



**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements and
Consolidating Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-39
Consolidating Information:	
Consolidating Balance Sheet	40
Consolidating Statement of Operations	41
Consolidating Statement of Changes in Net Assets	42



KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors
GBMC HealthCare, Inc.:

We have audited the accompanying consolidated financial statements of GBMC HealthCare, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GBMC HealthCare, Inc. and its subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1–3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 6, 2017

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2017 and 2016

(In thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 33,092	46,632
Short-term investments and limited or restricted use funds	12,974	12,195
Patient accounts receivable, net of reserves of \$17,927 and \$10,685	62,401	54,429
Other receivables	15,262	11,977
Other current assets	10,164	11,560
Total current assets	<u>133,893</u>	<u>136,793</u>
Noncurrent assets:		
Investments and limited or restricted use funds	380,662	360,886
Property, plant and equipment, net	279,769	279,604
Other assets	31,196	33,093
Total noncurrent assets	<u>691,627</u>	<u>673,583</u>
Total assets	<u>\$ 825,520</u>	<u>810,376</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 59,937	64,958
Insurance reserves, current	12,466	12,700
Advances from third-party payors	13,047	12,563
Current portion of long-term debt and capital lease liabilities	13,487	12,300
Other current liabilities	4,569	6,956
Total current liabilities	103,506	109,477
Noncurrent liabilities:		
Long-term debt	152,232	129,211
Capital lease liabilities	25,283	27,332
Insurance reserves	44,226	42,805
Pension liability	11,054	60,498
Other long-term liabilities	4,711	5,947
Total liabilities	<u>341,012</u>	<u>375,270</u>
Net assets:		
Unrestricted controlling interest	405,942	361,531
Unrestricted noncontrolling interest	5,150	5,641
Total unrestricted	411,092	367,172
Temporarily restricted	41,073	37,786
Permanently restricted	32,343	30,148
Total net assets	<u>484,508</u>	<u>435,106</u>
Total liabilities and net assets	<u>\$ 825,520</u>	<u>810,376</u>

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Patient service revenue:		
Patient service revenue, net of contractual allowances	\$ 542,349	516,362
Provision for uncollectible accounts	(17,807)	(13,599)
Net patient service revenue	<u>524,542</u>	<u>502,763</u>
Other operating revenue	14,442	18,201
Net assets released from restrictions	12,134	10,211
Total operating revenue	<u>551,118</u>	<u>531,175</u>
Operating expenses:		
Salaries, wages and employee benefits	345,349	319,719
Expendable supplies	86,884	89,335
Purchased services	75,366	79,533
Depreciation and amortization	35,401	30,738
Interest	6,917	7,147
Total operating expenses	<u>549,917</u>	<u>526,472</u>
Total operating income	<u>1,201</u>	<u>4,703</u>
Other income:		
Contributions	3,322	1,284
Fund-raising expense	(3,532)	(3,911)
Investment income (loss), net	34,853	(3,020)
Loss on extinguishment of debt	(8,845)	—
Total other income (loss)	<u>25,798</u>	<u>(5,647)</u>
Excess (deficit) of revenues over expenses	<u>\$ 26,999</u>	<u>(944)</u>

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

(In thousands)

	2017	2016
Excess (deficit) of revenues over expenses	\$ 26,999	(944)
Changes in unrestricted net assets:		
Pension-related changes other than net periodic pension costs	17,546	(20,458)
Net assets released for purchase of fixed assets	925	917
Distribution to noncontrolling interest	(1,550)	(975)
Increase (decrease) in unrestricted net assets	43,920	(21,460)
Changes in temporarily restricted net assets:		
Contributions	10,836	13,731
Investment income (loss), net	5,846	(997)
Net assets released for operations	(12,134)	(10,211)
Net assets released for purchase of fixed assets	(925)	(917)
Net asset reclass	(336)	—
Increase in temporarily restricted net assets	3,287	1,606
Changes in permanently restricted net assets:		
Contributions	2,404	1,697
Net unrealized gain (loss) on investments	85	(111)
Net asset reclass	(294)	—
Increase in permanently restricted net assets	2,195	1,586
Increase (decrease) in net assets	49,402	(18,268)
Net assets, beginning of year	435,106	453,374
Net assets, end of year	\$ 484,508	435,106

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 49,402	(18,268)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	35,401	30,738
Loss on extinguishment of debt	8,845	—
Provision for uncollectible accounts	17,807	13,599
Realized and unrealized (gains) loss on investments	(35,152)	9,541
Pension-related changes other than net periodic pension costs	(17,546)	20,458
Restricted investment income	(717)	(689)
Restricted contributions	(13,240)	(15,428)
Unrealized gains on joint ventures	(975)	(779)
Distribution to noncontrolling interest	1,550	975
Changes in assets and liabilities:		
Increase in patient accounts receivable	(25,779)	(11,833)
Decrease (increase) in other receivables and other assets	2,077	(1,962)
(Decrease) increase in accounts payable and accrued expenses, advances from third parties, current and noncurrent liabilities	(8,924)	1,559
(Decrease) increase in pension liability	(31,898)	2,508
Net cash (used in) provided by operating activities	(19,149)	30,419
Cash flows from investing activities:		
Change in investments and limited or restricted use funds	21,496	21,354
Purchases of alternative investments	(5,207)	(2,851)
Additions to property and equipment	(32,985)	(41,839)
Net cash used in investing activities	(16,696)	(23,336)
Cash flows from financing activities:		
Payment on long-term debt and capital lease liabilities	(12,301)	(11,297)
Payments for deferred financing costs	(740)	—
Defeasance of bonds	(73,720)	—
Proceeds from bond issuance	99,445	—
Proceeds from restricted contributions	11,171	11,633
Distributions to noncontrolling interest	(1,550)	(975)
Net cash provided by (used in) financing activities	22,305	(639)
(Decrease) increase in cash	(13,540)	6,444
Cash and cash equivalents, beginning of year	46,632	40,188
Cash and cash equivalents, end of year	\$ 33,092	46,632
Cash paid during the year for interest	\$ 6,605	7,307
Capital additions accrued but not paid	2,485	8,358

See accompanying notes to consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(1) Organization and Consolidation

GBMC HealthCare, Inc. (the Company), is a holding company for nonprofit companies, which include: Greater Baltimore Medical Center, Inc. (Medical Center), Greater Baltimore Health Alliance, Physicians, LLC, GBMC Foundation, Inc., Gilchrist Hospice Care, Inc., GBMC Land, Inc., and GBMC Investments, Inc.

The Medical Center is a wholly owned not-for-profit hospital, which provides in-patient, outpatient, and emergency care services primarily for residents of the Baltimore metropolitan area. The Medical Center was formed by agreement dated September 1, 1965, by the Hospital for Women of Maryland of Baltimore City (Women's Hospital) and Presbyterian Eye, Ear and Throat Charity Hospital (Presbyterian Hospital). In addition, the Medical Center has ownership of Ruxton Insurance Company, Ltd., an insurance captive domiciled in Bermuda. Ruxton insures the risks for malpractice and general liability claims.

Greater Baltimore Health Alliance Physicians, LLC (GBHA), is a wholly owned not-for-profit accountable care organization, which integrates community primary care with hospital and multi-specialty care in the Baltimore area.

GBMC Foundation, Inc. (Foundation) is a wholly owned not-for-profit organization, which coordinates fundraising efforts to benefit the Company and its subsidiaries.

