

IRS e-file Signature Authorization for an Exempt Organization

For calendar year 2017, or fiscal year beginning 07/01, 2017, and ending 06/30, 20 18

▶ Do not send to the IRS. Keep for your records.

▶ Go to www.irs.gov/Form8879EO for the latest information.

2017

Department of the Treasury
Internal Revenue Service

Name of exempt organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Name and title of officer

W. WALTER AUGUSTIN, III, CFO

Part I Type of Return and Return Information (Whole Dollars Only)

Check the box for the return for which you are using this Form 8879-EO and enter the applicable amount, if any, from the return. If you check the box on line 1a, 2a, 3a, 4a, or 5a, below, and the amount on that line for the return being filed with this form was blank, then leave line 1b, 2b, 3b, 4b, or 5b, whichever is applicable, blank (do not enter -0-). But, if you entered -0- on the return, then enter -0- on the applicable line below. Do not complete more than one line in Part I.

| | | | | | | |
|----|----------------------------|-------------------------------------|---|--|----|-------------------|
| 1a | Form 990 check here ▶ | <input checked="" type="checkbox"/> | b | Total revenue, if any (Form 990, Part VIII, column (A), line 12) . . . | 1b | <u>118309583.</u> |
| 2a | Form 990-EZ check here ▶ | <input type="checkbox"/> | b | Total revenue, if any (Form 990-EZ, line 9) | 2b | |
| 3a | Form 1120-POL check here ▶ | <input type="checkbox"/> | b | Total tax (Form 1120-POL, line 22) | 3b | |
| 4a | Form 990-PF check here ▶ | <input type="checkbox"/> | b | Tax based on investment income (Form 990-PF, Part VI, line 5). | 4b | |
| 5a | Form 8868 check here ▶ | <input type="checkbox"/> | b | Balance Due (Form 8868, line 3c) | 5b | |

Part II Declaration and Signature Authorization of Officer

Under penalties of perjury, I declare that I am an officer of the above organization and that I have examined a copy of the organization's 2017 electronic return and accompanying schedules and statements and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that the amount in Part I above is the amount shown on the copy of the organization's electronic return. I consent to allow my intermediate service provider, transmitter, or electronic return originator (ERO) to send the organization's return to the IRS and to receive from the IRS (a) an acknowledgement of receipt or reason for rejection of the transmission, (b) the reason for any delay in processing the return or refund, and (c) the date of any refund. If applicable, I authorize the U.S. Treasury and its designated Financial Agent to initiate an electronic funds withdrawal (direct debit) entry to the financial institution account indicated in the tax preparation software for payment of the organization's federal taxes owed on this return, and the financial institution to debit the entry to this account. To revoke a payment, I must contact the U.S. Treasury Financial Agent at 1-888-353-4537 no later than 2 business days prior to the payment (settlement) date. I also authorize the financial institutions involved in the processing of the electronic payment of taxes to receive confidential information necessary to answer inquiries and resolve issues related to the payment. I have selected a personal identification number (PIN) as my signature for the organization's electronic return and, if applicable, the organization's consent to electronic funds withdrawal.

Officer's PIN: check one box only

I authorize GRANT THORNTON LLP to enter my PIN

| | | | | |
|---|---|---|---|---|
| 1 | 4 | 2 | 1 | 9 |
|---|---|---|---|---|

 as my signature
ERO firm name Enter five numbers, but do not enter all zeros

on the organization's tax year 2017 electronically filed return. If I have indicated within this return that a copy of the return is being filed with a state agency(ies) regulating charities as part of the IRS Fed/State program, I also authorize the aforementioned ERO to enter my PIN on the return's disclosure consent screen.

As an officer of the organization, I will enter my PIN as my signature on the organization's tax year 2017 electronically filed return. If I have indicated within this return that a copy of the return is being filed with a state agency(ies) regulating charities as part of the IRS Fed/State program, I will enter my PIN on the return's disclosure consent screen.

Officer's signature ▶ *Walter Augustin* Date ▶ 5/13/19

Part III Certification and Authentication

ERO's EFIN/PIN. Enter your six-digit electronic filing identification number (EFIN) followed by your five-digit self-selected PIN.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2 | 3 | 6 | 9 | 5 | 3 | 3 | 6 | 6 | 0 | 5 |
|---|---|---|---|---|---|---|---|---|---|---|

Do not enter all zeros

I certify that the above numeric entry is my PIN, which is my signature on the 2017 electronically filed return for the organization indicated above. I confirm that I am submitting this return in accordance with the requirements of Pub. 4163, Modernized e-File (MeF) Information for Authorized IRS e-file Providers for Business Returns.

ERO's signature ▶ *Frank & Spiller* Date ▶ 5/13/19

ERO Must Retain This Form - See Instructions
Do Not Submit This Form To the IRS Unless Requested To Do So

For Paperwork Reduction Act Notice, see back of form.

Form **8879-EO** (2017)

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

- ▶ Do not enter Social Security numbers on this form as it may be made public.
- ▶ Information about Form 990 and its instructions is at www.irs.gov/form990.

OMB No. 1545-0047

2017

Open to Public Inspection

A For the **2017** calendar year, or tax year beginning **07/01, 2017**, and ending **06/30, 2018**

| | | | | |
|---|---|--|---|---|
| B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending | C Name of organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | | | D Employer identification number 52-0591639 |
| | Doing Business As UM REHABILITATION & ORTHOPEDIC INSTI | | | E Telephone number (410) 448-2500 |
| | Number and street (or P.O. box if mail is not delivered to street address) 2200 KERNAN DRIVE | | Room/suite | G Gross receipts \$ 133,332,701. |
| | City or town, state or province, country, and ZIP or foreign postal code BALTIMORE, MD 21207 | | | |
| F Name and address of principal officer: CYNTHIA KELLEHER 2200 KERNAN DRIVE BALTIMORE, MD 21207 | | | H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions) | |
| I Tax-exempt status: <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527 | J Website: ▶ WWW.UMMS.ORG/REHAB | | | H(c) Group exemption number ▶ |
| K Form of organization: <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶ | L Year of formation: 1895 | | M State of legal domicile: MD | |

Part I Summary

| | | | |
|---|--|---------------------------|--------------|
| Activities & Governance | 1 Briefly describe the organization's mission or most significant activities: JAMES L KERNAN HOSPITAL DELIVERS INNOVATIVE, HIGH-QUALITY, AND COST EFFECTIVE REHABILITATION AND SURGICAL SERVICES TO THE COMMUNITY AND REGION. | | |
| | 2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets. | | |
| | 3 Number of voting members of the governing body (Part VI, line 1a) | 3 | 12. |
| | 4 Number of independent voting members of the governing body (Part VI, line 1b) | 4 | 7. |
| | 5 Total number of individuals employed in calendar year 2017 (Part V, line 2a) | 5 | 816. |
| | 6 Total number of volunteers (estimate if necessary) | 6 | 79. |
| | 7a Total unrelated business revenue from Part VIII, column (C), line 12 | 7a | 0. |
| b Net unrelated business taxable income from Form 990-T, line 34 | 7b | 0. | |
| Revenue | 8 Contributions and grants (Part VIII, line 1h) | Prior Year | Current Year |
| | 9 Program service revenue (Part VIII, line 2g) | 409,052. | 814,146. |
| | 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) | 115,106,578. | 114,624,719. |
| | 11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) | 1,105,526. | 1,027,650. |
| | 12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12) | 2,082,020. | 1,843,068. |
| | | 118,703,176. | 118,309,583. |
| Expenses | 13 Grants and similar amounts paid (Part IX, column (A), lines 1-3) | 10,000. | 0. |
| | 14 Benefits paid to or for members (Part IX, column (A), line 4) | 0. | 0. |
| | 15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10) | 46,424,195. | 49,160,400. |
| | 16a Professional fundraising fees (Part IX, column (A), line 11e) | 0. | 0. |
| | b Total fundraising expenses (Part IX, column (D), line 25) ▶ | 0. | |
| | 17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e) | 68,088,936. | 64,426,209. |
| 18 Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25) | 114,523,131. | 113,586,609. | |
| 19 Revenue less expenses. Subtract line 18 from line 12 | 4,180,045. | 4,722,974. | |
| Net Assets or Fund Balances | 20 Total assets (Part X, line 16) | Beginning of Current Year | End of Year |
| | 21 Total liabilities (Part X, line 26) | 149,444,639. | 163,537,343. |
| | 22 Net assets or fund balances. Subtract line 21 from line 20 | 40,483,281. | 45,375,904. |
| | 108,961,358. | 118,161,439. | |

