations” includes assets of the MMCIP Self-insurance Trust, which holds alternative investments within its portfolios. Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. As of June 30, 2020, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis.

University of Maryland Medical System Corporation and Subsidiaries

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

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

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$449,348 and \$73,258, respectively, which are accounted for under the equity method at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments:				
Cash and cash equivalents	\$ 61,004	\$ —	\$ —	\$ 61,004
Corporate obligations	—	55,023	—	55,023
Fixed income funds	83,822	—	—	83,822
U.S. government and agency securities	15,581	7,723	—	23,304
Common and preferred stocks, including mutual funds	213,139	—	—	213,139
	<u>373,546</u>	<u>62,746</u>	<u>—</u>	<u>436,292</u>
Assets limited as to use:				
Cash and cash equivalents	363,237	—	—	363,237
Corporate obligations	—	4,080	—	4,080
Fixed income funds	42,513	—	—	42,513
U.S. government and agency securities	352,630	317	—	352,947
Common and preferred stocks, including mutual funds	78,403	—	—	78,403
Investments held by other organizations	—	377,856	—	377,856
	<u>836,783</u>	<u>382,253</u>	<u>—</u>	<u>1,219,036</u>
	<u>\$ 1,210,329</u>	<u>\$ 444,999</u>	<u>\$ —</u>	<u>\$ 1,655,328</u>

Changes to Level 1 and Level 2 securities between June 30, 2020 and 2019 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

	Year Ended June 30	
	2020	2019
Dividends and interest, net of fees	\$ 17,775	\$ 18,059
Net realized gains	7,551	14,276
Change in fair value of trading securities	(4,368)	24,384
Total investment return	\$ 20,958	\$ 56,719

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

	Year Ended June 30	
	2020	2019
Nonoperating investment income, net	\$ 24,635	\$ 30,632
Change in fair value of unrestricted investments	(4,884)	24,421
Investment gains on net assets with donor restrictions	1,207	1,666
Total investment return	\$ 20,958	\$ 56,719

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

University of Maryland Medical System Corporation and Subsidiaries

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

(4) Property and Equipment

The following is a summary of property and equipment:

	June 30	
	2020	2019
Land	\$ 203,544	\$ 196,004
Buildings	1,495,471	1,496,177
Building and leasehold improvements	1,080,875	1,048,608
Equipment	1,986,526	1,814,503
Construction in progress	635,895	321,660
	<u>5,402,311</u>	<u>4,876,952</u>
Less accumulated depreciation and amortization	<u>(2,845,763)</u>	<u>(2,567,866)</u>
	<u>\$ 2,556,548</u>	<u>\$ 2,309,086</u>

Interest cost capitalized was \$380 and \$0 for years ended June 30, 2020 and 2019, respectively.

Remaining contractual commitments on construction projects were approximately \$172,900 at June 30, 2020, of which approximately \$60,700 relates to Capital Region.

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

(5) Investments in Joint Ventures

The Corporation has equity method investments of \$92,485 and \$91,942 at June 30, 2020 and 2019, respectively, in the following unconsolidated joint ventures:

	Ownership %	2020	2019
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	50%	\$ 69,025	\$ 67,002
Terrapin Insurance	50%	975	975
Other investments	10-51%	22,485	23,965
		<u>\$ 92,485</u>	<u>\$ 91,942</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(5) Investments in Joint Ventures (continued)

The Corporation recorded equity in net income of \$3,536 and \$3,624 related to these joint ventures for the years ended June 30, 2020 and 2019, respectively.

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

(5) Investments in Joint Ventures (continued)

	2019			
	Mt. Washington	Terrapin	Others	Total
Current assets	\$ 31,609	\$ 52,058	\$ 35,045	\$ 118,709
Noncurrent assets	104,354	242,783	50,079	397,216
Total assets	<u>\$ 135,963</u>	<u>\$ 294,841</u>	<u>\$ 85,121</u>	<u>\$ 515,925</u>
Current liabilities	\$ 14,565	\$ 4,878	\$ 18,850	\$ 38,293
Noncurrent liabilities	6,452	288,013	11,526	305,991
Net assets	114,946	1,950	54,745	171,641
Total liabilities and net assets	<u>\$ 135,963</u>	<u>\$ 294,841</u>	<u>\$ 85,121</u>	<u>\$ 515,925</u>
Total operating revenue	\$ 64,668	\$ 44,898	\$ 105,786	\$ 215,352
Total operating expenses	(61,835)	(49,435)	(96,071)	(207,341)
Total nonoperating gains (losses), net	2,157	4,536	1,446	8,139
Contributions from (to) owners	2,986	–	(9,525)	(6,539)
Other changes in net assets, net	–	–	2,469	2,469
Increase (decrease) in net assets	<u>\$ 7,976</u>	<u>\$ (1)</u>	<u>\$ 4,105</u>	<u>\$ 12,080</u>

(6) Leases

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(6) Leases (continued)

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

(6) Leases (continued)

The following table summarizes the components of operating and finance lease assets and liabilities classified as current and noncurrent on the accompanying consolidated balance sheet as of June 30, 2020:

Operating leases	Balance sheet classification	
Operating lease ROU asset	Other assets	\$ 92,333
Operating lease obligation – current	Other current liabilities	(12,724)
Operating lease obligation- long-term	Other long-term liabilities	(81,951)
Finance leases		
Finance lease ROU asset	Property and equipment, net	\$ 47,598
Current finance lease liabilities	Other current liabilities	(760)
Long-term finance lease liabilities	Other long-term liabilities	(55,310)

The components of lease expense for the year ended June 30, 2020, were as follows:

Finance lease expense:	
Amortization of ROU assets	\$ 1,518
Interest on lease liabilities	1,992
Total finance lease expense	<u>3,510</u>
Operating lease expense	16,159
Short-term/variable lease expense	12,848
Total lease expense	<u>\$ 32,517</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(6) Leases (continued)

Commitments related to noncancelable operating and finance leases for each of the next five years and thereafter as of June 30, 2020, are as follows:

	<u>Operating</u>	<u>Finance</u>
2021	\$ 15,896	\$ 2,833
2022	14,425	2,866
2023	12,496	2,900
2024	11,959	2,936
2025	10,621	2,973
Thereafter	49,504	61,586
Total	<u>114,901</u>	<u>76,094</u>
Less: Present value discount	<u>(20,226)</u>	<u>(20,024)</u>
Lease liabilities	<u>\$ 94,675</u>	<u>\$ 56,070</u>

Other information for the year ended June 30, 2020 is as follows:

Weighted average remaining lease terms (in years):	
Finance leases	11.17
Operating leases	10.25
Weighted average discount rate:	
Finance leases	3.72%
Operating leases	3.58%

Because the Corporation elected to use the modified retrospective transition approach, the Corporation is required to include the disclosures required prior the adoption of ASU 2016-02 for 2019.

University of Maryland Medical System Corporation and Subsidiaries

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

(6) Leases (continued)

The following is a summary of all property and equipment under capital leases at June 30, 2019:

Land	\$ 3,770
Buildings	29,230
Equipment	<u>28,571</u>
	61,571
Less accumulated amortization	<u>(26,261)</u>
	<u><u>\$ 35,310</u></u>

Rent expense under operating leases for the year ended June 30, 2019 amounted to \$35,912.

The future noncancelable minimum lease payments under operating leases are as follows for the years ending June 30:

2020	\$ 9,464
2021	7,076
2022	6,768
2023	6,522
2024	6,158
Thereafter	<u>13,791</u>
	<u><u>\$ 49,779</u></u>

The Corporation rents property used for administration under a 99-year lease. As of June 30, 2019, the lease was recorded as a capital lease and recorded \$38,093. The lease includes an option for the Corporation to purchase the property. Management exercised the option on October 21, 2019 to purchase the property for \$40,000 in January 2031. The Corporation accounted for the option to purchase the underlying asset as a lease modification as a part of the existing contract and remeasured the finance lease liability and corresponding finance asset.

University of Maryland Medical System Corporation and Subsidiaries

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

(6) Leases (continued)

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2019:

2020	\$	2,811
2021		1,862
2022		1,145
2023		891
2024		891
Thereafter		52,083
Total minimum lease payments		59,683
Less amounts representing interest		(7,156)
Present value of net minimum lease payments	\$	<u>52,527</u>

(7) Line of Credit

For the fiscal years ended June 30, 2020 and 2019, the Corporation had a \$250,000 revolving line of credit outstanding with a syndicate of banking partners. The line of credit is annually renewing and the current expiration date is August 25, 2021. Interest is calculated based on an optional base rate or percentage of 1-month LIBOR plus a credit spread. As of June 30, 2020 and 2019, the amount outstanding on the line of credit was \$193,500 and \$161,300, respectively. The calculated interest rates as of June 30, 2020 and 2019 was a range from 0.89% to 3.25%.

For the fiscal year ended June 30, 2020, the Corporation had \$225,000 in additional lines of credit consisting of separate agreements with three banking partners. The borrowing facilities were put in place to provide additional access to liquidity in the event it would be needed during the COVID-19 pandemic, and each of the facilities expires no later than May 2021. All three borrowing facilities call for interest to be calculated on the drawn amount based on a percentage of one-month LIBOR, subject to a percentage floor, plus a credit spread. As of June 30, 2020, there were \$0 outstanding on these lines of credit, and the calculated interest rate on that date would have been within a range of 1.69% to 2.25% across the three facilities.