Gilchrist Hospice Care, Inc. d/b/a Gilchrist Services, Inc. (the Hospice) is a wholly owned not-for-profit organization, which provides inpatient and home hospice care in the greater Baltimore area. On October 31, 2014, Hospice entered into an affiliation agreement with Joseph Richey House, Inc. (JRH) and Brownlow Byron Home, Inc. (BBH), collectively referred to as Richey, under which the Hospice became the sole member of JRH and BBH.

GBMC Land, Inc. (Land) is a wholly owned not-for-profit organization, which operates Physicians Pavilion North, a medical building on the campus of the Medical Center.

GBMC Investments, Inc. is a wholly owned not-for-profit organization, which holds investments of the Company and is the parent of the following for-profit subsidiaries:

GBMC Agency, Inc. (Agency), which has ownership interest in various medical services companies as follows:

- GBMC Physicians, LLC, a multi-specialty physician healthcare provider.
- Greater Baltimore Diagnostic Imaging Partners, LLC (GBDIP), a diagnostic imaging company, which is 50% owned and consolidated in the financial statements of the Company.
- GBMC Pavilion West Medical Arts Limited Partnership, a Maryland limited partnership, which owns and operates the five upper floors of Physicians Pavilion West, a medical office building on the campus of the Medical Center.
- GBMC Management, Inc., which owns and operates Physicians Pavilion East, a medical office building on the campus of the Medical Center.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(b) Consolidation of Subsidiaries

The Company's consolidated financial statements include the subsidiaries in which the Company has 50% or more voting interests or when the Company is deemed to have control. Significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

Cash and cash equivalents, carried at cost which approximates fair value, include short-term investments with original maturities of three months or less from the date of purchase invested that are readily convertible to known amounts of cash. Cash balances may exceed amounts insured by federal agencies and, therefore, bear a risk of loss. The Company has not experienced such losses on these funds.

(d) Limited or Restricted Use Funds Held

Limited or restricted use funds primarily include assets held by trustees under agreement. Such funds include assets set aside for bond repayment, malpractice costs, capital replacement, and amounts restricted by donors. Independent third parties designate the assets held by trustees under agreement. The limited or restricted use funds are classified as current or noncurrent based upon the timing and nature of their intended use.

(e) Inventories

Inventories, consisting of medical supplies and drugs are stated at the lower of cost or market, with cost being determined primarily under the first-in, first-out method.

(f) Investments and Investment Income

Investments include amounts designated by management for specific purposes, insurance reserves, plant replacement, and other purposes. The Company's investment portfolio is considered a trading portfolio, with the exception of the alternative investments, and is classified as current or noncurrent assets based on management's intention as to use. Limited or restricted use funds that are required for obligations classified as current liabilities are reported as current assets. Investments in marketable securities are measured at fair market value on the consolidated balance sheets. The fair value of the investments, with the exception of the alternative investments, is based on quoted market prices or dealer quotations. See note 4 for discussion of the measurement of fair value for investments.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

Alternative 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.

Investment income or loss (including realized gains and losses on investments, interest and dividends) on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the insurance captive investment is reported as other operating income. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) from all other unrestricted fund investments is included in excess (deficit) of revenues over expenses unless restricted by donor or law. Investment income on investments of temporarily or permanently restricted net assets is recorded as an increase in temporarily or permanently restricted net assets to the extent restricted by the donor or law.

Investment income is recorded on the accrual basis. Purchases and sales of investments are reflected on a trade-date basis. Realized gains and losses on sales of investments are based on historical cost.

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at fair market value at date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. The cost and accumulated depreciation relating to property, plant and equipment sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in other operating income in the consolidated statements of operations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess (deficit) of revenues over expenses, 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.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(h) Other Noncurrent Assets

Other assets comprise the following items:

	2017	2016
Reinsurance receivable	\$ 15,207	14,877
Goodwill	7,593	7,593
Pledges receivable	6,698	8,912
Deferred costs	1,186	1,086
Equity investments	225	267
Other	287	358
	\$ 31,196	33,093

Goodwill is assessed annually for impairment at the reporting unit. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment tests as described in Accounting Standards Codification, Topic 350, *Intangibles – Goodwill and Other*. The more likely than not threshold is defined as having a likelihood of more than 50%.

In fiscal year 2012, the Company acquired an additional interest in Magnetic Imaging of Baltimore, LLC (MIB), which resulted in the Company having to consolidate MIB. The Company recorded this acquisition using the purchase accounting method and recorded goodwill of \$7,593. At June 30, 2017 and 2016, the Company assessed the goodwill for its reporting unit, GBDIP, for impairment. The Company determined that it was not more likely than not that the fair value of GBDIP was less than its carrying amount. Accordingly, the Company concluded that goodwill was not impaired as of June 30, 2017 and 2016 without having to perform the two-step impairment test.

Deferred costs include deferred leasing costs and prepaid land lease payments, which are amortized over the lease terms and expensed on a straight-line basis over the life of the related lease.

Amortization expense for deferred leasing and prepaid land lease for the years ended June 30, 2017 and 2016 was \$130 and \$145, respectively. Accumulated amortization at June 30, 2017 and 2016 amounted to \$783 and \$696, respectively.

The Company accounts for its joint ventures using the equity method or at cost, as appropriate, and any income (loss) is included in other operating revenues in the consolidated statements of operations.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(i) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company are reported at their 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 gift is received. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(j) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

JRH is one of six named beneficiaries of a charitable trust and receives annual distributions for 50 years, which began in 2005. The distributions are to be used for the unrestricted general charitable purpose of the JRH. After the 50 years, the trust corpus will be distributed to the charities as long as they continue to qualify as a charitable organization under Sections 171(c) and 2055(a) of the Internal Revenue Code. The corpus must be used to create an endowment fund that is permanently restricted, and the income should be used for the organization's unrestricted general charitable purpose. The fair value of the trust is included in permanently restricted net assets.

(k) Insurance Reserves

The provision for estimated insurance reserves include estimates of the ultimate costs for reported malpractice, health and workers' compensation claims and claims incurred but not reported.

(l) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Rates for the Medical Center's facility-based patient service charges are established in accordance with the regulations and rate methodologies of Maryland's rate-setting authority, the Health Services Cost Review Commission (HSCRC), an independent agency of the Maryland State government. With the exception of relatively small contractual allowances, the HSCRC allows a discount of 6.0% to Medicare and Medicaid as well as a 2.25% prompt pay discount for other participating payors, HSCRC regulations stipulate that all payors must reimburse the Medical Center on the basis of the charges approved by the HSCRC and billed by the Medical Center.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

During the years ended June 30, 2017 and 2016, the Medical Center participated in the HSCRC Global Budget Revenue (GBR) methodology, which provides a revenue target and maximum amount of facility-based revenue for the Medical Center during a fiscal year, and is not intended to fluctuate during the fiscal year with respect to changes in volume. The GBR model is consistent with the Medical Center's mission of controlling utilization of acute-care services by managing a patient's total spectrum of medical care. The GBR agreement allows the Medical Center to adjust unit rates, within certain limits, to achieve the overall revenue base for the Medical Center at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. While the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix, market share and uncompensated care. The HSCRC also may impose various other revenue adjustments that could be significant in the future.

Physician charges are not regulated by the HSCRC, and are primarily reimbursed by third-party payors at rates that are contractually agreed upon.

Hospice's net revenue is reported at the estimated net realizable amounts from third-party payors who pay on a per-diem basis.

Adjustments to patient service revenue for HSCRC related assessments, contractual allowances, discounts, denials, and financial assistance were \$159,168 and \$150,557 for the years ended June 30, 2017 and 2016, respectively.