COPY FOR PUBLIC INSPECTION

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

| | | | | | |
|-------------------------------|---|---|-----------------|---|-------------------|
| Sign Here | Signature of officer W. WALTER AUGUSTIN, III | Date 05/13/2019 | | | |
| | Type or print name and title CFO | | | | |
| Paid Preparer Use Only | Print/Type preparer's name FRANK GIARDINI | Preparer's signature <i>Frank Giardini</i> | Date 5/13/19 | Check <input type="checkbox"/> if self-employed | PTIN P00532355 |
| | Firm's name ▶ GRANT THORNTON LLP | Firm's EIN ▶ 36-605558 | | | |
| | Firm's address ▶ 2001 MARKET STREET, SUITE 700 PHILADELPHIA, PA 19103 | Phone no. 215-561-4200 | | | |

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

For Paperwork Reduction Act Notice, see the separate instructions.

Form **990** (2017)

Application for Automatic Extension of Time To File an Exempt Organization Return

▶ **File a separate application for each return.**
▶ Information about Form 8868 and its instructions is at www.irs.gov/form8868.

Electronic filing (e-file). You can electronically file Form 8868 to request a 6-month automatic extension of time to file any of the forms listed below with the exception of Form 8870, Information Return for Transfers Associated With Certain Personal Benefit Contracts, for which an extension request must be sent to the IRS in paper format (see instructions). For more details on the electronic filing of this form, visit www.irs.gov/efile, click on Charities & Non-Profits, and click on e-file for Charities and Non-Profits.

Automatic 6-Month Extension of Time. Only submit original (no copies needed).

All corporations required to file an income tax return other than Form 990-T (including 1120-C filers), partnerships, REMICs, and trusts must use Form 7004 to request an extension of time to file income tax returns.

| | | Enter filer's identifying number, see instructions |
|--|---|---|
| Type or print File by the due date for filing your return. See instructions. | Name of exempt organization or other filer, see instructions. JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number (EIN) or 52-0591639 |
| | Number, street, and room or suite no. If a P.O. box, see instructions. 2200 KERNAN DRIVE | Social security number (SSN) |
| | City, town or post office, state, and ZIP code. For a foreign address, see instructions. BALTIMORE, MD 21207 | |

Enter the Return Code for the return that this application is for (file a separate application for each return) 01

| Application Is For | Return Code | Application Is For | Return Code |
|--|-------------|-----------------------------------|-------------|
| Form 990 or Form 990-EZ | 01 | Form 990-T (corporation) | 07 |
| Form 990-BL | 02 | Form 1041-A | 08 |
| Form 4720 (individual) | 03 | Form 4720 (other than individual) | 09 |
| Form 990-PF | 04 | Form 5227 | 10 |
| Form 990-T (sec. 401(a) or 408(a) trust) | 05 | Form 6069 | 11 |
| Form 990-T (trust other than above) | 06 | Form 8870 | 12 |

S. MICHELLE LEE

• The books are in the care of ▶ 250 W. PRATT STREET, 14TH FLOOR BALTIMORE MD 21201

Telephone No. ▶ 410 328-1376 Fax No. ▶

• If the organization does not have an office or place of business in the United States, check this box

• If this is for a Group Return, enter the organization's four digit Group Exemption Number (GEN) If this is for the whole group, check this box . If it is for part of the group, check this box and attach a list with the names and EINs of all members the extension is for.

1 I request an automatic 6-month extension of time until 05/15, 2019, to file the exempt organization return for the organization named above. The extension is for the organization's return for:

▶ calendar year 20__ or
▶ tax year beginning 07/01, 2017, and ending 06/30, 2018.

2 If the tax year entered in line 1 is for less than 12 months, check reason: Initial return Final return
 Change in accounting period

| | | |
|---|--------------|----|
| 3a If this application is for Forms 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions. | 3a \$ | 0. |
| b If this application is for Forms 990-PF, 990-T, 4720, or 6069, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit. | 3b \$ | 0. |
| c Balance due. Subtract line 3b from line 3a. Include your payment with this form, if required, by using EFTPS (Electronic Federal Tax Payment System). See instructions. | 3c \$ | 0. |

Caution. If you are going to make an electronic funds withdrawal (direct debit) with this Form 8868, see Form 8453-EO and Form 8879-EO for payment instructions.

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

| Cumulative e-File History 2017 | |
|---------------------------------------|--------------------------------------|
| FED | |
| Locator: | 4240CV |
| Taxpayer Name: | James Lawrence Kernan Hospital, Inc. |
| Return Type: | 990, 990 & 990T (Corp) |
| | |
| Submitted Date: | 09/27/2018 15:53:34 |
| Acknowledgement Date: | 09/27/2018 16:26:21 |
| Status: | Accepted |
| Submission ID: | 23695320182705000072 |

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III [X]

1 Briefly describe the organization's mission: JAMES L KERNAN HOSPITAL, DOING BUSINESS AS UM REHABILITATION & ORTHOPEDIC INSTITUTE (UM REHAB), DELIVERS INNOVATIVE, HIGH-QUALITY, AND COST EFFECTIVE REHABILITATION AND SURGICAL SERVICES TO THE COMMUNITY AND REGION.

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? [] Yes [X] No

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? [] Yes [X] No

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses \$ 100,348,260. including grants of \$ 0.) (Revenue \$ 116,440,634.) UM REHAB OWNS AND OPERATES A MEDICAL, SURGICAL AND REHABILITATION HOSPITAL WITH 134 LICENSED BEDS. UM REHAB PROVIDES CHARITY CARE TO PATIENTS WHO ARE UNABLE TO PAY. SUCH PATIENTS ARE IDENTIFIED BASED ON INFORMATION OBTAINED FROM THE PATIENTS AND SUBSEQUENT ANALYSIS. BECAUSE THE HOSPITAL DOES NOT EXPECT COLLECTION OF AMOUNTS DETERMINED AS CHARITY CARE, THEY ARE NOT REPORTED AS REVENUE BASED ON ESTABLISHED RATES. UM REHAB ESTIMATES THAT \$1,787,708 OF CHARITY CARE AT COST WAS PROVIDED IN THE YEAR ENDED JUNE 30, 2018. OVERALL, UM REHAB DELIVERS INNOVATIVE HIGH QUALITY, COST EFFECTIVE SURGICAL AND REHABILITATION SERVICES TO ITS COMMUNITY.