University of Maryland Medical System Corporation and Subsidiaries

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

(8) Long-Term Debt and Other Borrowings

Long-term debt consists of the following:

	Interest Rate	Payable in Fiscal Year(s)	June 30	
			2020	2019
MHHEFA project revenue bonds:				
Corporation issue, payments due annually UCHS Term Loan:				
Series 2017D/E Bonds	4.00%–4.17%	2045–2049	\$ 189,965	\$ 189,965
Series 2017B/C Bonds	2.23%–5.00%	2018–2040	256,455	260,835
Series 2017A Bonds	Variable rate	2017–2043 ⁽¹⁾	42,840	44,010
Series 2016A–F Bonds	Variable rate	2017–2042 ⁽¹⁾	309,500	314,270
Series 2015 Bonds	3.63%–5.00%	2016–2042	73,630	75,060
Series 2013 Bonds	4.00%–5.00%	2014–2044	335,545	339,465
Series 2010 Bonds	4.75%–5.25%	2011–2032	41,510	50,210
Series 2008D/E Bonds	Variable rate	2025–2042	105,000	105,000
Series 2008F Bonds	4.50%–5.25%	2009–2024	20,630	27,555
Series 2007A Bonds	Variable rate	2008–2035	76,425	79,440
MHHEFA Pooled Loan Program	Variable rate	2017–2035	16,149	17,099
Other long-term debt:				
UCHS Term Loan	Variable rate	2021	150,000	150,000
Term loans	1.86%–4.44%	2009–2022	7,356	9,377
Other loans, mortgages and notes payable	3.25%–6.73%	Monthly, 1991–2025	12,678	17,893
Total debt			1,637,683	1,680,179
Less current portion of long-term debt			40,468	47,621
Less short-term financing			150,000	150,000
Less long-term debt subject to short-term remarketing agreements			28,794	18,895
			1,418,421	1,463,663
Plus unamortized premiums and discounts, net			28,713	30,762
Plus unamortized deferred financing costs			(8,877)	(9,465)
			\$ 1,438,257	\$ 1,484,960

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

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

Under the terms of the UMMS Master Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the Master Trustee to provide for repayment of the obligations of the Obligated Group (Note 3).

The Corporation has a term loan in the amount of \$150,000 related to the acquisition of Upper Chesapeake, which expires on March 1, 2021. The Corporation intends to obtain long term financing prior to its maturity date, and has classified this obligation as a short-term financing at June 30, 2020 and 2019, in the consolidated balance sheets. See further discussion in Subsequent Events (Note 21).

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

2021	\$ 219,262
2022	260,771
2023	71,073
2024	196,073
2025	39,036
Thereafter	851,468
	<u>\$ 1,637,683</u>

The Corporation's Series 2007A and 2008D-E Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter-of-credit agreements with three banking institutions. These agreements have terms that expire in 2021 through 2022. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter-of-credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2020 and 2019.

University of Maryland Medical System Corporation and Subsidiaries

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

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

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

	June 30	
	2020	2019
Series 2008D Bonds	0.11%	1.92%
Series 2008E Bonds	0.12	1.85
Series 2007A Bonds	0.09	1.85
Series 2016A Bonds	1.13	2.74
Series 2016B Bonds	1.01	2.62
Series 2016C Bonds	0.75	2.54
Series 2016D Bonds	0.98	2.63
Series 2016E Bonds	0.87	2.66
Series 2016F Bonds	0.84	2.63
Series 2017A Bonds	0.67	2.46
Series 1985 Pooled Loan Program (MHHEFA)	1.00	2.40
UCHS Term Loan	0.89	3.10

(9) Interest Rate Risk Management

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

University of Maryland Medical System Corporation and Subsidiaries

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

(9) Interest Rate Risk Management (continued)

At June 30, 2020 and 2019, the Corporation's notional values of outstanding interest rate swaps were \$735,015 and \$746,348, respectively, the details of which were as follows:

	Notional Amount	Pay Rate	Receive Rate	Maturity Date	Mark to Market
June 30, 2020					
Swap #1	\$ 79,800	3.59%	70% 1-month LIBOR	7/1/2031	\$ (15,036)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(45,040)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(12,364)
Swap #4	32,025	3.99	67% 1-month LIBOR	7/1/2034	(8,987)
Swap #5	24,770	3.54	70% 1-month LIBOR	7/1/2031	(4,606)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(105,113)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(28,855)
Swap #8	74,700	4.00	67% 1-month LIBOR	7/1/2034	(21,020)
Swap #9	2,465	3.63	67% 1-month LIBOR	7/1/2032	(307)
Swap #10	95,475	3.92	67% 1-month LIBOR	1/1/2043	(38,240)
Swap #11	75,780	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	2,351
	<u>735,015</u>				<u>(277,217)</u>
Valuation adjustments		-			6,787
Total	<u>\$ 735,015</u>				<u>\$ (270,430)</u>
June 30, 2019					
Swap #1	\$ 80,998	3.59%	70% 1-month LIBOR	7/1/2031	\$ (11,813)
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2041	(31,398)
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(8,869)
Swap #4	33,200	3.99	67% 1-month LIBOR	7/1/2034	(7,048)
Swap #5	25,160	3.54	70% 1-month LIBOR	7/1/2031	(3,589)
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(73,275)
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(20,698)
Swap #8	77,450	4.00	67% 1-month LIBOR	7/1/2034	(16,496)
Swap #9	2,850	3.63	67% 1-month LIBOR	7/1/2032	(269)
Swap #10	98,425	3.92	67% 1-month LIBOR	1/1/2043	(27,914)
Swap #11	78,265	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	2,299
	<u>746,348</u>				<u>(199,070)</u>
Valuation adjustments		-			2,896
Total	<u>\$ 746,348</u>				<u>\$ (196,174)</u>

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(9) Interest Rate Risk Management (continued)

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

The Corporation recorded a net nonoperating loss on changes in the fair value of nonqualifying interest rate swaps of \$75,811 and \$47,995 for the years ended June 30, 2020 and 2019, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of \$270,430 and \$196,174 as of June 30, 2020 and 2019, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

The Corporation is subject to a collateral posting requirement with two of its swap counterparties. Collateral posting requirements are based on the Corporation's long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was \$165,848 and \$109,934 at June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the Corporation met its collateral posting requirement through the use of collateralized investments and cash equivalents, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily and is accounted for as a component of the Corporation's assets limited as to use on the accompanying consolidated balance sheets as of that date. Any excess investment value is considered a component of the Corporation's unrestricted investment portfolio and is included in investments on the accompanying consolidated balance sheets as of that date.

University of Maryland Medical System Corporation and Subsidiaries

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

(10) Other Liabilities

Other liabilities consist of the following:

	June 30	
	2020	2019
Professional and general malpractice liabilities	\$ 351,441	\$ 313,136
Accrued pension obligations	130,903	108,533
Lease obligations – Operating	94,675	–
Lease obligations – Finance (capital in prior year)	56,070	52,527
Deferred payroll taxes	26,971	–
Accrued interest payable	22,200	21,922
Other miscellaneous	100,941	70,666
Total other liabilities	<u>783,201</u>	566,784
Less current portion	<u>(129,813)</u>	(127,760)
Other long-term liabilities	<u>\$ 653,388</u>	<u>\$ 439,024</u>

Other miscellaneous liabilities consist of patient credit balances, unearned revenue and other current and long-term liabilities.

(11) Retirement Plans

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

(a) Defined Benefit Plans

University of Maryland Medical Center Midtown Campus Retirement Plan for Non-Union Employees (Midtown Plan) – A noncontributory defined benefit plan covering substantially all nonunion employees. The benefits are based on years of service and compensation. Contributions

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

to this plan are made to satisfy the minimum funding requirements of ERISA. In 2006, Midtown froze the defined benefit pension plan.

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

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

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(11) Retirement Plans (continued)

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

Dimensions Health Corporation Pension Plan (Capital Region Pension Plan) – A noncontributory defined benefit pension plan covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East – Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the Plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average final compensation. On December 31, 2007, the Capital Region Pension Plan was frozen. No further benefit accruals will be made to the Plan. The Plan freeze substantially reduces annual funding obligations beginning with Plan year 2008. The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the Plan participants and to meet the funding requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

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

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

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

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

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

	June 30	
	2020	2019
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 425,709	\$ 431,340
Settlements	–	(37,686)
Service cost	3,337	3,093
Interest cost	15,299	17,812
Actuarial loss	30,743	30,783
Benefit payments	(26,091)	(19,633)
Projected benefit obligations at end of year	<u>\$ 448,997</u>	<u>\$ 425,709</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 317,176	\$ 340,130
Actual return on plan assets	9,529	16,354
Settlements	–	(38,544)
Employer contributions	17,480	18,869
Benefit payments	(26,091)	(19,633)
Fair value of plan assets at end of year	<u>\$ 318,094</u>	<u>\$ 317,176</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

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

	June 30	
	2020	2019
Funded status, end of period:		
Fair value of plan assets	\$ 318,094	\$ 317,176
Projected benefit obligations	448,997	425,709
Net funded status	(130,903)	(108,533)
Accumulated benefit obligation at end of year	446,100	423,017
Amounts recognized in consolidated balance sheets at June 30:		
Accrued pension obligation	(130,903)	(108,533)
	(130,903)	(108,533)
Amounts recognized in net assets without donor restrictions at June 30:		
Net actuarial gain (loss)	(108,221)	(71,177)
Prior service cost	(86)	(159)
	\$ (108,307)	\$ (71,336)

The accrued pension obligation includes \$98,365 and \$82,694 as of June 30, 2020 and 2019, respectively, related to the Capital Region Pension Plan described above.

The estimated amounts that will be amortized from net assets without donor restrictions into net periodic pension cost in fiscal year 2020 are as follows:

Net actuarial loss	\$ 7,829
Prior service cost	72
	\$ 7,901

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

The components of net periodic pension cost are as follows:

	Year Ended June 30	
	2020	2019
Service cost	\$ 3,337	\$ 3,093
Interest cost	15,299	17,812
Expected return on plan assets	(19,782)	(19,849)
Prior service cost recognized	72	76
Recognized gains or losses	3,953	8,173
Net periodic pension cost	<u>\$ 2,879</u>	<u>\$ 9,305</u>

Components of net benefit cost other than the service cost of \$3,337 in 2020 and \$3,093 in 2019 were recorded in other nonoperating losses, net in the accompanying consolidated statement of operations and changes in net assets for the years ended June 30, 2020 and 2019. Service cost is included as a component of fringe benefits, which is recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations.