(m) Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by allowances for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Company analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The Company analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without existing insurance coverage for a portion of the bill, the Company records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

The Company's allowance for doubtful accounts were 19% and 14% of gross accounts receivable as of June 30, 2017 and 2016, respectively. During 2017, the Company implemented a new electronic medical record and billing system and as a result, management determined additional reserves were necessary. In addition, there were known payor issues for which additional reserves were required.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The activity in the allowance for bad debts is summarized as follows for the years ended June 30:

	2017	2016
Beginning balance	\$ 10,685	11,041
Provision for uncollectible accounts	17,807	13,599
Less write-offs	(10,565)	(13,955)
Ending balance	\$ 17,927	10,685

(n) Excess (Deficit) of Revenue over Expenses

The consolidated statements of operations include a performance indicator, excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenues over expenses, consistent with industry practice include pension changes other than net periodic pension costs, contributions and distributions with noncontrolling investors, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

(o) Financial Assistance and Community Benefits

As part of the Company's mission, it provides medical care without discrimination, including the ability of a patient to pay for services. Under the Company's Financial Assistance Policy, patients who meet certain financial based criteria can qualify for free care on all or a portion of the total patient bill. The Company recorded \$2,121 and \$2,367 of financial assistance during the years ended June 30, 2017 and 2016, respectively. The total direct and indirect cost of providing financial assistance was approximately \$1,458 and \$1,728 during the years ended June 30, 2017 and 2016, respectively.

In addition to its Financial Assistance Policy, the Company has a long-standing commitment of supporting the community through the provision of outreach services designed to address identified health and social issues. Specifically, the Company provides a variety of screening and early detection tests, wellness activities, social support services and educational seminars. A majority of these services are provided at either nominal or no cost to community members.

(p) Rental Income

Base rental income is recognized as revenue on a straight-line basis over the life of the lease. The difference between the rent recognized and the rental income as stipulated in the lease agreement has been recognized as a receivable in the accompanying consolidated balance sheets from inception of the lease. Rental income is included in other operating income in the accompanying consolidated statements of operations.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(q) Income Taxes

Income taxes are provided for earnings (loss) of those subsidiaries which are subject to federal and state income tax based on the Company's share of the subsidiaries' taxable income, whether or not distributed. The Company's share of these subsidiaries' net losses is deductible to the extent of the Company's tax basis in the subsidiaries.

The Financial Accounting Standards Board's (FASB) guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This standard also provides guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. The Company has adopted this guidance, and there were no amounts recorded in the consolidated financial statements as of and during the years ended June 30, 2017 and 2016 for uncertain tax positions.

The subsidiaries of GBMC Investments, Inc. are taxable entities. An operating loss carry forward of approximately \$129,819 is available to offset future taxable income through the year 2036. As of June 30, 2017 and 2016, deferred tax assets of \$54,370 and \$46,828, respectively, consisting primarily of net operating loss carry forwards, were offset by a related valuation allowance.

(r) Use of Estimates

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

(s) New Accounting Pronouncements

In 2017, the Company adopted Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Topic 205-40)*. This ASU establishes the requirement for management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. Management performed an evaluation as required in this amendment and determined there are no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern.

In 2017, the Company adopted ASU No. 2015-03, *Interest – Imputation of Interest*. This ASU required that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU required retrospective application to all prior periods presented in the financial

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

statements. This change has been applied retrospectively to July 1, 2015, which resulted in a decrease in assets and liabilities of \$1,230 and \$1,319, respectively for the years ended June 30, 2017 and 2016.

In 2017, the Company adopted ASU No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This change has been applied retrospectively to July 1, 2015 and was a disclosure only impact. There was no impact on the consolidated balance sheets or statements of operations and changes in net assets.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal year 2019. The Company expects to record a decrease in patient service revenue, net of contractual allowances related to self-pay patients and a corresponding decrease in the provision for uncollectible accounts upon the adoption of the standard.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to recognize most leases on-balance sheet, which will increase their reported assets and liabilities. The adoption of ASU No. 2016-02 is effective in fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-02, which is expected to increase the Company's assets and liabilities but not have a significant impact on the results of operations.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities (NFP), and requires a NFP to:

- Reduce the number of net asset classes presented from three to two, with donor restrictions and without donor restrictions;
- Require all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements;
- Require NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date;

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The adoption of ASU No. 2016-14 is effective in fiscal year 2019, and is applied retrospectively in the year of adoption. The Company does not anticipate that the adoption of this ASU will have a material impact on its financial position and results of operations.

The FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). ASU No. 2017-07 is effective for fiscal year 2020. This ASU requires retrospective application to all prior periods presented. The Company does not anticipate that the adoption of this ASU will have a material impact on its financial position and results of operations.

(3) Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables and patient service revenue from patients and third parties as of June 30, 2017 and 2016 was as follows:

	<u>Accounts receivable</u>		<u>Revenue</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Medicare	37 %	34 %	42 %	42 %
Medicaid	5	5	3	3
Blue cross	12	13	14	17
HMO	21	22	23	21
Other third-party payors	21	20	17	16
Self-pay	4	6	1	1
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The Company provides general acute healthcare services in the State of Maryland. The Company and other healthcare providers 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

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

- Lawsuits alleging malpractice or other claims.

Such inherent risks require the use of certain management estimates in the preparation of the Company'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 Company's revenues and the Company'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 Company.

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

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self referral laws (STARK law and regulation). Federal healthcare reform initiatives continue to prompt a national review of federally funded healthcare programs. In addition, the federal government and many states continue to fund programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Company began receiving Recovery Audit Contractors (RAC) and Additional Development Request (ADR) in 2011 and 2009, respectively. The Company has devoted resources to track and defend RAC and ADR requests and implemented a response program and compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2017 or 2016 consolidated financial statements.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(4) Investments and Limited or Restricted Use Funds

Guidance for fair value measurements establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under current guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last one is considered unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The tables below present the balances of assets measured at fair value by levels excluding alternative investments in the amount of \$8,086 and \$2,684, which are accounted for under the equity method, as of June 30, 2017 and 2016, respectively:

Assets	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Managed cash funds	\$ 22,745	—	—	22,745
Common stock	148,623	4,246	728	153,597
Foreign stock	10,687	—	—	10,687
Mutual funds	53,221	—	—	53,221
Mutual funds international	638	—	—	638
Total equity	213,169	4,246	728	218,143
Corporate debt securities	—	26,999	—	26,999
Bonds – treasury	13,474	—	—	13,474
Bonds – federal-agency-backed	—	7,167	—	7,167
Bonds – mortgage-backed	—	2,038	—	2,038
Bonds – fixed income	—	445	—	445
Mutual funds – fixed income	—	93,734	—	93,734
Municipal bonds	—	805	—	805
Total fixed income	13,474	131,188	—	144,662
Total investment and limited or restricted use funds	249,388	135,434	728	385,550
Current portion	12,974	—	—	12,974
Total noncurrent investment and limited or restricted use funds	\$ 236,414	135,434	728	372,576