4b (Code:) (Expenses \$ including grants of \$) (Revenue \$)

4c (Code:) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O.) (Expenses \$ including grants of \$) (Revenue \$)

4e Total program service expenses 100,348,260.

Part IV Checklist of Required Schedules

| | Yes | No |
|--|-----|----|
| 1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> | X | |
| 2 Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? | X | |
| 3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i> | | X |
| 4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i> | X | |
| 5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i> | | |
| 6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i> | | X |
| 7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> | | X |
| 8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> | | X |
| 9 Did the organization report an amount in Part X, line 21, for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> | | X |
| 10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> | | X |
| 11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable. | | |
| a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> | X | |
| b Did the organization report an amount for investments-other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> | X | |
| c Did the organization report an amount for investments-program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> | | X |
| d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> | X | |
| e Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> | X | |
| f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> | X | |
| 12a Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI and XII.</i> | | X |
| b Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional.</i> | X | |
| 13 Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i> | | X |
| 14a Did the organization maintain an office, employees, or agents outside of the United States? | | X |
| b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Parts I and IV.</i> | | X |
| 15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? <i>If "Yes," complete Schedule F, Parts II and IV.</i> | | X |
| 16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? <i>If "Yes," complete Schedule F, Parts III and IV.</i> | | X |
| 17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I</i> (see instructions). | | X |
| 18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i> | | X |
| 19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i> | | X |

Part IV Checklist of Required Schedules (continued)

| | Yes | No |
|---|-----|----|
| 20a Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H.</i> | X | |
| b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? | X | |
| 21 Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or domestic government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II.</i> | | X |
| 22 Did the organization report more than \$5,000 of grants or other assistance to or for domestic individuals on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III.</i> | | X |
| 23 Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J.</i> | X | |
| 24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a.</i> | | X |
| b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? | | |
| c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? | | |
| d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? | | |
| 25a Section 501(c)(3), 501(c)(4), and 501(c)(29) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I.</i> | | X |
| b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I.</i> | | X |
| 26 Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If "Yes," complete Schedule L, Part II.</i> | | X |
| 27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III.</i> | | X |
| 28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions): | | |
| a A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV.</i> | | X |
| b A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV.</i> | | X |
| c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV.</i> | | X |
| 29 Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M.</i> | | X |
| 30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M.</i> | | X |
| 31 Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I.</i> | | X |
| 32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II.</i> | | X |
| 33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I.</i> | X | |
| 34 Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1.</i> | X | |
| 35a Did the organization have a controlled entity within the meaning of section 512(b)(13)? | | X |
| b If "Yes" to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2.</i> | | |
| 36 Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2.</i> | | X |
| 37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI.</i> | | X |
| 38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. All Form 990 filers are required to complete Schedule O. | X | |

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response or note to any line in this Part V [X]

Table with columns for line numbers (1a-14b), descriptions of questions, and Yes/No columns. Includes entries for backup withholding, employee reporting, unrelated business income, and charitable trusts.

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response or note to any line in this Part VI [X]

Section A. Governing Body and Management

Table with 3 columns: Question, Yes, No. Rows include: 1a (12), 1b (7), 2 (X), 3 (X), 4 (X), 5 (X), 6 (X), 7a (X), 7b (X), 8a (X), 8b (X), 9 (X).

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

Table with 3 columns: Question, Yes, No. Rows include: 10a (X), 10b, 11a (X), 11b, 12a (X), 12b (X), 12c (X), 13 (X), 14 (X), 15a (X), 15b (X), 16a (X), 16b.

Section C. Disclosure

- 17 List the states with which a copy of this Form 990 is required to be filed MD,
18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.
19 Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.
20 State the name, address, and telephone number of the person who possesses the organization's books and records: ED WUENSCHHELL 900 ELKRIDGE LANDING ROAD - 3 EAST LINTHICUM, MD 21090 443-462-5811

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response or note to any line in this Part VII. X

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

| (A) Name and Title | (B) Average hours per week (list any hours for related organizations below dotted line) | (C) Position (do not check more than one box, unless person is both an officer and a director/trustee) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W-2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|--|--|--|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
| | | Individual trustee or director | Institutional trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (1) JOHN T. CHAY BOARD CHAIRMAN | 1.00 0. | X | | X | | | | 0. | 0. | 0. |
| (2) ROBERT A. CHRENCIK DIRECTOR/TREASURER | 1.00 54.00 | X | | X | | | | 0. | 2,590,028. | 25,019. |
| (3) GEORGE BROUILLET, JR., MD DIRECTOR | 8.00 0. | X | | | | | | 94,992. | 0. | 0. |
| (4) ALISON GATES BROWN, MPH DIRECTOR | 40.00 0. | X | | | | | | 0. | 648,318. | 22,281. |
| (5) KAREN E. DOYLE, MBA, MS, RN DIRECTOR | 40.00 0. | X | | | | | | 0. | 394,428. | 26,231. |
| (6) ANTHONY T. HAWKINS DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (7) LEON KAPLAN, CPA, MBA DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (8) ANTHONY F. LEHMAN DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (9) WILLIAM F. PECK DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (10) ANDREW N. POLLAK, MD DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (11) MICHAEL T. WILMOT DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (12) HENRY YORK, MD DIRECTOR | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (13) LISA A. GLADDEN DIRECTOR - END (NOV. 2017) | 1.00 0. | X | | | | | | 0. | 0. | 0. |
| (14) CYNTHIA KELLEHER PRESIDENT AND CEO | 40.00 0. | | | X | | | | 422,037. | 0. | 65,188. |

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

| (A) Name and title | (B) Average hours per week (list any hours for related organizations below dotted line) | (C) Position (do not check more than one box, unless person is both an officer and a director/trustee) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W-2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|---|--|---|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
| | | Individual trustee or director | Institutional trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (15) W. WALTER AUGUSTIN, III, CPA VP FINANCIAL SERVICES AND CFO | 40.00 0. | | | X | | | | 313,667. | 0. | 20,461. |
| (16) CHERYL D. LEE, RN, MSN VP PATIENT SERVICES AND CNO | 40.00 0. | | | | X | | | 387,654. | 0. | 16,442. |
| (17) LOBNA ZADA DENTAL CLINICAL CHIEF | 40.00 0. | | | | | X | | 189,566. | 0. | 18,266. |
| (18) DEBORAH O'CONNOR KH NURSING SUPERVISOR | 40.00 0. | | | | | X | | 152,904. | 0. | 4,860. |
| (19) SHERRY LAMONS CLINICAL NURSE | 40.00 0. | | | | | X | | 147,592. | 0. | 13,712. |
| (20) MARY RICE DIR-SURG AND AMB SVCS | 40.00 0. | | | | | X | | 143,100. | 0. | 20,357. |
| (21) JENNIFER MERENDA DIRECTOR CLINICAL OPS | 40.00 0. | | | | | X | | 137,955. | 0. | 23,215. |
| (22) MICHAEL R. JABLONOVER FORMER CEO | 0. 0. | | | | | | X | 0. | 705,298. | 26,817. |
| (23) JOHN P. STRAUMANIS FORMER CMO | 0. 0. | | | | | | X | 151,987. | 0. | 21,194. |
| 1b Sub-total | | | | | | | | 517,029. | 3,632,774. | 138,719. |
| c Total from continuation sheets to Part VII, Section A | | | | | | | | 1,624,425. | 705,298. | 165,324. |
| d Total (add lines 1b and 1c) | | | | | | | | 2,141,454. | 4,338,072. | 304,043. |