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

	June 30	
	2020	2019
Discount rate	2.34–%3.03%	3.25%–3.70%
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

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

	Year Ended June 30	
	2020	2019
Discount rate	3.25%–3.70%	4.22%–4.69%
Expected long-term return on plan assets	6.00–6.50	6.25–6.50
Rate of compensation increase (for nonfrozen plan)	3.00	3.00

The investment policies of the Corporation's pension plans incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Corporation uses investment managers specializing in each asset category, and regularly monitors performance and compliance with investment guidelines. In developing the expected long-term rate of return on assets assumption, the Corporation considers the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2020 and 2019, by asset category, are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets as of June 30	
		2020	2019
Cash and cash equivalents	0–10%	8%	4%
Fixed income securities	20–40	29	28
Equity securities	30–50	38	41
Global assets allocation	10–20	16	17
Hedge funds	5–15	9	10
		100%	100%

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

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

The table below presents the Corporation's combined investable assets of the defined benefit pension plans aggregated by the fair value hierarchy as described in Note 1(u):

	Level 1	Level 2	Level 3	Investments Reported at NAV*	Total
June 30, 2020					
Cash and cash equivalents	\$ 13,728	\$ 11,120	\$ —	\$ —	\$ 24,848
Corporate obligations	—	21,447	—	—	21,447
Government and agency bonds	7,565	9,993	—	—	17,558
Fixed income funds	—	—	—	12,639	12,639
Common and preferred stocks	25,047	—	—	—	25,047
Equity mutual funds	36,973	12,749	—	10,084	59,806
Other mutual funds	22,405	—	—	—	22,405
Alternative investments	—	—	—	134,344	134,344
	<u>\$ 105,718</u>	<u>\$ 55,309</u>	<u>\$ —</u>	<u>\$ 157,067</u>	<u>\$ 318,094</u>
June 30, 2019					
Cash and cash equivalents	\$ 7,324	\$ 4,589	\$ —	\$ —	\$ 11,913
Corporate obligations	—	19,531	—	—	19,531
Government and agency bonds	16,509	—	—	—	16,509
Fixed income funds	12,430	—	—	—	12,430
Common and preferred stocks	21,840	—	—	—	21,840
Equity mutual funds	45,633	15,096	—	—	60,729
Other mutual funds	26,582	—	—	—	26,582
Alternative investments	—	—	—	147,642	147,642
	<u>\$ 130,318</u>	<u>\$ 39,216</u>	<u>\$ —</u>	<u>\$ 147,642</u>	<u>\$ 317,176</u>

*Fund investments reported at NAV as practical expedient.

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2020 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling \$30,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$13,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$1,900 is subject to a lock-up restriction of three years. The Corporation had no unfunded commitments as of June 30, 2020.

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2019 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling \$33,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$14,500 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$2,100 is subject to a lock-up restriction of three years. In addition, one fund totaling \$13 is subject to lockup restrictions and is not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had no unfunded commitments as of June 30, 2019.

The Corporation expects to contribute \$18,820 to its defined benefit pension plans for the fiscal year ended June 30, 2021.

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

2021	\$	24,353
2022		24,555
2023		25,262
2024		25,758
2025		25,386
2026–2030		124,468

University of Maryland Medical System Corporation and Subsidiaries

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

(11) Retirement Plans (continued)

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2020.

(b) Defined Contribution Plans

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

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$50,456 and \$48,972 for the years ended June 30, 2020 and 2019, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

(12) Net Assets with Donor Restrictions

Net assets are restricted primarily for the following purposes:

	June 30	
	2020	2019
Facility construction and renovations, research, education, and other:		
Capital Region	\$ 424,034	\$ 424,034
All others	161,110	142,084
Economic and beneficial interests in the net assets of related organizations	170,820	198,101
	<u>\$ 755,964</u>	<u>\$ 764,219</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(12) Net Assets with Donor Restrictions (continued)

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

	Year Ended June 30	
	2020	2019
Purchases of equipment and construction costs	\$ 18,791	\$ 14,130
Research, education, uncompensated care, and other	6,307	4,279
	<u>\$ 25,098</u>	<u>\$ 18,409</u>

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

(a) Interpretation of Relevant Law

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund are classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions

University of Maryland Medical System Corporation and Subsidiaries

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

(12) Net Assets with Donor Restrictions (continued)

4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Corporation
7. The investment policies of the Corporation.

Endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2020			
Donor-restricted endowment funds	\$ 43	\$ 67,165	\$ 67,208
June 30, 2019			
Donor-restricted endowment funds	\$ 39	\$ 65,433	\$ 65,472

Donor restricted endowment funds within net assets with donor restrictions whose use is restricted in perpetuity were \$50,243 and \$48,826 as of June 30, 2020 and 2019, respectively.

Funds with Deficiencies

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(12) Net Assets with Donor Restrictions (continued)

Investment Strategies

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

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

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

The following is a summary of economic and beneficial interests in the net assets of financially interrelated organizations:

	June 30	
	2020	2019
Economic interests in:		
UCH Legacy Funding Corporation	\$ 122,430	\$ 150,000
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	34,766	33,099
Baltimore Washington Medical Center Foundation, Inc.	9,213	10,337
Total economic interests	<u>166,409</u>	<u>193,436</u>
Beneficial interest in the net assets of:		
Dorchester General Hospital Foundation, Inc.	3,082	3,709
Prince George's Hospital Center Foundation, Inc.	1,267	894
Laurel Regional Hospital Auxiliary, Inc.	62	62
	<u>\$ 170,820</u>	<u>\$ 198,101</u>

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

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

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

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

The Prince George's Hospital Center Foundation, Inc. the Laurel Regional Hospital Auxiliary, Inc. and the Laurel Regional Hospital Foundation, Inc. were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated Capital Region hospitals. Capital Region does not have control over the policies or decisions of these entities. In the current year the Prince George's Hospital Center Foundation, Inc. changed its name to University of Maryland Capital Region Health Foundation, Inc. and the Laurel Regional Hospital Foundation, Inc. was closed, and its assets were transferred into the new University of Maryland Capital Region Health Foundation, Inc.

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

	June 30	
	2020	2019
Current assets	\$ 4,086	\$ 4,447
Noncurrent assets	166,835	193,756
Total assets	<u>\$ 170,921</u>	<u>\$ 198,203</u>
Current liabilities	\$ 101	\$ 102
Net assets	170,820	198,101
Total liabilities and net assets	<u>\$ 170,921</u>	<u>\$ 198,203</u>
Total operating revenue	\$ 1,897	\$ 4,481
Total operating expense	(1,380)	(2,505)
Other changes in net assets	(27,800)	5
Total (decrease) increase in net assets	<u>\$ (27,283)</u>	<u>\$ 1,981</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(14) State and County Support

The Corporation received \$3,400 and \$3,300 in support for the Shock Trauma Center operations from the state of Maryland for the years ended June 30, 2020 and 2019, respectively.

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

	Year Ended June 30	
	2020	2019
State of Maryland	\$ 15,000	\$ 27,000
Prince George's County government	295	10,178
Magruder Memorial Hospital Trust	1,042	1,042
	<u>\$ 16,337</u>	<u>\$ 38,220</u>

The State of Maryland appropriates funds for construction costs incurred, equipment purchases made, and other capital support. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$20,803 and \$5,565 during the years ended June 30, 2020 and 2019, respectively.

University of Maryland Medical System Corporation and Subsidiaries

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

(15) Functional Expenses

The Corporation provides healthcare services to residents within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows:

	Healthcare Service				Corporate	Total
	Hospital & Ambulatory	Retail Pharmacy	Physician Practices	Risk Taking	Services, Other and Eliminations	
Year ended June 30, 2020						
Operating expenses:						
Salaries, wages and benefits	\$ 1,682,480	\$ 5,928	\$ 272,804	\$ 4,887	\$ 264,385	\$ 2,230,484
Expendable supplies	626,029	90,169	34,401	16	9,498	760,113
Purchased services:						
Purchased services	884,976	14,488	70,665	2,978	(277,079)	696,028
Contracted services	291,951	–	28,243	–	(43,235)	276,959
Depreciation and amortization	236,360	–	2,022	–	(2,491)	235,891
Interest expense	47,426	–	–	696	(1,561)	46,561
Total operating expenses	<u>\$ 3,769,222</u>	<u>\$ 110,585</u>	<u>\$ 408,135</u>	<u>\$ 8,577</u>	<u>\$ (50,483)</u>	<u>\$ 4,246,036</u>
Year ended June 30, 2019						
Operating expenses:						
Salaries, wages and benefits	\$ 1,646,025	\$ 5,177	\$ 268,023	\$ 3,886	\$ 235,025	\$ 2,158,136
Expendable supplies	678,620	71,514	34,480	42	7,359	792,015
Purchased services:						
Purchased services	826,688	9,150	65,400	4,480	(271,100)	634,618
Contracted services	274,221	–	30,169	–	(34,493)	269,897
Depreciation and amortization	232,436	–	2,484	–	9,136	244,056
Interest expense	54,698	–	–	1,492	1,602	57,792
Total operating expenses	<u>\$ 3,712,688</u>	<u>\$ 85,841</u>	<u>\$ 400,556</u>	<u>\$ 9,900</u>	<u>\$ (52,471)</u>	<u>\$ 4,156,514</u>

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

University of Maryland Medical System Corporation and Subsidiaries

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

(16) Liquidity and Availability of Resources

The Corporation had financial assets available to management for general expenditure within one year of the financial reporting date, or June 30, 2020 and 2019, as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 961,647	\$ 360,318
Receivables, net	590,579	549,540
Current investments and assets whose use is limited	64,026	64,910
Long-term investments and assets whose use is limited	2,041,352	2,113,024
Total financial assets available within one year	<u>3,657,604</u>	<u>3,087,792</u>
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	91,975	78,255
Restricted for swap collateral	166,507	113,586
Debt service and reserve funds	37,696	86,157
Self-insurance trust funds	215,162	212,384
Construction funds – held by trustee	204,366	279,205
Economic and beneficial interests in the net assets of related organizations	170,820	198,101
Alternative investments subject to lockup restrictions	19,900	20,700
Total amounts unavailable for general expenditures within one year	<u>906,426</u>	<u>988,388</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 2,751,178</u>	<u>\$ 2,099,404</u>

University of Maryland Medical System Corporation and Subsidiaries

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

(17) Insurance

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

	June 30	
	2020	2019
Professional and general malpractice liabilities	\$ 351,441	\$ 313,136
Employee health	27,201	33,556
Employee long-term disability	4,751	5,577
Workers' compensation	23,430	20,977
Total self-insured liabilities	406,823	373,246
Less current portion	(64,550)	(70,368)
	\$ 342,273	\$ 302,878

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$243,143 and \$202,779 as of June 30, 2020 and 2019, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1,000 on individual claims and \$3,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to Terrapin, an unconsolidated joint venture. Terrapin provides insurance for claims in excess of \$1,000 individually and \$3,000 in the aggregate up to \$155,000 individually and \$160,000 in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

As discussed in Note 5, Terrapin is a joint venture corporation in which a 50% equity interest is owned by the Corporation and a 50% equity interest is owned by Faculty Physicians, Inc.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2020 and 2019 was approximately \$69,374 and \$60,654, respectively.