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

<u>Assets</u>	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Managed cash funds	\$ 20,170	—	—	20,170
Common stock	133,390	3,395	863	137,648
Foreign stock	9,590	—	—	9,590
Mutual funds	43,231	—	—	43,231
Mutual funds international	520	—	—	520
Total equity	<u>186,731</u>	<u>3,395</u>	<u>863</u>	<u>190,989</u>
Corporate debt securities	—	40,365	—	40,365
Bonds – treasury	15,786	—	—	15,786
Bonds – federal-agency-backed	—	8,992	—	8,992
Bonds – mortgage-backed	—	1,545	—	1,545
Bonds – fixed income	—	1,125	—	1,125
Mutual funds – fixed income	—	90,507	—	90,507
Municipal bonds	—	918	—	918
Total fixed income	<u>15,786</u>	<u>143,452</u>	<u>—</u>	<u>159,238</u>
Total investment and limited or restricted use funds	<u>222,687</u>	<u>146,847</u>	<u>863</u>	<u>370,397</u>
Current portion	<u>12,195</u>	<u>—</u>	<u>—</u>	<u>12,195</u>
Total noncurrent investment and limited or restricted use funds	<u>\$ 210,492</u>	<u>146,847</u>	<u>863</u>	<u>358,202</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

As of June 30, 2017 and 2016, the alternative investments consisted of subscription partnership agreements with capital commitments of approximately \$21.0 and \$14.0 million, respectively, which are subject to periodic distributions. These alternative investments are valued at fair value using NAV or equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. All assets are unable to be fully distributed to the limited partners until the dissolution of the partnership, which may not be until a point in the future. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The investment strategies within the alternative investments include strategies such as middle market growth, private equity, natural resources, and various other asset classes. The investments are subject to restrictions and are not available to be redeemed until certain time restrictions are met, which range from 7 to 10 years with a 2 year optional extension.

As of June 30, 2017 and 2016, the Level 3 investments consist of holdings of donated stock in a closely held company of \$728 and \$863, respectively. The value of the donated stock is based on independent appraisals obtained by the closely held company. There were no significant transfers between levels during the years ended June 30, 2017 and 2016.

Investments and limited or restricted use funds comprise the following uses and purposes at June 30:

	<u>2017</u>	<u>2016</u>
Funds for debt service	\$ 4,254	5,787
Insurance settlements	56,692	55,505
Donor-restricted	57,464	54,051
Unrestricted	<u>275,226</u>	<u>257,738</u>
	<u>\$ 393,636</u>	<u>373,081</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

Investment income and gains for cash and cash equivalents and investments and limited use funds comprise the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted income (loss):		
Dividends and interest, net	\$ 4,915	4,724
Realized gains on sales of investments	7,730	5,010
Unrealized gain (loss) on investments	<u>22,208</u>	<u>(12,754)</u>
Total unrestricted income (loss)	<u>34,853</u>	<u>(3,020)</u>
Temporarily restricted income (loss):		
Dividends and interest, net	717	689
Realized gains on sales of investments	1,465	1,008
Unrealized gain (loss) on investments	<u>3,664</u>	<u>(2,694)</u>
Total temporarily restricted income (loss)	<u>5,846</u>	<u>(997)</u>
Permanently restricted income (loss):		
Unrealized gain (loss) on investments	<u>85</u>	<u>(111)</u>
	<u>85</u>	<u>(111)</u>
Total investment income (loss), net	\$ <u><u>40,784</u></u>	\$ <u><u>(4,128)</u></u>

(5) Property, Plant and Equipment

The following is a summary of the cost of property, plant and equipment as of June 30:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 23,273	23,273
Buildings and building service equipment	387,295	375,624
Movable equipment	288,131	223,361
Capital leases	40,605	40,605
Construction in progress	<u>4,821</u>	<u>46,074</u>
	744,125	708,937
Less accumulated depreciation and amortization	<u>(464,356)</u>	<u>(429,333)</u>
Total property, plant and equipment, net	\$ <u><u>279,769</u></u>	\$ <u><u>279,604</u></u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

	2017	2016
Depreciation expense	\$ 34,956	30,287
Amortization expense	445	451
Total depreciation and amortization expense	\$ 35,401	30,738

The construction in progress balance as of June 30, 2016 included \$30 million of costs related to the Company's electronic medical record system, which became operational in October 2016.

(6) Long-Term Debt

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

	2017	2016
MHHEFA project and refunding revenue bonds:		
2017 Capital One Bank term note – 3.8%	\$ 25,725	—
Series 2017 bonds:		
2.66% term bonds	73,720	—
2015 PNC Bank term note – 2.3%	34,821	41,665
Series 2012 bonds:		
3.25%–5.00% term bonds	3,475	35,680
Series 2011 bonds:		
2.50%–5.75% term bonds	22,620	58,190
Series 1995 bonds:		
Variable rate serial bonds	4,540	4,945
Unamortized deferred financing costs	(1,230)	(1,319)
Unamortized bond premium (discount)	—	388
	163,671	139,549
Less current portion of long-term debt	(11,439)	(10,338)
	\$ 152,232	129,211

On March 8, 2017, Maryland Health and Higher Education Facilities Authority (MHHEFA) issued \$73,720 of tax exempt Revenue Bonds, Series 2017, on behalf of the Company. The bond proceeds were used to refund a portion of the Series 2012 Revenue Bonds (\$32,205) and a portion of the Series 2011 Revenue Bonds (\$32,480) resulting in a \$8,845 loss on extinguishment of debt. The Series 2017 bonds are due on July 1 in annual installments ranging from \$810 in 2018 to \$7,280 in 2034.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

On March 8, 2017, the Company obtained a \$25,725 taxable term note from Capital One, N.A. to fund the Company's nonunion defined benefit pension plan. The 2017 note is due in annual installments ranging from \$2,445 in 2024 to \$3,735 in 2032.

On March 1, 2015, the Company obtained a \$50,000 taxable term note from PNC Bank, National Association to finance components of the system-wide integrated health record conversion and other capital projects. The 2015 note is due in monthly installments of \$647, expiring on March 1, 2022.

On April 11, 2012, MHHEFA issued \$35,680 of tax exempt Revenue Bonds, Series 2012, on behalf of the Company. The bond proceeds and limited use funds were used to refund Series 2001 Revenue Bonds (\$40,265). Bond proceeds from the Series 2017 revenue bonds were used to refund a portion of the Series 2012 Revenue Bonds (\$32,205). The Series 2012 Bonds are due on July 1 in annual installments ranging from \$1,710 in 2023 to \$1,765 in 2024.

On April 20, 2011, MHHEFA issued \$67,945 of tax exempt Revenue Bonds, Series 2011, on behalf of the Company. The bond proceeds and limited use funds were used to finance construction and renovation to the hospital and to refund, a) the Series 2009 Revenue Bonds (\$45,000); b) a portion of Series 2001 Revenue Bonds (\$12,565); and c) the Series 1993 Revenue Bonds (\$11,975). Bond proceeds from the Series 2017 revenue bonds were used to refund a portion of the Series 2012 Revenue Bonds (\$32,480). The Series 2011 bonds are due on July 1 in annual installments ranging from \$3,195 in 2017 to \$1,930 in 2025.

On October 4, 1995, MHHEFA issued \$10,000 of tax exempt Revenue Bonds, Series 1995, on behalf of the Company. The Series 1995 bonds are due on July 1 in annual installments ranging from \$405 in 2017 to \$590 in 2025. The bonds bear interest at a variable rate, which is determined on a weekly basis by the remarketing agent of the issue. The rate was 1.12% and 0.72% as of June 30, 2017 and 2016, respectively. The Series 1995 Bonds are supported by a Standby Bond Purchase Agreement issued by M&T Bank, covering the remaining portion of the obligation, effective through October 1, 2018.