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization **67**

| | Yes | No |
|---|-----|----|
| 3 Did the organization list any former officer, director, or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> | X | |
| 4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> | X | |
| 5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> | X | |

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

| (A) Name and business address | (B) Description of services | (C) Compensation |
|----------------------------------|--------------------------------|---------------------|
| ATTACHMENT 1 | | |
| | | |
| | | |
| | | |
| | | |

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization **37**

Part VIII Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII.

| | | | | (A) Total revenue | (B) Related or exempt function revenue | (C) Unrelated business revenue | (D) Revenue excluded from tax under sections 512-514 | |
|---|--|--|----------------------|----------------------|--|---|--|--|
| Contributions, Gifts, Grants and Other Similar Amounts | 1a Federated campaigns | 1a | | | | | | |
| | b Membership dues | 1b | | | | | | |
| | c Fundraising events | 1c | | | | | | |
| | d Related organizations | 1d | 814,146. | | | | | |
| | e Government grants (contributions) . . | 1e | | | | | | |
| | f All other contributions, gifts, grants, and similar amounts not included above . | 1f | | | | | | |
| | g Noncash contributions included in lines 1a-1f: \$ | | | | | | | |
| | h Total. Add lines 1a-1f ▶ | | | 814,146. | | | | |
| Program Service Revenue | 2a PATIENT SERVICE REVENUE | Business Code | 900099 | 114,624,719. | 114,624,719. | | | |
| | b _____ | | | | | | | |
| | c _____ | | | | | | | |
| | d _____ | | | | | | | |
| | e _____ | | | | | | | |
| | f All other program service revenue | | | | | | | |
| | g Total. Add lines 2a-2f ▶ | | | 114,624,719. | | | | |
| Other Revenue | 3 Investment income (including dividends, interest, and other similar amounts). ▶ | | | 244,072. | | | 244,072. | |
| | 4 Income from investment of tax-exempt bond proceeds . ▶ | | | 0. | | | | |
| | 5 Royalties ▶ | | | 0. | | | | |
| | 6a Gross rents | (i) Real | (ii) Personal | | | | | |
| | | 27,153. | | | | | | |
| | | b Less: rental expenses | | | | | | |
| | | c Rental income or (loss) | | 27,153. | | | | |
| | d Net rental income or (loss) ▶ | | | | 27,153. | | 27,153. | |
| | 7a Gross amount from sales of assets other than inventory | (i) Securities | (ii) Other | | | | | |
| | | 15,806,696. | | | | | | |
| | | b Less: cost or other basis and sales expenses | | | | | | |
| | | c Gain or (loss) | | 783,578. | | | | |
| | d Net gain or (loss) ▶ | | | | 783,578. | | 783,578. | |
| | 8a Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c). See Part IV, line 18 a | | | | | | | |
| | | b Less: direct expenses b | | | | | | |
| c Net income or (loss) from fundraising events. ▶ | | | | | 0. | | | |
| 9a Gross income from gaming activities. See Part IV, line 19 a | | | | | | | | |
| | b Less: direct expenses b | | | | | | | |
| | c Net income or (loss) from gaming activities. ▶ | | | | 0. | | | |
| 10a Gross sales of inventory, less returns and allowances a | | | | | | | | |
| | b Less: cost of goods sold b | | | | | | | |
| | c Net income or (loss) from sales of inventory. ▶ | | | | 0. | | | |
| Miscellaneous Revenue | | | Business Code | | | | | |
| 11a OUTPATIENT PHARMACY | | 446110 | | 1,512,125. | 1,512,125. | | | |
| | b CAFE/VENDING | | 722514 | 295,356. | | | 295,356. | |
| | c MISCELLANEOUS REVENUE | | 900099 | 8,434. | 8,434. | | | |
| | d All other revenue a | | | | | | | |
| e Total. Add lines 11a-11d ▶ | | | | 1,815,915. | | | | |
| 12 Total revenue. See instructions. ▶ | | | | 118,309,583. | 116,145,278. | | 1,350,159. | |

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX X

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.

| | (A) Total expenses | (B) Program service expenses | (C) Management and general expenses | (D) Fundraising expenses |
|--|-----------------------|---------------------------------|--|-----------------------------|
| 1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21 | 0. | | | |
| 2 Grants and other assistance to domestic individuals. See Part IV, line 22 | 0. | | | |
| 3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16 | 0. | | | |
| 4 Benefits paid to or for members | 0. | | | |
| 5 Compensation of current officers, directors, trustees, and key employees | 1,123,358. | 387,654. | 735,704. | |
| 6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) | 0. | | | |
| 7 Other salaries and wages | 38,740,517. | 32,929,439. | 5,811,078. | |
| 8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions) | 1,425,705. | 1,211,849. | 213,856. | |
| 9 Other employee benefits | 5,018,359. | 4,265,605. | 752,754. | |
| 10 Payroll taxes | 2,852,461. | 2,424,592. | 427,869. | |
| 11 Fees for services (non-employees): | | | | |
| a Management | 0. | | | |
| b Legal | 42. | 36. | 6. | |
| c Accounting | 15,747. | 13,385. | 2,362. | |
| d Lobbying | 4,723. | | 4,723. | |
| e Professional fundraising services. See Part IV, line 17. | 0. | | | |
| f Investment management fees | 0. | | | |
| g Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.) ATCH 2 | 31,922,761. | 28,417,265. | 3,505,496. | |
| 12 Advertising and promotion | 277,933. | 236,243. | 41,690. | |
| 13 Office expenses | 395,141. | 335,870. | 59,271. | |
| 14 Information technology | 0. | | | |
| 15 Royalties | 0. | | | |
| 16 Occupancy | 1,985,967. | 1,688,072. | 297,895. | |
| 17 Travel | 58,133. | 49,413. | 8,720. | |
| 18 Payments of travel or entertainment expenses for any federal, state, or local public officials | 0. | | | |
| 19 Conferences, conventions, and meetings | 25,136. | 21,366. | 3,770. | |
| 20 Interest | 889,622. | 756,179. | 133,443. | |
| 21 Payments to affiliates | 0. | | | |
| 22 Depreciation, depletion, and amortization | 6,658,481. | 5,659,709. | 998,772. | |
| 23 Insurance | 1,578,940. | 1,561,938. | 17,002. | |
| 24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.) | | | | |
| a MEDICAL SUPPLIES | 14,965,764. | 14,965,764. | | |
| b BAD DEBT | 4,154,903. | 4,154,903. | | |
| c REPAIR/MAINTANENCE | 933,991. | 793,892. | 140,099. | |
| d OTHER EXPENSES | 283,472. | 240,951. | 42,521. | |
| e All other expenses | 275,453. | 234,135. | 41,318. | |
| 25 Total functional expenses. Add lines 1 through 24e | 113,586,609. | 100,348,260. | 13,238,349. | |
| 26 Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) | 0. | | | |

Part X Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X.