University of Maryland Medical System Corporation and Subsidiaries

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

(18) Business and Credit Concentrations

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

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

The Corporation had receivables from patients and third-party payors as follows at June 30, 2020:

Medicare	27%
Medicaid	32
Commercial insurance and HMOs	20
Blue Cross	14
Self-pay and others	7
	100%

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

	Year Ended June 30	
	2020	2019
Medicare	37%	37%
Medicaid	24	24
Commercial insurance and HMOs	24	24
Blue Cross	10	10
Self-pay and others	5	5
	100%	100%

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(19) Certain Significant Risks and Uncertainties

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

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

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

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

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

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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(19) Certain Significant Risks and Uncertainties (continued)

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

(20) Maryland Health Services Cost Review Commission

Effective July 1, 2013, the Health System and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology for the following hospitals: Medical Center, ROI, UM Midtown, UM Baltimore Washington, UM Charles Regional, UM St. Joseph, UM Memorial, UM Dorchester, UM Chester River, Shore Emergency Center, UM Upper Chesapeake, UM Harford Memorial, UM Prince George's, and UM Laurel. The agreements will continue each year and on July 1 of each year thereafter; the agreements will renew for a one-year period unless it is canceled by the HSCRC or by the Corporation. The agreements were in place for the years ended June 30, 2020 and 2019. The GBR model is a revenue constraint and quality improvement system designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Corporation's mission to provide the highest value of care possible to its patients and the communities it serves.

The GBR agreements establish a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, a hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap is prospectively subtracted from the subsequent year's GBR cap. Although the GBR cap is fixed each year, it does not adjust for changes in volume or service mix. The GBR cap is also adjusted annually for inflation, and for changes in payor mix and uncompensated care. The Corporation will receive an annual adjustment to its cap for the change

University of Maryland Medical System Corporation and Subsidiaries

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

(20) Maryland Health Services Cost Review Commission (continued)

in population in the Corporation's service areas. GBR is designed to encourage hospitals to operate efficiently by reducing excess utilization and managing patients in the appropriate care delivery setting. The HSCRC also may impose various other revenue adjustments, which could be significant in the future.

(21) Subsequent Events

The Corporation evaluated all events and transactions that occurred after June 30, 2020 and through October 28, 2020, the date the consolidated financial statements were issued. Other than described below, the Corporation did not have any material subsequent events during the period.

During the month of July 2020, the Corporation issued \$752.7 million in debt in the form of Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds – Series 2020B/D. The proceeds were used to advance refund \$13,500 of UMMS' Series 2008F Revenue Bonds, \$31,500 of UMMS Series 2010 Revenue Bonds, and \$218,200 of UMMS Series 2013A Revenue Bonds. In addition, \$150,000 of the proceeds were used to refund a term loan. The remaining proceeds of \$339,500 will be used for various capital projects.

During the month of July and August 2020, the Corporation received additional CARES Act Relief Funds of approximately \$109,000 and \$8,800 respectively. These funds were not recognized as Other Revenue for the year ended June 30, 2020.

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.

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 Corporation 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

University of Maryland Medical System Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

(21) Subsequent Events (continued)

statements were issued. The Corporation 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.

The Corporation completed the sale of both University of Maryland Health Partners, Inc. which provides managed care services to approximately 48,000 Medicaid recipients and University of Maryland Health Advantage, Inc. which provides Medicare Advantage coverage to approximately 6,000 members. The transaction with CareFirst BlueCross Blue Shield was effective on October 10, 2020 after receiving regulatory approval.

Supplementary Information

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet by Division
(In Thousands)

June 30, 2020

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated Total
Assets														
Current assets:														
Cash and cash equivalents	\$ 424,073	\$ 20,648	\$ 29,901	\$ 94,354	\$ 128,115	\$ 30,239	\$ 80,367	\$ 84,476	\$ 65,795	\$ -	\$ -	\$ 3,679	\$ -	\$ 961,647
Assets limited as to use, current portion	64,026	-	-	-	-	-	-	-	-	-	-	-	-	64,026
Accounts receivable:														
Patient accounts receivable, net	192,658	6,724	28,721	40,186	27,437	14,231	37,372	46,145	84,059	-	-	1,256	(6,438)	472,351
Other	236,452	781	4,397	3,467	3,190	3,742	9,353	-	14,175	-	-	3,722	(161,051)	118,228
Inventories	65,629	1,334	2,796	7,962	4,411	2,017	5,269	10,028	6,249	-	-	184	-	105,879
Assets held for sale	-	-	-	-	-	-	-	-	-	149,563	-	-	-	149,563
Prepaid expenses and other current assets	36,415	118	2,196	2,756	1,672	700	1,079	11,007	2,632	-	1,500	103	-	60,178
Total current assets	1,019,253	29,605	68,011	148,725	164,825	50,929	133,440	151,656	172,910	149,563	1,500	8,944	(167,489)	1,931,872
Investments	281,835	40,057	17,467	156,201	125,756	24,554	12,997	268,499	-	-	-	-	-	927,366
Assets limited as to use, less current portion:														
Investments held for collateral	147,585	1,122	1,732	8,987	4,341	2,740	-	-	-	-	-	-	-	166,507
Debt service funds	10,839	-	-	-	-	-	-	-	-	-	-	-	-	10,839
Construction funds	245,617	19,573	21,629	13,745	24,242	20,977	5,317	-	-	-	-	-	-	351,100
Board designated and escrow funds	-	-	-	-	32,750	-	-	61,072	-	-	22,990	-	-	116,812
Self-insurance trust funds	172,387	-	-	-	3,645	-	-	-	29,901	-	-	-	-	205,933
Funds restricted by donor	-	-	1,093	-	39,851	-	11,980	-	-	-	39,051	-	-	91,975
Economic and beneficial interests in the net assets of related organizations	199,091	38,714	534	9,213	3,091	-	9,503	-	1,330	-	-	-	(90,656)	170,820
	775,519	59,409	24,988	31,945	107,920	23,717	26,800	61,072	31,231	-	62,041	-	(90,656)	1,113,986
Property and equipment, net	1,277,684	44,177	114,815	262,157	140,792	105,648	240,667	286,176	79,852	-	-	4,580	-	2,556,548
Investments in joint ventures and other assets	1,057,830	15,178	1,628	3,903	41,652	7,249	34,814	184,023	13,247	4,717	17,762	7,468	(779,332)	610,139
Total assets	\$ 4,412,121	\$ 188,426	\$ 226,909	\$ 602,931	\$ 580,945	\$ 212,097	\$ 448,718	\$ 951,426	\$ 297,240	\$ 154,280	\$ 81,303	\$ 20,992	\$ (1,037,477)	\$ 7,139,911

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet by Division (continued)

(In Thousands)

June 30, 2020

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated Total
Liabilities and net assets														
Current liabilities:														
Trade accounts payable	\$ 148,597	\$ 9,911	\$ 15,541	\$ 24,236	\$ 16,931	\$ 7,841	\$ 24,691	\$ 24,531	\$ 25,511	\$ 221	\$ 150	\$ 3,972	\$ -	\$ 302,133
Accrued payroll and benefits	131,027	4,976	9,476	28,896	21,958	7,606	23,769	31,161	22,265	-	-	1,276	-	282,410
Advances from third-party payors	293,947	22,624	33,660	82,948	79,918	33,664	86,724	82,844	57,618	-	-	-	-	773,947
Lines of credit	167,000	-	-	-	-	-	-	-	-	26,500	-	-	-	193,500
Short-term financing	150,000	-	-	-	-	-	-	-	-	-	-	-	-	150,000
Other current liabilities	70,265	1,309	4,201	3,474	5,671	2,983	6,694	10,495	28,544	128,877	-	34,789	(167,489)	129,813
Liabilities held for sale	-	-	-	-	-	-	-	-	-	65,461	-	-	-	65,461
Long-term debt subject to short-term remarketing arrangements	28,794	-	-	-	-	-	-	-	-	-	-	-	-	28,794
Current portion of long-term debt	15,722	575	462	4,831	3,125	3,178	6,456	5,886	233	-	-	-	-	40,468
Total current liabilities	1,005,352	39,395	63,340	144,385	127,603	55,272	148,334	154,917	134,171	221,059	150	40,037	(167,489)	1,966,526
Long-term debt, less current portion	728,400	18,151	28,309	147,235	74,491	48,871	211,608	179,982	1,210	-	-	-	-	1,438,257
Other long-term liabilities	412,961	1,233	13,154	14,434	38,709	13,325	96,045	23,223	129,255	-	-	5,743	(94,694)	653,388
Interest rate swap liabilities	270,430	-	-	-	-	-	-	-	-	-	-	-	-	270,430
Total liabilities	2,417,143	58,779	104,803	306,054	240,803	117,468	455,987	358,122	264,636	221,059	150	45,780	(262,183)	4,328,601
Net assets:														
Without donor restrictions	1,417,413	90,800	75,756	287,664	294,349	94,629	(39,998)	461,490	(939)	(66,779)	28,704	(24,788)	(562,955)	2,055,346
With donor restrictions	577,565	38,847	46,350	9,213	45,793	-	32,729	131,814	33,543	-	52,449	-	(212,339)	755,964
Total net assets	1,994,978	129,647	122,106	296,877	340,142	94,629	(7,269)	593,304	32,604	(66,779)	81,153	(24,788)	(775,294)	2,811,310
Total liabilities and net assets	\$ 4,412,121	\$ 188,426	\$ 226,909	\$ 602,931	\$ 580,945	\$ 212,097	\$ 448,718	\$ 951,426	\$ 297,240	\$ 154,280	\$ 81,303	\$ 20,992	\$ (1,037,477)	\$ 7,139,911