The PNC 2015 note, Series 2017, 2012, 2011, and 1995 Revenue Bonds are collateralized equally and ratably by a lien on all gross receipts of the Company. The term note and bond proceeds were loaned to the Company pursuant to the Master Trust Indenture.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The aggregate future maturities of long-term debt as of June 30, 2017 are as follows:

	Long-term debt
2018	\$ 11,439
2019	11,679
2020	12,046
2021	12,421
2022	10,868
Thereafter	106,448
	164,901
Unamortized deferred financing costs	(1,230)
	\$ 163,671

The fair value of the Company's long-term debt, which is estimated, based on quotes from underwriters, was approximately \$167,341 and \$153,550 as of June 30, 2017 and 2016.

Deferred financing costs related to long-term borrowings, are amortized on a straight-line basis, which approximates the effective interest rate method, over the life of the borrowings, which ranges from 2 to 30 years. The Company has incurred deferred financing costs related to the issuance of MHHEFA Series 2017, Series 2012, Series 2011, Series 1995 Revenue Bonds and 2017 Capital One and 2015 PNC Bank term note payables that have been capitalized. Accumulated amortization at June 30, 2017 and 2016 amounted to \$1,260 and \$430, respectively.

Under the Master Trust Indenture, the Company is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.1 to 1.0.

In 2017, the Company reinstated a \$20,000 line of credit expiring December 31, 2017, which bears interest at the LIBOR Daily Floating Rate. No amounts were drawn on this line during the year ended June 30, 2017.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(7) Temporarily and Permanently Restricted Net Assets

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

	Available balance		Released	
	2017	2016	2017	2016
Departmental needs	\$ 18,301	16,583	9,436	7,729
Education	6,203	5,882	912	366
Uncompensated care	3,888	2,890	902	1,027
Research	2,353	2,566	777	836
Time restriction	949	1,169	107	253
Total temporarily restricted net assets	31,694	29,090	12,134	10,211
Purchase of equipment/construction	9,379	8,696	925	917
	<u>\$ 41,073</u>	<u>37,786</u>	<u>13,059</u>	<u>11,128</u>

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	2017	2016
Departmental needs	\$ 15,020	13,850
Uncompensated care	11,495	10,182
Education	2,792	2,881
Research	2,526	2,725
General support	510	510
Total permanently restricted net assets	<u>\$ 32,343</u>	<u>30,148</u>

The Company's endowment fund consists of a \$14 million endowment for Hospice as well as other donations from individual donors. The Company has no internal board-designated endowment funds recorded in unrestricted net assets. The net assets associated with the endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The Company has interpreted the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) as requiring the preservation 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 Company classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Company in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance, with UPMIFA, the Company considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Company and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

The Company had the following activities among its endowment fund during the years ended June 30 delineated by net asset class:

	<u>Unrestricted</u>	<u>Temporary restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015 \$	1,793	16,340	28,562	46,695
Investment return (loss):				
Investment income, net	42	758	—	800
Net depreciation (realized and unrealized)	<u>(76)</u>	<u>(1,501)</u>	<u>(111)</u>	<u>(1,688)</u>
Total investment return (loss)	(34)	(743)	(111)	(888)
Contributions	—	—	1,697	1,697
Appropriation of endowment assets for expenditure	<u>(161)</u>	<u>(2,331)</u>	<u>—</u>	<u>(2,492)</u>
Endowment net assets, June 30, 2016	<u>1,598</u>	<u>13,266</u>	<u>30,148</u>	<u>45,012</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

	<u>Unrestricted</u>	<u>Temporary restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:				
Investment income, net	\$ 37	694	—	731
Net appreciation (realized and unrealized)	<u>260</u>	<u>4,877</u>	<u>85</u>	<u>5,222</u>
Total investment return	297	5,571	85	5,953
Contributions	—	—	2,404	2,404
Net asset reclass	—	(336)	(294)	(630)
Appropriation of endowment assets for expenditure	<u>(148)</u>	<u>(2,308)</u>	<u>—</u>	<u>(2,456)</u>
Endowment net assets, June 30, 2017	\$ <u>1,747</u>	<u>16,193</u>	<u>32,343</u>	<u>50,283</u>

(a) Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2017, there were no endowments with deficits. As of June 30, 2016, there were four endowments with deficits that were insignificant.

(b) Return Objectives and Risk Parameters

The Company has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The Company expects its endowment funds over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yields (interest and dividends). The Company targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(d) Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Directors of the Company approves the method to be used to appropriate endowment funds for expenditure. The Company amended its endowment spending allocation policy to conform to UPMIFA, which was passed by Maryland on April 14, 2009 and limits annual endowment spending to 7% of the annual market value per year.

(8) Functional Expenses

The Company provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended June 30 were as follows:

	<u>2017</u>	<u>2016</u>
Health care services	\$ 479,155	460,332
General and administrative	70,762	66,140
Total operating expenses	<u>\$ 549,917</u>	<u>526,472</u>

(9) Leases

(a) Capital Leases

The Company is obligated under a long-term lease expiring in 2030 for the use of a medical office building. Payments increase at varying rates from \$2,483 and \$3,004 per year over the remaining life. Interest rates approximated 5.76% as of June 30, 2017 and 2016, respectively.

The Company leases medical equipment with annual payments ranging from \$243 to \$1,032 and the last lease expires in fiscal year 2020.

Scheduled principal and interest payments on capital lease and financing obligations are as follows:

	<u>Payment</u>	<u>Principal</u>
2018	\$ 3,512	2,048
2019	3,353	1,982
2020	3,094	1,817
2021	2,975	1,790
2022	2,731	1,640
Thereafter	<u>22,535</u>	<u>18,054</u>
	38,200	27,331
Less amount representing interest	<u>(10,869)</u>	—
	<u>\$ 27,331</u>	<u>27,331</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(b) Operating Leases

The Company leases land, office space, and equipment under leases ranging from 2 to 13 years. Options to renew these leases range from 1 to 10 years.

Minimum future rental expense for the years subsequent to June 30 is as follows:

	<u>Equipment</u>	<u>Facility</u>	<u>Total</u>
2018	\$ 639	1,666	2,305
2019	639	1,030	1,669
2020	639	700	1,339
2021	639	269	908
2022	—	230	230
Thereafter	—	—	—
Total	\$ <u>2,556</u>	<u>3,895</u>	<u>6,451</u>

Most of the Company's leases contain renewal options and provisions for pass-through of operating expenses and real estate taxes. These provisions are not included in the minimum future rental expense unless exercised. Rental expense, including pass-through, associated with the facility leases amounted to \$2,750 and \$2,484 for the years ended June 30, 2017 and 2016, respectively.

(10) Retirement Plans

(a) Defined Benefit Plan

The Company has two noncontributory defined benefit pension plans, Greater Baltimore Medical Center Retirement Plan (DB Non Union) and the Pension Plan for Members of the Bargaining Unit of Greater Baltimore Medical Center (DB Union), covering all full-time employees with at least one year of service. Benefits under the plans are determined based on increasing percentages (depending on years of service) of final average compensation. Annual contributions are made to these plans in accordance with the Employment Retirement Income Security Act (ERISA) regulations.