| | | (A) Beginning of year | | (B) End of year |
|---|--|--------------------------|--------------|------------------------|
| Assets | 1 Cash - non-interest-bearing | -559,993. | 1 | 1,797,592. |
| | 2 Savings and temporary cash investments | 0. | 2 | 0. |
| | 3 Pledges and grants receivable, net | 0. | 3 | 0. |
| | 4 Accounts receivable, net | 11,530,060. | 4 | 8,171,946. |
| | 5 Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L | 0. | 5 | 0. |
| | 6 Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L | 0. | 6 | 0. |
| | 7 Notes and loans receivable, net | 0. | 7 | 0. |
| | 8 Inventories for sale or use | 1,105,543. | 8 | 1,144,645. |
| | 9 Prepaid expenses and deferred charges | 115,675. | 9 | 132,766. |
| | 10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D | 10a 109,489,693. | | |
| | b Less: accumulated depreciation | 10b 64,396,215. | 45,924,509. | 10c 45,093,478. |
| | 11 Investments - publicly traded securities | 10,854,000. | 11 | 15,342,000. |
| | 12 Investments - other securities. See Part IV, line 11 | 18,159,062. | 12 | 22,485,707. |
| | 13 Investments - program-related. See Part IV, line 11 | 0. | 13 | 0. |
| | 14 Intangible assets | 0. | 14 | 0. |
| | 15 Other assets. See Part IV, line 11 | 62,315,783. | 15 | 69,369,209. |
| 16 Total assets. Add lines 1 through 15 (must equal line 34) | 149,444,639. | 16 | 163,537,343. | |
| Liabilities | 17 Accounts payable and accrued expenses | 14,740,459. | 17 | 17,578,234. |
| | 18 Grants payable | 0. | 18 | 0. |
| | 19 Deferred revenue | 0. | 19 | 0. |
| | 20 Tax-exempt bond liabilities | 0. | 20 | 0. |
| | 21 Escrow or custodial account liability. Complete Part IV of Schedule D | 0. | 21 | 0. |
| | 22 Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L | 0. | 22 | 0. |
| | 23 Secured mortgages and notes payable to unrelated third parties | 0. | 23 | 0. |
| | 24 Unsecured notes and loans payable to unrelated third parties | 0. | 24 | 0. |
| | 25 Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D | 25,742,822. | 25 | 27,797,670. |
| | 26 Total liabilities. Add lines 17 through 25 | 40,483,281. | 26 | 45,375,904. |
| Net Assets or Fund Balances | Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34. | | | |
| | 27 Unrestricted net assets | 77,515,176. | 27 | 82,541,405. |
| | 28 Temporarily restricted net assets | 31,446,182. | 28 | 35,620,034. |
| | 29 Permanently restricted net assets | 0. | 29 | 0. |
| | Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34. | | | |
| | 30 Capital stock or trust principal, or current funds | | 30 | |
| | 31 Paid-in or capital surplus, or land, building, or equipment fund | | 31 | |
| | 32 Retained earnings, endowment, accumulated income, or other funds | | 32 | |
| 33 Total net assets or fund balances | 108,961,358. | 33 | 118,161,439. | |
| 34 Total liabilities and net assets/fund balances | 149,444,639. | 34 | 163,537,343. | |

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI.

| | | | |
|-----------|--|-----------|--------------|
| 1 | Total revenue (must equal Part VIII, column (A), line 12) | 1 | 118,309,583. |
| 2 | Total expenses (must equal Part IX, column (A), line 25) | 2 | 113,586,609. |
| 3 | Revenue less expenses. Subtract line 2 from line 1 | 3 | 4,722,974. |
| 4 | Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) | 4 | 108,961,358. |
| 5 | Net unrealized gains (losses) on investments | 5 | 1,318,202. |
| 6 | Donated services and use of facilities | 6 | 0. |
| 7 | Investment expenses | 7 | 0. |
| 8 | Prior period adjustments | 8 | 0. |
| 9 | Other changes in net assets or fund balances (explain in Schedule O) | 9 | 3,158,905. |
| 10 | Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 33, column (B)) | 10 | 118,161,439. |

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII.

- 1** Accounting method used to prepare the Form 990: Cash Accrual Other _____
If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O.
- 2a** Were the organization's financial statements compiled or reviewed by an independent accountant?
If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both:
 Separate basis Consolidated basis Both consolidated and separate basis
- b** Were the organization's financial statements audited by an independent accountant?
If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both:
 Separate basis Consolidated basis Both consolidated and separate basis
- c** If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O.
- 3a** As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?
- b** If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits.

| | Yes | No |
|-----------|-----|----|
| 2a | | X |
| 2b | X | |
| 2c | X | |
| 3a | | |
| 3b | | |

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ.

▶ Go to www.irs.gov/Form990 for instructions and the latest information.

OMB No. 1545-0047

2017

Open to Public Inspection

| | |
|---|---|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|---|---|

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 12, check only one box.)

- 1 A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i)**.
- 2 A school described in **section 170(b)(1)(A)(ii)**. (Attach Schedule E (Form 990 or 990-EZ).)
- 3 A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii)**.
- 4 A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii)**. Enter the hospital's name, city, and state: _____
- 5 An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv)**. (Complete Part II.)
- 6 A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v)**.
- 7 An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 8 A community trust described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 9 An agricultural research organization described in **section 170(b)(1)(A)(ix)** operated in conjunction with a land-grant college or university or a non-land-grant college of agriculture (see instructions). Enter the name, city, and state of the college or university: _____
- 10 An organization that normally receives: (1) more than 33 1/3 % of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions - subject to certain exceptions, and (2) no more than 33 1/3 % of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2)**. (Complete Part III.)
- 11 An organization organized and operated exclusively to test for public safety. See **section 509(a)(4)**.
- 12 An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in **section 509(a)(1)** or **section 509(a)(2)**. See **section 509(a)(3)**.
Check the box in lines 12a through 12d that describes the type of supporting organization and complete lines 12e, 12f, and 12g.
 - a **Type I.** A supporting organization operated, supervised, or controlled by its supported organization(s), typically by giving the supported organization(s) the power to regularly appoint or elect a majority of the directors or trustees of the supporting organization. **You must complete Part IV, Sections A and B.**
 - b **Type II.** A supporting organization supervised or controlled in connection with its supported organization(s), by having control or management of the supporting organization vested in the same persons that control or manage the supported organization(s). **You must complete Part IV, Sections A and C.**
 - c **Type III functionally integrated.** A supporting organization operated in connection with, and functionally integrated with, its supported organization(s) (see instructions). **You must complete Part IV, Sections A, D, and E.**
 - d **Type III non-functionally integrated.** A supporting organization operated in connection with its supported organization(s) that is not functionally integrated. The organization generally must satisfy a distribution requirement and an attentiveness requirement (see instructions). **You must complete Part IV, Sections A and D, and Part V.**
 - e Check this box if the organization received a written determination from the IRS that it is a Type I, Type II, Type III functionally integrated, or Type III non-functionally integrated supporting organization.
 - f Enter the number of supported organizations.

| (i) Name of supported organization | (ii) EIN | (iii) Type of organization (described on lines 1-10 above (see instructions)) | (iv) Is the organization listed in your governing document? | | (v) Amount of monetary support (see instructions) | (vi) Amount of other support (see instructions) |
|------------------------------------|----------|---|---|----|---|---|
| | | | Yes | No | | |
| (A) | | | | | | |
| (B) | | | | | | |
| (C) | | | | | | |
| (D) | | | | | | |
| (E) | | | | | | |
| Total | | | | | | |

Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Table with 7 columns: (a) 2013, (b) 2014, (c) 2015, (d) 2016, (e) 2017, (f) Total. Rows include: 1 Gifts, grants, contributions, and membership fees received; 2 Tax revenues levied for the organization's benefit; 3 The value of services or facilities furnished by a governmental unit; 4 Total. Add lines 1 through 3; 5 The portion of total contributions by each person; 6 Public support. Subtract line 5 from line 4.