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Statement of Operations by Division

(In Thousands)

Year Ended June 30, 2020

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	Capital Region	UM Health Plans	UMMS Foundation	Other	Eliminations	Consolidated Total
Operating revenue, gains and other support:														
Net patient service revenue	\$ 1,586,077	\$ 102,949	\$ 189,026	\$ 449,234	\$ 329,956	\$ 137,185	\$ 388,187	\$ 396,562	\$ 333,731	\$ –	\$ –	\$ 7,927	\$ (4,903)	\$ 3,915,931
State support	18,400	–	–	–	–	–	–	–	16,337	–	–	–	(15,000)	19,737
Premium revenue	181,674	–	–	–	–	–	–	–	–	–	–	–	(181,674)	–
CARES Act – Provider relief funds	50,000	8,991	18,063	26,669	23,875	7,239	23,495	25,863	15,272	–	–	165	–	199,632
Other revenue	563,699	1,740	23,878	6,731	4,281	2,129	5,993	10,268	13,422	–	–	11,294	(414,681)	228,754
Total operating revenue, gains and other support	2,399,850	113,680	230,967	482,634	358,112	146,553	417,675	432,693	378,762	–	–	19,386	(616,258)	4,364,054
Operating expenses:														
Salaries, wages and benefits	1,046,990	54,471	106,003	258,617	184,336	68,661	215,415	259,006	206,801	1,138	–	10,720	(181,674)	2,230,484
Expendable supplies	408,300	12,591	33,270	72,767	44,199	22,007	59,536	59,119	44,425	–	–	3,899	–	760,113
Purchased services	581,467	24,535	52,275	90,435	76,892	33,153	93,396	74,365	92,990	160	–	7,454	(431,094)	696,028
Contracted services	142,454	9,489	31,180	14,892	17,381	9,620	7,134	12,018	36,293	–	–	(12)	(3,490)	276,959
Depreciation and amortization	89,090	7,006	14,598	29,092	21,784	9,149	24,716	24,159	15,826	–	–	471	–	235,891
Interest expense	17,173	197	988	5,236	2,715	1,839	9,642	7,556	519	696	–	–	–	46,561
Total operating expenses before non-recurring items	2,285,474	108,289	238,314	471,039	347,307	144,429	409,839	436,223	396,854	1,994	–	22,532	(616,258)	4,246,036
Operating income (loss) from continuing operations	114,376	5,391	(7,347)	11,595	10,805	2,124	7,836	(3,530)	(18,092)	(1,994)	–	(3,146)	–	118,018
Nonoperating income and expenses, net:														
Contributions	3	–	–	–	123	–	136	493	–	–	8,538	–	–	9,293
Equity in net income of joint ventures	(115)	–	–	–	243	509	1,909	500	490	–	–	–	–	3,536
Investment income	9,623	696	324	2,689	2,583	412	526	5,006	2,033	–	743	–	–	24,635
Change in fair value of investments	(3,526)	(218)	(94)	(847)	1,473	(121)	54	(1,411)	–	–	(194)	–	–	(4,884)
Change in fair value of undesignated interest rate swaps	(75,811)	–	–	–	–	–	–	–	–	–	–	–	–	(75,811)
Other nonoperating gains and losses	(9,678)	(277)	(1,213)	(2,696)	(1,686)	(944)	(4,390)	(2,618)	1,738	–	(2,612)	–	–	(24,376)
Total nonoperating income and expenses	(79,504)	201	(983)	(854)	2,736	(144)	(1,765)	1,970	4,261	–	6,475	–	–	(67,607)
Excess (deficiency) of revenues over expenses	34,872	5,592	(8,330)	10,741	13,541	1,980	6,071	(1,560)	(13,831)	(1,994)	6,475	(3,146)	–	50,411
Gain on discontinued operations	–	–	–	–	–	–	–	–	–	19,599	–	–	–	19,599
Excess (deficiency) of revenues over expenses	\$ 34,872	\$ 5,592	\$ (8,330)	\$ 10,741	\$ 13,541	\$ 1,980	\$ 6,071	\$ (1,560)	\$ (13,831)	\$ 17,605	\$ 6,475	\$ (3,146)	\$ –	\$ 70,010

University of Maryland Medical System Corporation and Subsidiaries

Combining Balance Sheet – Obligated Group

(In Thousands)

June 30, 2020

	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.**	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals***	University of Maryland Capital Region Health****	UMMS Foundation	Eliminations	Obligated Group Total
Assets													
Current assets:													
Cash and cash equivalents	\$ 417,192	\$ 20,648	\$ 29,782	\$ 95,273	\$ 87,351	\$ 39,848	\$ 28,779	\$ 72,218	\$ 81,468	\$ 66,800	\$ –	\$ –	\$ 939,359
Assets limited as to use, current portion	64,026	–	–	–	–	–	–	–	–	–	–	–	64,026
Accounts receivable:													
Patient accounts receivable, net	203,542	6,724	27,743	32,486	21,614	2,589	13,696	33,857	41,275	84,132	–	–	467,658
Other	225,483	781	4,378	40,618	19,549	296	26,184	4,155	36,005	23,948	–	(4,140)	377,257
Inventories	65,629	1,334	2,796	7,962	3,759	651	2,017	5,269	9,363	6,248	–	–	105,028
Prepaid expenses and other current assets	36,356	118	342	1,216	1,350	6	679	392	4,288	2,672	1,500	–	48,919
Total current assets	1,012,228	29,605	65,041	177,555	133,623	43,390	71,355	115,891	172,399	183,800	1,500	(4,140)	2,002,247
Investments	281,835	40,057	17,467	156,201	77,447	–	22,029	–	267,871	–	–	–	862,907
Assets limited as to use, less current portion:													
Investments held for collateral	147,585	1,122	1,732	8,987	4,118	223	2,740	–	–	–	–	–	166,507
Debt service funds	10,839	–	–	–	–	–	–	–	–	–	–	–	10,839
Construction funds	245,617	19,573	21,629	13,745	20,132	4,110	20,977	5,317	–	–	–	–	351,100
Board designated and escrow funds	–	–	–	–	25,000	5,000	–	–	30,000	–	23,171	–	83,171
Self-insurance trust funds	172,387	–	–	–	3,645	–	–	–	–	–	–	–	176,032
Funds restricted by donor	–	–	1,093	–	5,130	105	–	–	–	–	39,051	–	45,379
Economic interests in the net assets of related organizations	199,091	38,714	534	9,213	83,233	6,771	5,338	9,503	–	6,163	–	(90,656)	267,904
	775,519	59,409	24,988	31,945	141,258	16,209	29,055	14,820	30,000	6,163	62,222	(90,656)	1,100,932
Property and equipment, net	1,269,773	44,177	111,306	239,247	119,703	15,748	77,782	227,892	274,346	47,455	–	–	2,427,429
Investments in joint ventures and other assets	1,071,052	15,178	1,628	545	36,702	857	6,892	32,337	204,046	11,829	17,762	(769,423)	629,405
Total assets	\$ 4,410,407	\$ 188,426	\$ 220,430	\$ 605,493	\$ 508,733	\$ 76,204	\$ 207,113	\$ 390,940	\$ 948,662	\$ 249,247	\$ 81,484	\$ (864,219)	\$ 7,022,920

*Includes University of Maryland Medical System Corporation (Parent)

**Includes both Memorial Hospital and Dorchester Hospital

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

****Includes Prince Georges's Hospital Center, Laurel Regional Hospital and Bowie Health Center

University of Maryland Medical System Corporation and Subsidiaries

Combining Balance Sheet – Obligated Group (continued)

(In Thousands)

June 30, 2020

	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.**	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals***	University of Maryland Capital Region Health****	UMMS Foundation	Eliminations	Obligated Group Total
Liabilities and net assets													
Current liabilities:													
Trade accounts payable	\$ 148,101	\$ 9,902	\$ 14,895	\$ 21,159	\$ 12,100	\$ 3,082	\$ 7,421	\$ 22,529	\$ 18,214	\$ 23,040	\$ 331	\$ –	\$ 280,774
Accrued payroll and benefits	131,027	4,871	9,199	20,703	12,685	1,639	6,823	17,123	29,704	22,906	–	–	256,680
Advances from third-party payors	293,947	22,624	33,469	82,948	70,665	9,253	33,562	83,164	82,844	57,617	–	–	770,093
Short-term financing	150,000	–	–	–	–	–	–	–	–	–	–	–	150,000
Lines of credit	167,000	–	–	–	–	–	–	–	–	–	–	–	167,000
Other current liabilities	70,123	1,309	4,197	2,877	4,279	5,269	2,948	6,136	2,893	27,008	–	(4,140)	122,899
Long-term debt subject to short-term remarketing arrangements	28,794	–	–	–	–	–	–	–	–	–	–	–	28,794
Current portion of long-term debt	15,722	575	462	4,606	3,007	117	2,386	6,456	5,886	–	–	–	39,217
Total current liabilities	1,004,714	39,281	62,222	132,293	102,736	19,360	53,140	135,408	139,541	130,571	331	(4,140)	1,815,457
Long-term debt, less current portion	728,400	18,151	28,309	145,304	70,938	3,553	44,136	203,794	179,982	–	–	–	1,422,567
Other long-term liabilities	412,961	1,233	13,154	9,750	37,153	1,556	13,308	96,045	23,222	83,643	–	(94,693)	597,332
Interest rate swap liabilities	270,430	–	–	–	–	–	–	–	–	–	–	–	270,430
Total liabilities	2,416,505	58,665	103,685	287,347	210,827	24,469	110,584	435,247	342,745	214,214	331	(98,833)	4,105,786
Net assets:													
Without donor restrictions	1,416,337	91,047	70,395	308,933	257,364	46,498	96,529	(44,308)	459,257	29,977	28,704	(553,047)	2,207,686
With donor restrictions	577,565	38,714	46,350	9,213	40,542	5,237	–	1	146,660	5,056	52,449	(212,339)	709,448
Total net assets	1,993,902	129,761	116,745	318,146	297,906	51,735	96,529	(44,307)	605,917	35,033	81,153	(765,386)	2,917,134
Total liabilities and net assets	\$ 4,410,407	\$ 188,426	\$ 220,430	\$ 605,493	\$ 508,733	\$ 76,204	\$ 207,113	\$ 390,940	\$ 948,662	\$ 249,247	\$ 81,484	\$ (864,219)	\$ 7,022,920