Effective June 30, 2007, the DB Non Union plan was frozen. As a result, no future benefits may be earned; however, employees are eligible to vest under the terms of the plan.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The following tables set forth the plans' funded status and amounts recognized in the Company's consolidated financial statements as of June 30, 2017 and 2016. The change in benefit obligation, plan assets, and funded status of the pension plans is as follows:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 227,064	206,789
Service cost	1,161	971
Interest cost	8,435	9,170
Actuarial loss	(7,066)	17,891
Benefits paid	<u>(8,925)</u>	<u>(7,757)</u>
Benefit obligation at end of year	\$ <u>220,669</u>	<u>227,064</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 166,566	169,257
Actual return on plan assets	16,401	5,066
Employer contribution	35,573	—
Benefits paid	<u>(8,925)</u>	<u>(7,757)</u>
Fair value of plan assets at end of year	\$ <u>209,615</u>	<u>166,566</u>
Funded status at end of year	\$ (11,054)	(60,498)

Amounts recognized in unrestricted net assets as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Net prior service cost	\$ (734)	(1,107)
Net actuarial loss	<u>66,551</u>	<u>84,470</u>
	\$ <u>65,817</u>	<u>83,363</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

Components of net periodic benefit cost for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 1,161	971
Interest cost	8,435	9,170
Expected return on plan assets	(13,138)	(12,347)
Amortization of prior service cost	(372)	(372)
Amortization of loss deferral	<u>7,589</u>	<u>5,088</u>
Net periodic pension benefit cost	\$ <u>3,675</u>	<u>2,510</u>

Amounts in unrestricted net assets expected to be recognized as a component of net periodic pension benefit cost in fiscal year 2018:

Prior service cost	\$ (372)
Net actuarial loss	<u>5,988</u>
	\$ <u>5,616</u>

(i) *Assumptions*

The weighted average assumptions used in developing the projected pension benefit obligations for the plans as of June 30, were as follows:

	<u>Union</u>		<u>Non union</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	3.97 %	3.87 %	3.97 %	3.87 %
Rate of compensation increase	4.00	4.00	—	—

The weighted average assumptions used to determine the net periodic benefit costs for the plans as of June 30, were as follows:

	<u>Union</u>		<u>Non union</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	3.87 %	4.61 %	3.87 %	4.61 %
Expected return on plan assets	7.50	7.50	7.50	7.50
Rate of compensation increase	4.00	4.00	—	—

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The accumulated benefit obligation for the pension plans, which differs from the estimated actuarial present value of the projected benefit obligation because it is based on current rather than future compensation levels, was \$217,676 and \$224,183 as of June 30, 2017 and 2016, respectively. In 2017, GBMC adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2016.

(ii) *Expected Long-Term Rate of Return*

The expected long-term rate of return assumption used was based on a total plan return estimation by looking at the current yields available from fixed-income and reasonable equity return assumption based on long-term market trends and applying this to the plan's asset mix. In addition, the actual long-term historical returns realized by the pension plans were taken into consideration.

(iii) *Estimated Future Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Non union</u>	<u>Union</u>	<u>Total</u>
2018	\$ 8,737	1,471	10,208
2019	8,976	1,543	10,519
2020	9,247	1,540	10,787
2021	9,627	1,578	11,205
2022	9,980	1,593	11,573
2023–2027	<u>52,329</u>	<u>9,050</u>	<u>61,379</u>
Total	\$ <u>98,896</u>	<u>16,775</u>	<u>115,671</u>

The Company's pension plan weighted average asset allocations as of June 30 by asset category were as follows:

	<u>2017</u>	<u>2016</u>
Equity securities	20 %	34 %
Debt securities	78	64
Cash and cash equivalents	<u>2</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30:

June 30, 2017				
	Level 1	Level 2	Level 3	Total
Managed cash funds	\$ 3,706	—	—	3,706
Mutual funds – fixed income	—	142,734	—	142,734
Common collective trust	—	21,860	—	21,860
Total fixed income	<u>3,706</u>	<u>164,594</u>	<u>—</u>	<u>168,300</u>
Common stock	19,210	—	—	19,210
Foreign stock	1,529	—	—	1,529
Mutual funds	10,392	—	—	10,392
Mutual funds international	10,184	—	—	10,184
Total equity	<u>41,315</u>	<u>—</u>	<u>—</u>	<u>41,315</u>
Total plan assets	<u>\$ 45,021</u>	<u>164,594</u>	<u>—</u>	<u>209,615</u>
June 30, 2016				
	Level 1	Level 2	Level 3	Total
Managed cash funds	\$ 2,798	—	—	2,798
Mutual funds – fixed income	—	50,638	—	50,638
Common collective trust	—	55,678	—	55,678
Total fixed income	<u>2,798</u>	<u>106,316</u>	<u>—</u>	<u>109,114</u>
Common stock	27,046	—	—	27,046
Foreign stock	2,558	—	—	2,558
Mutual funds	16,644	—	—	16,644
Mutual funds international	11,204	—	—	11,204
Total equity	<u>57,452</u>	<u>—</u>	<u>—</u>	<u>57,452</u>
Total plan assets	<u>\$ 60,250</u>	<u>106,316</u>	<u>—</u>	<u>166,566</u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

The following is a description of the valuation methodologies used for assets measured at fair value:

Corporate bonds: Valued at unadjusted quoted market share prices within active markets or based on external price data of comparable securities.

Common and foreign stock and mutual funds: Valued at unadjusted quoted market share prices within active markets.

Mutual funds – fixed income: Valued at the net asset value (NAV) of shares held by the plans at year-end. Shares traded in an active market.

Common collective trust funds: Valued at fair value based on the NAV of the fund. NAV is determined by the bank sponsoring such funds dividing the fund's net assets at fair value by its units outstanding at the valuation date. The Company is required to provide a 90-day notice in order to redeem any amount of investment. There are no other restrictions or gates related to this fund.

(iv) *Pension Investment Policies*

The primary objective of the Medical Center's pension investment program is the long-term growth of capital consistent with the protection of principal during major market declines. The program utilizes several balanced managers and provides for asset allocation guidelines consistent with the Medical Center's risk exposure. The equity portion of the DB Union portfolio may range from 50% to 60% of total portfolio assets with a target of 55% measured at market value. The fixed-income and cash equivalents portion of the DB Union portfolio may range from 40% to 50% of total portfolio assets with a target of 45% measured at market value. The distribution of the DB Union plan as of June 20, 2017 was 56% equities, fixed income 41%, and cash 3%. The investment program related to the DB Non Union portfolio, which was frozen effective June 30, 2007, has the added objective to protect the principal in preparation for future termination of the plan. A major strategy of the investment program for the DB Non Union portfolio is a de-risking strategy that periodically transfers investments from equity to fixed-income securities based upon pre-established ranges correlating to the funded ratio of the plan, which are managed by the Company's investment consultants. At June 30, 2017 the funded ratio of the plan was 101.1%. At this funding ratio, the equity portion of the DB Non Union portfolio may range from 13% to 23% of total portfolio assets with a target of 18% measured at market value. The fixed-income and cash equivalents portion may range from 77% to 87% of total portfolio assets with a target of 82% measured at market value. The distribution of the DB Non Union portfolio as of June 30, 2017 was 15% equities, fixed income 84%, and cash 1%.

The equity segment of the portfolio may include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Equity holdings in any one industry should not exceed 20% of the equity portfolio, holdings in any one economic sector should not exceed 50% of the equity portfolio, and holdings in any one company should not exceed 8% of the equity portfolio. Cash equivalent positions should not exceed 10% of the equity managers' portfolio and no more

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

than 15% of the total portfolio measured at market value shall be invested in small companies, defined as companies of less than \$1 billion in market capitalization.

The fixed-income segment of the portfolio may include marketable bonds, preferred stocks, up to 20% in Securities and Exchange Commission (SEC) registered 144 A securities and cash equivalent securities. With the exception of securities issued by or guaranteed by the U.S. Treasury or U.S. government agencies and instrumentalities, the maximum position in a single issuer's securities should not exceed 3% of the portfolio at market value. The manager is expected to maintain a weighted average bond portfolio quality rating of at least "A." Exposure to below investment grade securities, that is less than "BBB," is limited to a maximum of 20% of the portfolio at market value.