Section B. Total Support

Table with 7 columns: (a) 2013, (b) 2014, (c) 2015, (d) 2016, (e) 2017, (f) Total. Rows include: 7 Amounts from line 4; 8 Gross income from interest, dividends, payments received on securities loans, rents, royalties, and income from similar sources; 9 Net income from unrelated business activities; 10 Other income. Do not include gain or loss from the sale of capital assets; 11 Total support. Add lines 7 through 10; 12 Gross receipts from related activities, etc. (see instructions); 13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here.

Section C. Computation of Public Support Percentage

Table with 3 columns: Line number, Description, and Percentage. Rows include: 14 Public support percentage for 2017; 15 Public support percentage from 2016 Schedule A, Part II, line 14; 16a 33 1/3% support test - 2017; b 33 1/3% support test - 2016; 17a 10%-facts-and-circumstances test - 2017; b 10%-facts-and-circumstances test - 2016; 18 Private foundation.

Part III Support Schedule for Organizations Described in Section 509(a)(2)
 (Complete only if you checked the box on line 10 of Part I or if the organization failed to qualify under Part II.
 If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

| Calendar year (or fiscal year beginning in) ► | (a) 2013 | (b) 2014 | (c) 2015 | (d) 2016 | (e) 2017 | (f) Total |
|---|----------|----------|----------|----------|----------|-----------|
| 1 Gifts, grants, contributions, and membership fees received. (Do not include any "unusual grants.") | | | | | | |
| 2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose | | | | | | |
| 3 Gross receipts from activities that are not an unrelated trade or business under section 513 | | | | | | |
| 4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf | | | | | | |
| 5 The value of services or facilities furnished by a governmental unit to the organization without charge | | | | | | |
| 6 Total. Add lines 1 through 5. | | | | | | |
| 7a Amounts included on lines 1, 2, and 3 received from disqualified persons | | | | | | |
| b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year | | | | | | |
| c Add lines 7a and 7b. | | | | | | |
| 8 Public support. (Subtract line 7c from line 6.) | | | | | | |

Section B. Total Support

| Calendar year (or fiscal year beginning in) ► | (a) 2013 | (b) 2014 | (c) 2015 | (d) 2016 | (e) 2017 | (f) Total |
|---|----------|----------|----------|----------|----------|-----------|
| 9 Amounts from line 6. | | | | | | |
| 10a Gross income from interest, dividends, payments received on securities loans, rents, royalties, and income from similar sources. | | | | | | |
| b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975 | | | | | | |
| c Add lines 10a and 10b | | | | | | |
| 11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on. | | | | | | |
| 12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part VI.) | | | | | | |
| 13 Total support. (Add lines 9, 10c, 11, and 12.) | | | | | | |

14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here**

Section C. Computation of Public Support Percentage

| | | |
|---|-----------|---|
| 15 Public support percentage for 2017 (line 8, column (f) divided by line 13, column (f)). | 15 | % |
| 16 Public support percentage from 2016 Schedule A, Part III, line 15 | 16 | % |

Section D. Computation of Investment Income Percentage

| | | |
|--|-----------|---|
| 17 Investment income percentage for 2017 (line 10c, column (f) divided by line 13, column (f)) | 17 | % |
| 18 Investment income percentage from 2016 Schedule A, Part III, line 17 | 18 | % |

19a 33 1/3% support tests - 2017. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization .

b 33 1/3% support tests - 2016. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3%, and line 18 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization

20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions

Part IV Supporting Organizations

(Complete only if you checked a box in line 12 on Part I. If you checked 12a of Part I, complete Sections A and B. If you checked 12b of Part I, complete Sections A and C. If you checked 12c of Part I, complete Sections A, D, and E. If you checked 12d of Part I, complete Sections A and D, and complete Part V.)

Section A. All Supporting Organizations

| | Yes | No |
|--|-----|----|
| 1 Are all of the organization's supported organizations listed by name in the organization's governing documents? <i>If "No," describe in Part VI how the supported organizations are designated. If designated by class or purpose, describe the designation. If historic and continuing relationship, explain.</i> | | |
| 2 Did the organization have any supported organization that does not have an IRS determination of status under section 509(a)(1) or (2)? <i>If "Yes," explain in Part VI how the organization determined that the supported organization was described in section 509(a)(1) or (2).</i> | | |
| 3a Did the organization have a supported organization described in section 501(c)(4), (5), or (6)? <i>If "Yes," answer (b) and (c) below.</i> | | |
| b Did the organization confirm that each supported organization qualified under section 501(c)(4), (5), or (6) and satisfied the public support tests under section 509(a)(2)? <i>If "Yes," describe in Part VI when and how the organization made the determination.</i> | | |
| c Did the organization ensure that all support to such organizations was used exclusively for section 170(c)(2)(B) purposes? <i>If "Yes," explain in Part VI what controls the organization put in place to ensure such use.</i> | | |
| 4a Was any supported organization not organized in the United States ("foreign supported organization")? <i>If "Yes," and if you checked 12a or 12b in Part I, answer (b) and (c) below.</i> | | |
| b Did the organization have ultimate control and discretion in deciding whether to make grants to the foreign supported organization? <i>If "Yes," describe in Part VI how the organization had such control and discretion despite being controlled or supervised by or in connection with its supported organizations.</i> | | |
| c Did the organization support any foreign supported organization that does not have an IRS determination under sections 501(c)(3) and 509(a)(1) or (2)? <i>If "Yes," explain in Part VI what controls the organization used to ensure that all support to the foreign supported organization was used exclusively for section 170(c)(2)(B) purposes.</i> | | |
| 5a Did the organization add, substitute, or remove any supported organizations during the tax year? <i>If "Yes," answer (b) and (c) below (if applicable). Also, provide detail in Part VI, including (i) the names and EIN numbers of the supported organizations added, substituted, or removed; (ii) the reasons for each such action; (iii) the authority under the organization's organizing document authorizing such action; and (iv) how the action was accomplished (such as by amendment to the organizing document).</i> | | |
| b Type I or Type II only. Was any added or substituted supported organization part of a class already designated in the organization's organizing document? | | |
| c Substitutions only. Was the substitution the result of an event beyond the organization's control? | | |
| 6 Did the organization provide support (whether in the form of grants or the provision of services or facilities) to anyone other than (i) its supported organizations, (ii) individuals that are part of the charitable class benefited by one or more of its supported organizations, or (iii) other supporting organizations that also support or benefit one or more of the filing organization's supported organizations? <i>If "Yes," provide detail in Part VI.</i> | | |
| 7 Did the organization provide a grant, loan, compensation, or other similar payment to a substantial contributor (defined in section 4958(c)(3)(C)), a family member of a substantial contributor, or a 35% controlled entity with regard to a substantial contributor? <i>If "Yes," complete Part I of Schedule L (Form 990 or 990-EZ).</i> | | |
| 8 Did the organization make a loan to a disqualified person (as defined in section 4958) not described in line 7? <i>If "Yes," complete Part I of Schedule L (Form 990 or 990-EZ).</i> | | |
| 9a Was the organization controlled directly or indirectly at any time during the tax year by one or more disqualified persons as defined in section 4946 (other than foundation managers and organizations described in section 509(a)(1) or (2))? <i>If "Yes," provide detail in Part VI.</i> | | |
| b Did one or more disqualified persons (as defined in line 9a) hold a controlling interest in any entity in which the supporting organization had an interest? <i>If "Yes," provide detail in Part VI.</i> | | |
| c Did a disqualified person (as defined in line 9a) have an ownership interest in, or derive any personal benefit from, assets in which the supporting organization also had an interest? <i>If "Yes," provide detail in Part VI.</i> | | |
| 10a Was the organization subject to the excess business holdings rules of section 4943 because of section 4943(f) (regarding certain Type II supporting organizations, and all Type III non-functionally integrated supporting organizations)? <i>If "Yes," answer 10b below.</i> | | |
| b Did the organization have any excess business holdings in the tax year? <i>(Use Schedule C, Form 4720, to determine whether the organization had excess business holdings.)</i> | | |