*Includes University of Maryland Medical System Corporation (Parent)

**Includes both Memorial Hospital and Dorchester Hospital

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

****Includes Prince Georges's Hospital Center, Laurel Regional Hospital and Bowie Health Center

University of Maryland Medical System Corporation and Subsidiaries

Combining Statement of Operations and Changes in Net Assets
Without Donor Restrictions – Obligated Group
(In Thousands)

Year Ended June 30, 2020

	University of Maryland Medical Center & Affiliate*	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.**	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals***	University of Maryland Capital Region Health****	UMMS Foundation	Eliminations	Obligated Group Total
Operating revenue, gains and other support:													
Net patient service revenue	\$ 1,586,078	\$ 102,355	\$ 185,142	\$ 378,467	\$ 248,208	\$ 36,172	\$ 129,960	\$ 322,523	\$ 344,529	\$ 325,262	\$ –	\$ (4,903)	\$ 3,653,793
State support	18,400	–	–	–	–	–	–	–	–	16,337	–	(15,000)	19,737
Premium revenue	181,674	–	–	–	–	–	–	–	–	–	–	(181,674)	–
CARES Act - Provider relief funds	49,980	8,975	17,943	24,717	16,729	5,431	7,147	21,824	24,139	15,116	–	–	192,001
Other revenue	564,558	1,743	22,748	5,340	7,264	560	1,462	4,233	9,565	82,817	–	(411,190)	289,100
Total operating revenue, gains and other support	2,400,690	113,073	225,833	408,524	272,201	42,163	138,569	348,580	378,233	439,532	–	(612,767)	4,154,631
Operating expenses:													
Salaries, wages, and benefits	1,046,870	53,667	103,305	189,223	110,327	15,029	61,658	137,854	187,533	191,993	–	(181,674)	1,915,785
Expendable supplies	408,144	12,579	33,072	55,107	35,205	3,266	21,771	57,843	49,418	44,048	–	–	720,453
Purchased services	582,189	24,404	49,629	80,886	49,919	15,427	30,997	68,861	73,948	172,285	–	(431,093)	717,452
Contracted services	142,454	9,489	31,180	21,230	15,490	6,039	9,247	23,447	18,183	19,904	–	–	296,663
Depreciation and amortization	88,774	7,006	14,049	27,425	17,240	3,934	6,598	23,795	23,033	15,512	–	–	227,366
Interest expense	16,849	197	988	5,125	2,588	127	1,613	9,311	7,556	466	–	–	44,820
Total operating expenses	2,285,280	107,342	232,223	378,996	230,769	43,822	131,884	321,111	359,671	444,208	–	(612,767)	3,922,539
Operating income (loss)	115,410	5,731	(6,390)	29,528	41,432	(1,659)	6,685	27,469	18,562	(4,676)	–	–	232,092
Nonoperating income and expenses, net:													
Contributions	3	–	–	–	11	–	–	–	–	–	8,538	–	8,552
Equity in net income of joint ventures	(1,140)	–	–	–	243	–	194	1,909	3,976	–	–	–	5,182
Investment income	9,623	696	324	2,689	1,661	23	348	–	(1,365)	–	743	–	14,742
Change in fair value of investments	(3,526)	(218)	(94)	(847)	1,027	(13)	(121)	–	–	(45)	(194)	–	(4,031)
Change in fair value of undesignated interest rate swaps	(75,811)	–	–	–	–	–	–	–	–	–	–	–	(75,811)
Other nonoperating gains and losses	(9,678)	(277)	(1,213)	(2,357)	(874)	(55)	(882)	(3,095)	(2,618)	1,575	(2,612)	–	(22,086)
Total nonoperating income and expenses	(80,529)	201	(983)	(515)	2,068	(45)	(461)	(1,186)	(7)	1,530	6,475	–	(73,452)
Excess (deficiency) of revenues over expenses	34,881	5,932	(7,373)	29,013	43,500	(1,704)	6,224	26,283	18,555	(3,146)	6,475	–	158,640
Net assets released from restrictions used for purchase of property and equipment	15,137	–	–	1,500	–	–	–	1,845	–	–	–	–	18,482
Change in economic and beneficial interest in the net assets of related organizations	–	–	–	–	–	–	–	–	27,570	–	–	–	27,570
Change in ownership interest of joint ventures	(188)	–	–	–	–	–	–	–	–	–	–	–	(188)
Capital transfers (to) from affiliate	48,652	(944)	(5,200)	(10,299)	(39,477)	(7,726)	(8,516)	(13,517)	7,600	5,933	–	–	(23,494)
Amortization of accumulated loss of discontinued designated interest rate swap	1,554	–	–	–	–	–	–	–	–	–	–	–	1,554
Change in funded status of defined benefit pension plans	–	–	(2,997)	(2,779)	–	–	(4,038)	–	–	(27,157)	–	–	(36,971)
Other	–	(365)	552	–	–	890	(1)	–	664	–	(88)	–	1,652
Increase (decrease) net assets without donor restrictions	\$ 100,036	\$ 4,623	\$ (15,018)	\$ 17,435	\$ 4,023	\$ (8,540)	\$ (6,331)	\$ 14,611	\$ 54,389	\$ (24,370)	\$ 6,387	\$ –	\$ 147,245

*Includes University of Maryland Medical System Corporation (Parent)

**Includes both Memorial Hospital and Dorchester Hospital

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

****Includes Prince Georges's Hospital Center, Laurel Regional Hospital and Bowie Health Center

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet – Hospital Format
(In Thousands)

June 30, 2020

	University of Maryland Medical Center		University of Maryland Midtown Campus		Baltimore Washington Medical Center, Inc.		Shore Health System, Inc.		Chester River Medical Center		Charles Regional Medical Center		St. Joseph Medical Center		Upper Chesapeake Hospitals		Capital Region Hospitals			All Other Entities	Eliminations	Consolidated Total
	Medical Center	Rehabilitation & Orthopaedic Institute	Medical Center	Midtown Campus	Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Medical Center	Harford Memorial	Prince Georges	Laurel Regional	Bowie Health Center								
Assets																						
Current assets:																						
Cash and cash equivalents	\$ 18,977	\$ 20,648	\$ 29,782	\$ 95,273	\$ 87,351	\$ 39,848	\$ 28,779	\$ 72,218	\$ 50,596	\$ 30,872	\$ –	\$ –	\$ 1	\$ 487,302	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 64,026	\$ –	\$ 961,647
Assets limited as to use, current portion	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	64,026	–	64,026
Accounts receivable:																						
Patient accounts receivable, net	203,542	6,724	27,743	32,486	21,614	2,589	13,696	33,857	31,416	9,859	69,329	11,607	3,196	4,693	–	–	–	–	–	–	–	472,351
Other	521,536	781	4,378	21,093	19,549	296	24,530	4,155	65,428	–	207,142	9,793	8,456	150,296	(919,205)	–	–	–	–	–	–	118,228
Inventories	41,017	1,334	2,796	7,962	3,759	651	2,017	5,269	5,898	3,465	4,498	1,378	372	25,463	–	–	–	–	–	–	–	105,879
Assets held for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	149,563	–	–	–	–	–	–	–	149,563
Prepaid expenses and other current assets	2,180	118	342	1,216	1,350	6	679	392	3,561	727	198	44	19	49,346	–	–	–	–	–	–	–	60,178
Total current assets	787,252	29,605	65,041	158,030	133,623	43,390	69,701	115,891	156,899	44,923	281,167	22,822	12,044	930,689	(919,205)	–	–	–	–	–	–	1,931,872
Investments	276,659	40,057	17,467	156,201	77,447	–	22,029	–	170,963	96,908	–	–	–	69,635	–	–	–	–	–	–	–	927,366
Assets limited as to use, less current portion:																						
Investments held for collateral	–	1,122	1,732	8,987	4,118	223	2,740	–	–	–	–	–	–	147,585	–	–	–	–	–	–	–	166,507
Debt service funds	–	–	–	–	–	–	–	–	–	–	–	–	–	10,839	–	–	–	–	–	–	–	10,839
Construction funds	78,001	19,573	21,629	13,745	20,132	4,110	20,977	5,317	–	–	–	–	–	167,616	–	–	–	–	–	–	–	351,100
Board designated and escrow funds	–	–	–	–	25,000	5,000	–	–	30,000	–	–	–	–	56,812	–	–	–	–	–	–	–	116,812
Self-insurance trust funds	–	–	–	–	3,645	–	–	–	–	–	–	–	–	202,288	–	–	–	–	–	–	–	205,933
Funds restricted by donor	–	–	1,093	–	5,130	105	–	–	–	–	–	–	–	85,647	–	–	–	–	–	–	–	91,975
Economic interests in the net assets of related organizations	76,661	38,714	534	9,213	83,233	6,771	5,338	9,503	–	–	1,267	62	–	127,266	(187,742)	–	–	–	–	–	–	170,820
	154,662	59,409	24,988	31,945	141,258	16,209	29,055	14,820	30,000	–	1,267	62	–	798,053	(187,742)	–	–	–	–	–	–	1,113,986
Property and equipment, net	684,129	44,177	111,306	239,247	119,703	15,748	77,782	227,892	211,225	63,121	10,026	26,796	6,817	718,579	–	–	–	–	–	–	–	2,556,548
Investments in joint ventures and other assets	93,062	15,178	1,628	545	36,702	857	6,892	32,337	204,046	–	10,696	(92)	–	1,533,448	(1,325,160)	–	–	–	–	–	–	610,139
Total assets	\$ 1,995,764	\$ 188,426	\$ 220,430	\$ 585,968	\$ 508,733	\$ 76,204	\$ 205,459	\$ 390,940	\$ 773,133	\$ 204,952	\$ 303,156	\$ 49,588	\$ 18,861	\$ 4,050,404	\$ (2,432,107)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 7,139,911