(v) *Contributions*

The Company expects to contribute \$0 to its DB Union and DB Non Union pension plans in the fiscal year ending June 30, 2018.

(b) Defined Contribution Plan

Effective July 1, 2007, the Company established the GBMC, Inc. 401(a) Defined Contribution Plan (DC Non Union) covering all employees except those covered by the collective bargaining agreement, or employees in a zero hour or registry position. The Company contributes up to 2% of all eligible employee wages (basic contribution) to the plan and the Company matches up to 3% of employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. At the discretion of the Board of Directors, the Company may contribute additional funds to the plan.

Expenses for the defined contribution plan for June 30 were as follows:

	2017	2016
Basic contribution	\$ 2,749	4,295
Match contribution	4,011	3,791
Total contribution	\$ 6,760	8,086

Effective July 1, 2009, the Company established the GBMC, Inc. 401(a) Defined Contribution Plan for Members of the Bargaining Union of Greater Baltimore Medical Center (DC Union) for the members covered by a collective bargaining agreement. The Company matches up to 3% of eligible employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. The Company contributed \$91 and \$84 for the years ended June 30, 2017 and 2016, respectively.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(c) Nonqualified Plan

The Company has a noncontributory, nonqualified deferred compensation plan for certain key employees. Benefits under the plan are determined based on increasing percentages (depending on years of service) of base pay. The Company recorded expense related to this plan of \$751 and \$757 for the years ended June 30, 2017 and 2016, respectively.

(11) Asserted and Unasserted Insurance Claims and Contingencies

The Company maintains an off-shore captive insurance company in Bermuda to provide coverage for medical malpractice claims. Reserve balances have been discounted at the rate of 3% for the years ended June 30, 2017 and 2016. The receivable for the expected reinsurance recoverable is recorded within other assets on the consolidated balance sheets. Retention on limits in which Ruxton assumes risk of loss is based on an annual occurrence basis of \$4 million per occurrence and \$19 million in aggregate. Amounts in excess of these limits are insured by highly rated commercial insurance companies.

As of June 30, 2017 and 2016, the Company was partially self-insured for workers' compensation and health insurance claims. The aggregate reserves for workers' compensation claims were determined and discounted at the rate of 2.1% and 2.7% for 2017 and 2016, respectively. The receivable for the expected reinsurance recoverable is recorded within other current assets on the consolidated balance sheet. The Company's excess workers' compensation policy is based on a per claim basis in excess of \$350 plus a corridor deductible of \$750.

The Company is subject to legal proceedings and claims, which arise from the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to the actions will not materially affect the consolidated financial position of the Company.

The Company recorded reserve activity for claims and claims expense as follows:

	2017			
	Malpractice	Workers' compensation	Health	Total
Insurance reserves for self-insured claims	\$ 32,186	5,624	2,727	40,537
Reserves that are recoverable from reinsurance carrier	15,207	948	—	16,155
Total insurance accrual	47,393	6,572	2,727	56,692
Less current portion of insurance accrual	6,700	3,039	2,727	12,466
Total noncurrent insurance accrual	\$ 40,693	3,533	—	44,226

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

	2016			
	<u>Malpractice</u>	<u>Workers' compensation</u>	<u>Health</u>	<u>Total</u>
Insurance reserves for self-insured claims	\$ 31,309	5,728	2,485	39,522
Reserves that are recoverable from reinsurance carrier	<u>14,877</u>	<u>1,106</u>	<u>—</u>	<u>15,983</u>
Total insurance accrual	46,186	6,834	2,485	55,505
Less current portion of insurance accrual	<u>6,837</u>	<u>3,378</u>	<u>2,485</u>	<u>12,700</u>
Total noncurrent insurance accrual	\$ <u><u>39,349</u></u>	<u><u>3,456</u></u>	<u><u>—</u></u>	<u><u>42,805</u></u>

(12) Promises to Contribute

The Company has received unconditional and conditional promises to give. The pledge receivables are recorded on a discounted basis using the rate in effect at the time of the pledge. Such rates approximate 4%. The Company is the beneficiary of four charitable remainder trusts whose present value as of June 30, 2017 and 2016 was \$1,262 and \$1,261, respectively. Current pledge receivables are included in other receivables and noncurrent pledge receivables are included in other assets in the accompanying consolidated balance sheets.

	<u>2017</u>	<u>2016</u>
Due within 1 year	\$ 9,464	5,182
Due 1–5 years	6,226	8,619
Due over 5 years	<u>1,262</u>	<u>1,261</u>
Gross pledge receivables	16,952	15,062
Less discount and allowances	<u>(1,000)</u>	<u>(1,179)</u>
Net pledge receivables	\$ <u><u>15,952</u></u>	<u><u>13,883</u></u>

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

(13) Controlling and Noncontrolling Interest

The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the Company's controlling interest and noncontrolling interest:

	Unrestricted net assets – controlling interest	Unrestricted net assets – noncontrolling interest	Total unrestricted net assets
Balance as of June 30, 2015	\$ 383,799	4,833	388,632
(Deficit) excess of revenues over expenses	(2,727)	1,783	(944)
Pension-related changes other than net periodic pension costs	(20,458)	—	(20,458)
Distributions to noncontrolling interest owners	—	(975)	(975)
Net assets released for purchase of fixed assets	917	—	917
(Decrease) increase in net assets	<u>(22,268)</u>	<u>808</u>	<u>(21,460)</u>
Balance as of June 30, 2016	<u>361,531</u>	<u>5,641</u>	<u>367,172</u>
Excess of revenues over expenses	25,940	1,059	26,999
Pension-related changes other than net periodic pension costs	17,546	—	17,546
Distributions to noncontrolling interest owners	—	(1,550)	(1,550)
Net assets released for purchase of fixed assets	925	—	925
Increase (decrease) in net assets	<u>44,411</u>	<u>(491)</u>	<u>43,920</u>
Balance as of June 30, 2017	<u>\$ 405,942</u>	<u>5,150</u>	<u>411,092</u>

The noncontrolling interest comprises:

- 50% interest in Greater Baltimore Diagnostic Imaging Partnership that provides medical imaging services on the campus of the Company.

(14) Subsequent Events

The Company has evaluated all events and transactions from the consolidated balance sheet date through October 6, 2017, the date the consolidated financial statements were issued, and determined there are no other items to be recognized or disclosed this period.

CONSOLIDATING INFORMATION

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidating Balance Sheet

June 30, 2017

(In thousands)