Part IV Supporting Organizations (continued)

| | | Yes | No |
|-----------|---|-----|----|
| 11 | Has the organization accepted a gift or contribution from any of the following persons? | | |
| a | A person who directly or indirectly controls, either alone or together with persons described in (b) and (c) below, the governing body of a supported organization? | | |
| b | A family member of a person described in (a) above? | | |
| c | A 35% controlled entity of a person described in (a) or (b) above? If "Yes" to a, b, or c, provide detail in Part VI . | | |

Section B. Type I Supporting Organizations

| | | Yes | No |
|----------|--|-----|----|
| 1 | Did the directors, trustees, or membership of one or more supported organizations have the power to regularly appoint or elect at least a majority of the organization's directors or trustees at all times during the tax year? If "No," describe in Part VI how the supported organization(s) effectively operated, supervised, or controlled the organization's activities. If the organization had more than one supported organization, describe how the powers to appoint and/or remove directors or trustees were allocated among the supported organizations and what conditions or restrictions, if any, applied to such powers during the tax year. | | |
| 2 | Did the organization operate for the benefit of any supported organization other than the supported organization(s) that operated, supervised, or controlled the supporting organization? If "Yes," explain in Part VI how providing such benefit carried out the purposes of the supported organization(s) that operated, supervised, or controlled the supporting organization. | | |

Section C. Type II Supporting Organizations

| | | Yes | No |
|----------|---|-----|----|
| 1 | Were a majority of the organization's directors or trustees during the tax year also a majority of the directors or trustees of each of the organization's supported organization(s)? If "No," describe in Part VI how control or management of the supporting organization was vested in the same persons that controlled or managed the supported organization(s). | | |

Section D. All Type III Supporting Organizations

| | | Yes | No |
|----------|--|-----|----|
| 1 | Did the organization provide to each of its supported organizations, by the last day of the fifth month of the organization's tax year, (i) a written notice describing the type and amount of support provided during the prior tax year, (ii) a copy of the Form 990 that was most recently filed as of the date of notification, and (iii) copies of the organization's governing documents in effect on the date of notification, to the extent not previously provided? | | |
| 2 | Were any of the organization's officers, directors, or trustees either (i) appointed or elected by the supported organization(s) or (ii) serving on the governing body of a supported organization? If "No," explain in Part VI how the organization maintained a close and continuous working relationship with the supported organization(s). | | |
| 3 | By reason of the relationship described in (2), did the organization's supported organizations have a significant voice in the organization's investment policies and in directing the use of the organization's income or assets at all times during the tax year? If "Yes," describe in Part VI the role the organization's supported organizations played in this regard. | | |

Section E. Type III Functionally Integrated Supporting Organizations

| | | | |
|----------|--|--|--|
| 1 | Check the box next to the method that the organization used to satisfy the Integral Part Test during the year (see instructions). | | |
| a | <input type="checkbox"/> The organization satisfied the Activities Test. Complete line 2 below. | | |
| b | <input type="checkbox"/> The organization is the parent of each of its supported organizations. Complete line 3 below. | | |
| c | <input type="checkbox"/> The organization supported a governmental entity. Describe in Part VI how you supported a government entity (see instructions). | | |
| 2 | Activities Test. Answer (a) and (b) below. | | |
| a | Did substantially all of the organization's activities during the tax year directly further the exempt purposes of the supported organization(s) to which the organization was responsive? If "Yes," then in Part VI identify those supported organizations and explain how these activities directly furthered their exempt purposes, how the organization was responsive to those supported organizations, and how the organization determined that these activities constituted substantially all of its activities. | | |
| b | Did the activities described in (a) constitute activities that, but for the organization's involvement, one or more of the organization's supported organization(s) would have been engaged in? If "Yes," explain in Part VI the reasons for the organization's position that its supported organization(s) would have engaged in these activities but for the organization's involvement. | | |
| 3 | Parent of Supported Organizations. Answer (a) and (b) below. | | |
| a | Did the organization have the power to regularly appoint or elect a majority of the officers, directors, or trustees of each of the supported organizations? Provide details in Part VI . | | |
| b | Did the organization exercise a substantial degree of direction over the policies, programs, and activities of each of its supported organizations? If "Yes," describe in Part VI the role played by the organization in this regard. | | |

Part V Type III Non-Functionally Integrated 509(a)(3) Supporting Organizations

1 Check here if the organization satisfied the Integral Part Test as a qualifying trust on Nov. 20, 1970 (explain in Part VI). **See instructions.** All other Type III non-functionally integrated supporting organizations must complete Sections A through E.

| Section A - Adjusted Net Income | | (A) Prior Year | (B) Current Year (optional) |
|---|----------|----------------|-----------------------------|
| 1 Net short-term capital gain | 1 | | |
| 2 Recoveries of prior-year distributions | 2 | | |
| 3 Other gross income (see instructions) | 3 | | |
| 4 Add lines 1 through 3. | 4 | | |
| 5 Depreciation and depletion | 5 | | |
| 6 Portion of operating expenses paid or incurred for production or collection of gross income or for management, conservation, or maintenance of property held for production of income (see instructions) | 6 | | |
| 7 Other expenses (see instructions) | 7 | | |
| 8 Adjusted Net Income (subtract lines 5, 6, and 7 from line 4). | 8 | | |

| Section B - Minimum Asset Amount | | (A) Prior Year | (B) Current Year (optional) |
|--|-----------|----------------|-----------------------------|
| 1 Aggregate fair market value of all non-exempt-use assets (see instructions for short tax year or assets held for part of year): | | | |
| a Average monthly value of securities | 1a | | |
| b Average monthly cash balances | 1b | | |
| c Fair market value of other non-exempt-use assets | 1c | | |
| d Total (add lines 1a, 1b, and 1c) | 1d | | |
| e Discount claimed for blockage or other factors (explain in detail in Part VI): | | | |
| 2 Acquisition indebtedness applicable to non-exempt-use assets | 2 | | |
| 3 Subtract line 2 from line 1d. | 3 | | |
| 4 Cash deemed held for exempt use. Enter 1-1/2% of line 3 (for greater amount, see instructions). | 4 | | |
| 5 Net value of non-exempt-use assets (subtract line 4 from line 3) | 5 | | |
| 6 Multiply line 5 by .035. | 6 | | |
| 7 Recoveries of prior-year distributions | 7 | | |
| 8 Minimum Asset Amount (add line 7 to line 6) | 8 | | |

| Section C - Distributable Amount | | | Current Year |
|---|----------|--|--------------|
| 1 Adjusted net income for prior year (from Section A, line 8, Column A) | 1 | | |
| 2 Enter 85% of line 1. | 2 | | |
| 3 Minimum asset amount for prior year (from Section B, line 8, Column A) | 3 | | |
| 4 Enter greater of line 2 or line 3. | 4 | | |
| 5 Income tax imposed in prior year | 5 | | |
| 6 Distributable Amount. Subtract line 5 from line 4, unless subject to emergency temporary reduction (see instructions). | 6 | | |

7 Check here if the current year is the organization's first as a non-functionally integrated Type III supporting organization (see instructions).