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Balance Sheet – Hospital Format (continued)

(In Thousands)

June 30, 2020

	University of Maryland Medical Center		University of Maryland Midtown Campus		Baltimore Washington Medical Center, Inc.		Shore Health System, Inc.		Chester River Medical Center		Charles Regional Medical Center		St. Joseph Medical Center		Upper Chesapeake Hospitals		Capital Region Hospitals			All Other Entities	Eliminations	Consolidated Total
	Medical Center	Rehabilitation & Orthopaedic Institute	Medical Center	Midtown Campus	Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Medical Center	Harford Memorial	Prince Georges	Laurel Regional	Bowie Health Center								
Liabilities and net assets																						
Current liabilities:																						
Trade accounts payable	\$ 73,603	\$ 9,911	\$ 14,895	\$ 21,159	\$ 12,100	\$ 3,082	\$ 7,421	\$ 22,529	\$ 11,144	\$ 7,070	\$ 17,722	\$ 2,306	\$ 148	\$ 99,043	\$ –	\$ 302,133						
Accrued payroll and benefits	78,017	4,976	9,199	20,703	12,685	1,639	6,823	17,123	23,769	5,935	8,041	1,455	477	91,568	–	282,410						
Advances from third-party payors	293,947	22,624	33,469	82,948	70,665	9,253	33,562	83,164	62,755	20,089	54,829	2,698	91	3,853	–	773,947						
Short-term financing	–	–	–	–	–	–	–	–	–	–	–	–	–	150,000	–	150,000						
Lines of credit	–	–	–	–	–	–	–	–	–	–	–	–	–	193,500	–	193,500						
Other current liabilities	36,068	1,309	4,197	2,877	28,545	8,920	2,948	25,328	2,655	46,467	14,976	71,692	671	802,365	(919,205)	129,813						
Liabilities held for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	65,461	–	65,461						
Long-term debt subject to short-term remarketing arrangements	–	–	–	–	–	–	–	–	–	–	–	–	–	28,794	–	28,794						
Current portion of long-term debt	16,973	575	462	4,606	3,007	117	2,386	6,456	5,886	–	–	–	–	–	–	40,468						
Total current liabilities	498,608	39,395	62,222	132,293	127,002	23,011	53,140	154,600	106,209	79,561	95,568	78,151	1,387	1,434,584	(919,205)	1,966,526						
Long-term debt, less current portion	545,908	18,151	28,309	145,304	70,938	3,553	44,136	203,794	157,074	22,908	–	–	–	198,182	–	1,438,257						
Other long-term liabilities	31,966	1,233	13,154	9,750	37,153	1,556	13,308	96,045	22,043	1,179	8,560	–	–	512,135	(94,694)	653,388						
Interest rate swap liabilities	–	–	–	–	–	–	–	–	–	–	–	–	–	270,430	–	270,430						
Total liabilities	1,076,482	58,779	103,685	287,347	235,093	28,120	110,584	454,439	285,326	103,648	104,128	78,151	1,387	2,415,331	(1,013,899)	4,328,601						
Net assets:																						
Without donor restrictions	881,667	90,800	70,395	289,408	233,098	42,847	94,875	(63,500)	341,147	101,304	197,189	(31,706)	17,400	961,516	(1,171,094)	2,055,346						
With donor restrictions	37,615	38,847	46,350	9,213	40,542	5,237	–	1	146,660	–	1,839	3,143	74	673,557	(247,114)	755,964						
Total net assets	919,282	129,647	116,745	298,621	273,640	48,084	94,875	(63,499)	487,807	101,304	199,028	(28,563)	17,474	1,635,073	(1,418,208)	2,811,310						
Total liabilities and net assets	\$ 1,995,764	\$ 188,426	\$ 220,430	\$ 585,968	\$ 508,733	\$ 76,204	\$ 205,459	\$ 390,940	\$ 773,133	\$ 204,952	\$ 303,156	\$ 49,588	\$ 18,861	\$ 4,050,404	\$ (2,432,107)	\$ 7,139,911						

University of Maryland Medical System Corporation and Subsidiaries

Consolidating Statement of Operations – Hospital Format
(In Thousands)