Assets	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Investments Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Current assets:									
Cash and cash equivalents	\$ 21,472	408	4,727	6,367	14	90	14	—	33,092
Short-term investments and limited or restricted use funds	4,254	5,069	—	3,651	—	—	—	—	12,974
Patient accounts receivable, net	53,710	—	1,183	7,508	—	—	—	—	62,401
Other receivables	8,540	646	1,761	3,842	—	473	—	—	15,262
Advances to affiliates	39,811	—	(57)	(1)	—	—	—	(39,753)	—
Other current assets	9,749	238	43	134	—	—	—	—	10,164
Total current assets	137,536	6,361	7,657	21,501	14	563	14	(39,753)	133,893
Investments and limited use funds	216,376	61,417	1,468	101,401	—	—	—	—	380,662
Interest in net assets of affiliate	—	—	—	—	—	—	484,560	(484,560)	—
Long-term receivables from affiliates	5,324	—	—	—	—	—	—	(5,324)	—
Property and equipment, net	249,472	—	16,681	12,048	123	1,445	—	—	279,769
Other noncurrent assets	6,170	15,207	8,258	2,007	—	239	—	(685)	31,196
Total assets	\$ 614,878	82,985	34,064	136,957	137	2,247	484,574	(530,322)	825,520
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 54,293	79	828	4,633	—	38	66	—	59,937
Insurance reserves current	5,027	7,289	—	150	—	—	—	—	12,466
Payable to affiliates	—	3,431	33,651	2,671	—	—	—	(39,753)	—
Advances from third-party payors	13,047	—	—	—	—	—	—	—	13,047
Current portion of long-term debt and capital lease liability	13,282	—	205	—	—	—	—	—	13,487
Other current liabilities	3,832	—	14	723	—	—	—	—	4,569
Total current liabilities	89,481	10,799	34,698	8,177	—	38	66	(39,753)	103,506
Long-term debt	152,232	—	—	—	—	—	—	—	152,232
Capital lease liabilities	25,231	—	52	—	—	—	—	—	25,283
Insurance reserves	3,217	40,693	—	316	—	—	—	—	44,226
Long-term payable to affiliate	—	—	(965)	—	6,289	—	—	(5,324)	—
Pension liability	11,054	—	—	—	—	—	—	—	11,054
Other long-term liabilities	2,549	—	1,547	615	—	—	—	—	4,711
Total liabilities	283,764	51,492	35,332	9,108	6,289	38	66	(45,077)	341,012
Net assets:									
Unrestricted – controlling	284,140	31,493	(6,418)	101,407	(6,152)	2,209	405,942	(406,679)	405,942
Unrestricted – noncontrolling	—	—	5,150	—	—	—	5,150	(5,150)	5,150
Total unrestricted	284,140	31,493	(1,268)	101,407	(6,152)	2,209	411,092	(411,829)	411,092
Temporarily restricted	31,145	—	—	9,928	—	—	41,073	(41,073)	41,073
Permanently restricted	15,829	—	—	16,514	—	—	32,343	(32,343)	32,343
Total liabilities and net assets	\$ 614,878	82,985	34,064	136,957	137	2,247	484,574	(530,322)	825,520

See accompanying independent auditors' report.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidating Statement of Operations

Year ended June 30, 2017

(In thousands)

	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Investments Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Operating revenues:									
Patient service revenue net of contractual allowances	\$ 432,822	—	57,837	51,690	—	—	—	—	542,349
Provision for uncollectible accounts	(14,583)	—	(1,686)	(1,538)	—	—	—	—	(17,807)
Net patient service revenue	418,239	—	56,151	50,152	—	—	—	—	524,542
Other operating revenue	9,798	12,347	9,111	205	—	3,201	—	(20,220)	14,442
Net assets released from restrictions	8,406	—	—	3,728	—	—	—	—	12,134
Total operating revenue	436,443	12,347	65,262	54,085	—	3,201	—	(20,220)	551,118
Operating expenses:									
Salaries, wages and employee benefits	254,946	—	55,928	34,416	954	349	7	(1,251)	345,349
Expendable supplies	79,391	—	3,937	3,501	7	48	—	—	86,884
Purchased services	50,507	9,944	20,854	9,784	106	3,091	48	(18,968)	75,366
Depreciation and amortization	30,747	—	2,790	1,426	161	277	—	—	35,401
Interest	6,903	—	15	—	—	—	—	(1)	6,917
Overhead	(3,529)	250	2,319	400	—	50	260	250	—
Total operating expenses	418,965	10,194	85,843	49,527	1,228	3,815	315	(19,970)	549,917
Operating income (loss)	17,478	2,153	(20,581)	4,558	(1,228)	(614)	(315)	(250)	1,201
Other income:									
Contributions	1,261	—	—	2,061	—	—	50	(50)	3,322
Fund-raising expense	(2,600)	—	—	(1,182)	—	—	—	250	(3,532)
Investment income (loss), net	24,540	13	(4)	10,305	—	—	—	(1)	34,853
Interests in net assets of affiliate	—	—	—	—	—	—	43,948	(43,948)	—
Loss on extinguishment of debt	(8,845)	—	—	—	—	—	—	—	(8,845)
Excess (deficit) of revenues over expenses	\$ 31,834	2,166	(20,585)	15,742	(1,228)	(614)	43,683	(43,999)	26,999

See accompanying independent auditors' report.

**GBMC HEALTHCARE, INC.
AND SUBSIDIARIES**

Consolidating Statement of Changes in Net Assets

Year ended June 30, 2017

(In thousands)

	(Obligated Group) Greater Baltimore Medical Center, Inc.	Ruxton Insurance	GBMC Investments Inc. and Subsidiaries	Gilchrist Hospice Care Inc.	GBHA Inc.	GBMC Land Inc.	GBMC Healthcare Inc. (Parent)	Eliminating entries	Total
Excess (deficit) of revenues over expenses	\$ 31,834	2,166	(20,585)	15,742	(1,228)	(614)	43,683	(43,999)	26,999
Other unrestricted net assets:									
Pension-related changes other than net periodic pension costs	17,546	—	—	—	—	—	—	—	17,546
Net assets released for purchase of fixed assets	925	—	—	—	—	—	—	—	925
Distribution to noncontrolling interest	—	—	(1,550)	—	—	—	—	—	(1,550)
Transfers	4,977	—	(5,844)	—	—	630	237	—	—
Increase (decrease) in unrestricted net assets	<u>55,282</u>	<u>2,166</u>	<u>(27,979)</u>	<u>15,742</u>	<u>(1,228)</u>	<u>16</u>	<u>43,920</u>	<u>(43,999)</u>	<u>43,920</u>
Changes in temporarily restricted net assets:									
Contributions	7,696	—	—	3,140	—	—	—	—	10,836
Investment income, net	3,722	—	—	2,124	—	—	—	—	5,846
Interest in net assets of affiliate	—	—	—	—	—	—	3,287	(3,287)	—
Transfer of temporarily restricted assets	—	—	—	—	—	—	—	—	—
Net assets released for purchase of fixed assets	(925)	—	—	—	—	—	—	—	(925)
Net assets released for operations	(8,406)	—	—	(3,728)	—	—	—	—	(12,134)
Net asset reclass	(336)	—	—	—	—	—	—	—	(336)
Increase (decrease) in temporarily restricted net assets	<u>1,751</u>	<u>—</u>	<u>—</u>	<u>1,536</u>	<u>—</u>	<u>—</u>	<u>3,287</u>	<u>(3,287)</u>	<u>3,287</u>
Changes in permanently restricted net assets:									
Contributions	186	—	—	2,218	—	—	—	—	2,404
Interest in net assets of affiliate	—	—	—	—	—	—	2,195	(2,195)	—
Net unrealized loss on investments	—	—	—	85	—	—	—	—	85
Net asset reclass	(294)	—	—	—	—	—	—	—	(294)
Increase (decrease) in permanently restricted net assets	<u>(108)</u>	<u>—</u>	<u>—</u>	<u>2,303</u>	<u>—</u>	<u>—</u>	<u>2,195</u>	<u>(2,195)</u>	<u>2,195</u>
(Decrease) increase in net assets	56,925	2,166	(27,979)	19,581	(1,228)	16	49,402	(49,481)	49,402
Net assets, beginning of year	274,189	29,327	26,711	108,268	(4,924)	2,193	435,106	(435,764)	435,106
Net assets, end of year	\$ <u>331,114</u>	<u>31,493</u>	<u>(1,268)</u>	<u>127,849</u>	<u>(6,152)</u>	<u>2,209</u>	<u>484,508</u>	<u>(485,245)</u>	<u>484,508</u>

See accompanying independent auditors' report.