Year Ended June 30, 2020

	University of Maryland Medical Center			University of Maryland Midtown Campus	Baltimore Washington Medical Center	Shore Health System			Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals		Capital Region Hospitals			All Other Entities	Eliminations	Consolidated Total																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
	University Hospital	Shock Trauma Center	Rehabilitation & Orthopaedic Institute			Memorial Hospital	Dorchester General	QAEC				Medical Center	Harford Memorial	Prince Georges	Laurel Regional	Bowie Health Center																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
Operating revenue, gains and other support:																				Net patient service revenue	\$ 1,401,411	\$ 184,667	\$ 102,355	\$ 185,142	\$ 378,467	\$ 208,359	\$ 32,038	\$ 7,811	\$ 36,172	\$ 129,960	\$ 322,523	\$ 259,777	\$ 84,752	\$ 286,263	\$ 23,059	\$ 13,904	\$ 267,139	\$ (7,868)	\$ 3,915,931	State support	–	3,400	–	–	–	–	–	–	–	–	–	–	–	16,337	–	–	15,000	(15,000)	19,737	Premium revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	181,674	(181,674)	–	CARES Act – Provider relief funds	49,980	–	8,975	17,943	24,717	16,729	–	–	5,431	7,147	21,824	21,499	2,640	15,116	–	–	7,631	–	199,632	Other revenue	145,152	208	1,743	22,748	5,340	3,368	3,265	631	560	1,462	4,233	4,983	4,582	8,539	451	–	699,752	(678,263)	228,754	Total operating revenue, gains and other support	1,596,543	188,275	113,073	225,833	408,524	228,456	35,303	8,442	42,163	138,569	348,580	286,259	91,974	326,255	23,510	13,904	1,171,196	(882,805)	4,364,054	Operating expenses:																				Salaries, wages, and benefits	584,658	64,750	53,667	103,305	189,223	92,409	15,016	2,902	15,029	61,658	137,854	134,975	52,558	142,096	16,387	7,306	737,799	(181,108)	2,230,484	Expendable supplies	377,503	25,695	12,579	33,072	55,107	29,488	4,791	926	3,266	21,771	57,843	43,056	6,362	36,754	4,632	1,166	46,102	–	760,113	Purchased services	331,909	46,855	24,404	49,629	80,886	42,030	6,611	1,278	15,427	30,997	68,861	53,184	20,764	104,042	16,340	5,963	349,221	(552,373)	696,028	Contracted services	129,751	12,703	9,489	31,180	40,755	34,007	5,342	407	9,690	10,901	42,639	25,778	9,211	31,151	4,254	473	28,552	(149,324)	276,959	Depreciation and amortization	88,828	9,636	7,006	14,049	27,425	14,441	2,346	453	3,934	6,598	23,795	20,240	2,793	8,134	2,926	1,388	1,899	–	235,891	Interest expense	19,891	–	197	988	5,125	2,049	452	87	127	1,613	9,311	6,424	1,132	–	1	–	(836)	–	46,561	Total operating expenses	1,532,540	159,639	107,342	232,223	398,521	214,424	34,558	6,053	47,473	133,538	340,303	283,657	92,820	322,177	44,540	16,296	1,162,737	(882,805)	4,246,036	Operating income (loss)	64,003	28,636	5,731	(6,390)	10,003	14,032	745	2,389	(5,310)	5,031	8,277	2,602	(846)	4,078	(21,030)	(2,392)	8,459	–	118,018	Nonoperating income and expenses, net:																				Contributions	3	–	–	–	–	11	–	–	–	–	–	–	–	–	–	–	9,279	–	9,293	Equity in net income of joint ventures	(1,973)	–	–	–	–	243	–	–	–	194	1,909	2,408	1,568	–	–	–	(813)	–	3,536	Investment income	7,557	–	696	324	2,689	1,661	–	–	23	348	–	(843)	(522)	–	–	–	12,702	–	24,635	Change in fair value of investments	(1,934)	–	(218)	(94)	(847)	1,027	–	–	(13)	(121)	–	–	–	–	–	–	(2,684)	–	(4,884)	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(75,811)	–	(75,811)	Other nonoperating gains and losses	(9,725)	–	(277)	(1,213)	(2,357)	(874)	–	–	(55)	(882)	(3,095)	(2,618)	–	1,117	147	67	(4,611)	–	(24,376)	Total nonoperating income and expenses	(6,072)	–	201	(983)	(515)	2,068	–	–	(45)	(461)	(1,186)	(1,053)	1,046	1,117	147	67	(61,938)	–	(67,607)	Excess (deficiency) of revenues over expenses	57,931	28,636	5,932	(7,373)	9,488	16,100	745	2,389	(5,355)	4,570	7,091	1,549	200	5,195	(20,883)	(2,325)	(53,479)	–	50,411	Gain on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	19,599	–	19,599	Excess (deficiency) of revenues over expenses	\$ 57,931	\$ 28,636	\$ 5,932	\$ (7,373)	\$ 9,488	\$ 16,100	\$ 745	\$ 2,389	\$ (5,355)	\$ 4,570	\$ 7,091	\$ 1,549	\$ 200	\$ 5,195	\$ (20,883)	\$ (2,325)	\$ (33,880)	\$ –	\$ 70,010
Net patient service revenue	\$ 1,401,411	\$ 184,667	\$ 102,355	\$ 185,142	\$ 378,467	\$ 208,359	\$ 32,038	\$ 7,811	\$ 36,172	\$ 129,960	\$ 322,523	\$ 259,777	\$ 84,752	\$ 286,263	\$ 23,059	\$ 13,904	\$ 267,139	\$ (7,868)	\$ 3,915,931																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
State support	–	3,400	–	–	–	–	–	–	–	–	–	–	–	16,337	–	–	15,000	(15,000)	19,737																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Premium revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	181,674	(181,674)	–																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
CARES Act – Provider relief funds	49,980	–	8,975	17,943	24,717	16,729	–	–	5,431	7,147	21,824	21,499	2,640	15,116	–	–	7,631	–	199,632																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Other revenue	145,152	208	1,743	22,748	5,340	3,368	3,265	631	560	1,462	4,233	4,983	4,582	8,539	451	–	699,752	(678,263)	228,754																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Total operating revenue, gains and other support	1,596,543	188,275	113,073	225,833	408,524	228,456	35,303	8,442	42,163	138,569	348,580	286,259	91,974	326,255	23,510	13,904	1,171,196	(882,805)	4,364,054																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Operating expenses:																				Salaries, wages, and benefits	584,658	64,750	53,667	103,305	189,223	92,409	15,016	2,902	15,029	61,658	137,854	134,975	52,558	142,096	16,387	7,306	737,799	(181,108)	2,230,484	Expendable supplies	377,503	25,695	12,579	33,072	55,107	29,488	4,791	926	3,266	21,771	57,843	43,056	6,362	36,754	4,632	1,166	46,102	–	760,113	Purchased services	331,909	46,855	24,404	49,629	80,886	42,030	6,611	1,278	15,427	30,997	68,861	53,184	20,764	104,042	16,340	5,963	349,221	(552,373)	696,028	Contracted services	129,751	12,703	9,489	31,180	40,755	34,007	5,342	407	9,690	10,901	42,639	25,778	9,211	31,151	4,254	473	28,552	(149,324)	276,959	Depreciation and amortization	88,828	9,636	7,006	14,049	27,425	14,441	2,346	453	3,934	6,598	23,795	20,240	2,793	8,134	2,926	1,388	1,899	–	235,891	Interest expense	19,891	–	197	988	5,125	2,049	452	87	127	1,613	9,311	6,424	1,132	–	1	–	(836)	–	46,561	Total operating expenses	1,532,540	159,639	107,342	232,223	398,521	214,424	34,558	6,053	47,473	133,538	340,303	283,657	92,820	322,177	44,540	16,296	1,162,737	(882,805)	4,246,036	Operating income (loss)	64,003	28,636	5,731	(6,390)	10,003	14,032	745	2,389	(5,310)	5,031	8,277	2,602	(846)	4,078	(21,030)	(2,392)	8,459	–	118,018	Nonoperating income and expenses, net:																				Contributions	3	–	–	–	–	11	–	–	–	–	–	–	–	–	–	–	9,279	–	9,293	Equity in net income of joint ventures	(1,973)	–	–	–	–	243	–	–	–	194	1,909	2,408	1,568	–	–	–	(813)	–	3,536	Investment income	7,557	–	696	324	2,689	1,661	–	–	23	348	–	(843)	(522)	–	–	–	12,702	–	24,635	Change in fair value of investments	(1,934)	–	(218)	(94)	(847)	1,027	–	–	(13)	(121)	–	–	–	–	–	–	(2,684)	–	(4,884)	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(75,811)	–	(75,811)	Other nonoperating gains and losses	(9,725)	–	(277)	(1,213)	(2,357)	(874)	–	–	(55)	(882)	(3,095)	(2,618)	–	1,117	147	67	(4,611)	–	(24,376)	Total nonoperating income and expenses	(6,072)	–	201	(983)	(515)	2,068	–	–	(45)	(461)	(1,186)	(1,053)	1,046	1,117	147	67	(61,938)	–	(67,607)	Excess (deficiency) of revenues over expenses	57,931	28,636	5,932	(7,373)	9,488	16,100	745	2,389	(5,355)	4,570	7,091	1,549	200	5,195	(20,883)	(2,325)	(53,479)	–	50,411	Gain on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	19,599	–	19,599	Excess (deficiency) of revenues over expenses	\$ 57,931	\$ 28,636	\$ 5,932	\$ (7,373)	\$ 9,488	\$ 16,100	\$ 745	\$ 2,389	\$ (5,355)	\$ 4,570	\$ 7,091	\$ 1,549	\$ 200	\$ 5,195	\$ (20,883)	\$ (2,325)	\$ (33,880)	\$ –	\$ 70,010																																																																																																																																												
Salaries, wages, and benefits	584,658	64,750	53,667	103,305	189,223	92,409	15,016	2,902	15,029	61,658	137,854	134,975	52,558	142,096	16,387	7,306	737,799	(181,108)	2,230,484																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Expendable supplies	377,503	25,695	12,579	33,072	55,107	29,488	4,791	926	3,266	21,771	57,843	43,056	6,362	36,754	4,632	1,166	46,102	–	760,113																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Purchased services	331,909	46,855	24,404	49,629	80,886	42,030	6,611	1,278	15,427	30,997	68,861	53,184	20,764	104,042	16,340	5,963	349,221	(552,373)	696,028																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Contracted services	129,751	12,703	9,489	31,180	40,755	34,007	5,342	407	9,690	10,901	42,639	25,778	9,211	31,151	4,254	473	28,552	(149,324)	276,959																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Depreciation and amortization	88,828	9,636	7,006	14,049	27,425	14,441	2,346	453	3,934	6,598	23,795	20,240	2,793	8,134	2,926	1,388	1,899	–	235,891																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Interest expense	19,891	–	197	988	5,125	2,049	452	87	127	1,613	9,311	6,424	1,132	–	1	–	(836)	–	46,561																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Total operating expenses	1,532,540	159,639	107,342	232,223	398,521	214,424	34,558	6,053	47,473	133,538	340,303	283,657	92,820	322,177	44,540	16,296	1,162,737	(882,805)	4,246,036																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Operating income (loss)	64,003	28,636	5,731	(6,390)	10,003	14,032	745	2,389	(5,310)	5,031	8,277	2,602	(846)	4,078	(21,030)	(2,392)	8,459	–	118,018																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Nonoperating income and expenses, net:																				Contributions	3	–	–	–	–	11	–	–	–	–	–	–	–	–	–	–	9,279	–	9,293	Equity in net income of joint ventures	(1,973)	–	–	–	–	243	–	–	–	194	1,909	2,408	1,568	–	–	–	(813)	–	3,536	Investment income	7,557	–	696	324	2,689	1,661	–	–	23	348	–	(843)	(522)	–	–	–	12,702	–	24,635	Change in fair value of investments	(1,934)	–	(218)	(94)	(847)	1,027	–	–	(13)	(121)	–	–	–	–	–	–	(2,684)	–	(4,884)	Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(75,811)	–	(75,811)	Other nonoperating gains and losses	(9,725)	–	(277)	(1,213)	(2,357)	(874)	–	–	(55)	(882)	(3,095)	(2,618)	–	1,117	147	67	(4,611)	–	(24,376)	Total nonoperating income and expenses	(6,072)	–	201	(983)	(515)	2,068	–	–	(45)	(461)	(1,186)	(1,053)	1,046	1,117	147	67	(61,938)	–	(67,607)	Excess (deficiency) of revenues over expenses	57,931	28,636	5,932	(7,373)	9,488	16,100	745	2,389	(5,355)	4,570	7,091	1,549	200	5,195	(20,883)	(2,325)	(53,479)	–	50,411	Gain on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	19,599	–	19,599	Excess (deficiency) of revenues over expenses	\$ 57,931	\$ 28,636	\$ 5,932	\$ (7,373)	\$ 9,488	\$ 16,100	\$ 745	\$ 2,389	\$ (5,355)	\$ 4,570	\$ 7,091	\$ 1,549	\$ 200	\$ 5,195	\$ (20,883)	\$ (2,325)	\$ (33,880)	\$ –	\$ 70,010																																																																																																																																																																																																																																																																																																																																
Contributions	3	–	–	–	–	11	–	–	–	–	–	–	–	–	–	–	9,279	–	9,293																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Equity in net income of joint ventures	(1,973)	–	–	–	–	243	–	–	–	194	1,909	2,408	1,568	–	–	–	(813)	–	3,536																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Investment income	7,557	–	696	324	2,689	1,661	–	–	23	348	–	(843)	(522)	–	–	–	12,702	–	24,635																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Change in fair value of investments	(1,934)	–	(218)	(94)	(847)	1,027	–	–	(13)	(121)	–	–	–	–	–	–	(2,684)	–	(4,884)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Change in fair value of undesignated interest rate swaps	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(75,811)	–	(75,811)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Other nonoperating gains and losses	(9,725)	–	(277)	(1,213)	(2,357)	(874)	–	–	(55)	(882)	(3,095)	(2,618)	–	1,117	147	67	(4,611)	–	(24,376)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Total nonoperating income and expenses	(6,072)	–	201	(983)	(515)	2,068	–	–	(45)	(461)	(1,186)	(1,053)	1,046	1,117	147	67	(61,938)	–	(67,607)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Excess (deficiency) of revenues over expenses	57,931	28,636	5,932	(7,373)	9,488	16,100	745	2,389	(5,355)	4,570	7,091	1,549	200	5,195	(20,883)	(2,325)	(53,479)	–	50,411																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Gain on discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	19,599	–	19,599																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
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