Part V Type III Non-Functionally Integrated 509(a)(3) Supporting Organizations (continued)

| Section D - Distributions | Current Year |
|--|--------------|
| 1 Amounts paid to supported organizations to accomplish exempt purposes | |
| 2 Amounts paid to perform activity that directly furthers exempt purposes of supported organizations, in excess of income from activity | |
| 3 Administrative expenses paid to accomplish exempt purposes of supported organizations | |
| 4 Amounts paid to acquire exempt-use assets | |
| 5 Qualified set-aside amounts (prior IRS approval required) | |
| 6 Other distributions (describe in Part VI). See instructions. | |
| 7 Total annual distributions. Add lines 1 through 6. | |
| 8 Distributions to attentive supported organizations to which the organization is responsive (provide details in Part VI). See instructions. | |
| 9 Distributable amount for 2017 from Section C, line 6 | |
| 10 Line 8 amount divided by Line 9 amount | |

| Section E - Distribution Allocations (see instructions) | (i) Excess Distributions | (ii) Underdistributions Pre-2017 | (iii) Distributable Amount for 2017 |
|---|-----------------------------|--|---|
| 1 Distributable amount for 2017 from Section C, line 6 | | | |
| 2 Underdistributions, if any, for years prior to 2017 (reasonable cause required-explain in Part VI). See instructions. | | | |
| 3 Excess distributions carryover, if any, to 2017 | | | |
| a | | | |
| b From 2013 | | | |
| c From 2014 | | | |
| d From 2015 | | | |
| e From 2016 | | | |
| f Total of lines 3a through e | | | |
| g Applied to underdistributions of prior years | | | |
| h Applied to 2017 distributable amount | | | |
| i Carryover from 2012 not applied (see instructions) | | | |
| j Remainder. Subtract lines 3g, 3h, and 3i from 3f. | | | |
| 4 Distributions for 2017 from Section D, line 7: \$ | | | |
| a Applied to underdistributions of prior years | | | |
| b Applied to 2017 distributable amount | | | |
| c Remainder. Subtract lines 4a and 4b from 4. | | | |
| 5 Remaining underdistributions for years prior to 2017, if any. Subtract lines 3g and 4a from line 2. For result greater than zero, explain in Part VI. See instructions. | | | |
| 6 Remaining underdistributions for 2017. Subtract lines 3h and 4b from line 1. For result greater than zero, explain in Part VI. See instructions. | | | |
| 7 Excess distributions carryover to 2018. Add lines 3j and 4c. | | | |
| 8 Breakdown of line 7: | | | |
| a Excess from 2013 | | | |
| b Excess from 2014 | | | |
| c Excess from 2015 | | | |
| d Excess from 2016 | | | |
| e Excess from 2017 | | | |

Part VI **Supplemental Information.** Provide the explanations required by Part II, line 10; Part II, line 17a or 17b; Part III, line 12; Part IV, Section A, lines 1, 2, 3b, 3c, 4b, 4c, 5a, 6, 9a, 9b, 9c, 11a, 11b, and 11c; Part IV, Section B, lines 1 and 2; Part IV, Section C, line 1; Part IV, Section D, lines 2 and 3; Part IV, Section E, lines 1c, 2a, 2b, 3a and 3b; Part V, line 1; Part V, Section B, line 1e; Part V, Section D, lines 5, 6, and 8; and Part V, Section E, lines 2, 5, and 6. Also complete this part for any additional information. (See instructions.)

Schedule of Contributors

2017

▶ Attach to Form 990, Form 990-EZ, or Form 990-PF.
 ▶ Go to www.irs.gov/Form990 for the latest information.

| | |
|---|---|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|---|---|

Organization type (check one):

Filers of:

Section:

Form 990 or 990-EZ

501(c)(3) (enter number) organization

4947(a)(1) nonexempt charitable trust **not** treated as a private foundation

527 political organization

Form 990-PF

501(c)(3) exempt private foundation

4947(a)(1) nonexempt charitable trust treated as a private foundation

501(c)(3) taxable private foundation

Check if your organization is covered by the **General Rule** or a **Special Rule**.

Note: Only a section 501(c)(7), (8), or (10) organization can check boxes for both the General Rule and a Special Rule. See instructions.

General Rule

For an organization filing Form 990, 990-EZ, or 990-PF that received, during the year, contributions totaling \$5,000 or more (in money or property) from any one contributor. Complete Parts I and II. See instructions for determining a contributor's total contributions.

Special Rules

For an organization described in section 501(c)(3) filing Form 990 or 990-EZ that met the 33 1/3 % support test of the regulations under sections 509(a)(1) and 170(b)(1)(A)(vi), that checked Schedule A (Form 990 or 990-EZ), Part II, line 13, 16a, or 16b, and that received from any one contributor, during the year, total contributions of the greater of **(1)** \$5,000; or **(2)** 2% of the amount on (i) Form 990, Part VIII, line 1h; or (ii) Form 990-EZ, line 1. Complete Parts I and II.

For an organization described in section 501(c)(7), (8), or (10) filing Form 990 or 990-EZ that received from any one contributor, during the year, total contributions of more than \$1,000 *exclusively* for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals. Complete Parts I, II, and III.

For an organization described in section 501(c)(7), (8), or (10) filing Form 990 or 990-EZ that received from any one contributor, during the year, contributions *exclusively* for religious, charitable, etc., purposes, but no such contributions totaled more than \$1,000. If this box is checked, enter here the total contributions that were received during the year for an *exclusively* religious, charitable, etc., purpose. Don't complete any of the parts unless the **General Rule** applies to this organization because it received *nonexclusively* religious, charitable, etc., contributions totaling \$5,000 or more during the year ▶ \$ _____

Caution: An organization that isn't covered by the General Rule and/or the Special Rules doesn't file Schedule B (Form 990, 990-EZ, or 990-PF), but it **must** answer "No" on Part IV, line 2, of its Form 990; or check the box on line H of its Form 990-EZ or on its Form 990-PF, Part I, line 2, to certify that it doesn't meet the filing requirements of Schedule B (Form 990, 990-EZ, or 990-PF).

Name of organization **JAMES LAWRENCE KERNAN HOSPITAL, INC.**

Employer identification number
52-0591639

Part I **Contributors** (see instructions). Use duplicate copies of Part I if additional space is needed.

| (a) No. | (b) Name, address, and ZIP + 4 | (c) Total contributions | (d) Type of contribution |
|------------|-----------------------------------|----------------------------|---|
| 1 | | \$ 814,146. | Person <input checked="" type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |
| | | \$ _____ | Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |
| | | \$ _____ | Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |
| | | \$ _____ | Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |
| | | \$ _____ | Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |
| | | \$ _____ | Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II for noncash contributions.) |

Name of organization **JAMES LAWRENCE KERNAN HOSPITAL, INC.**

Employer identification number

52-0591639

Part II **Noncash Property** (see instructions). Use duplicate copies of Part II if additional space is needed.

| (a) No. from Part I | (b) Description of noncash property given | (c) FMV (or estimate) (See instructions.) | (d) Date received |
|---------------------|---|---|-------------------|
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |
| _____ | _____ _____ _____ | \$ _____ | _____ |

Name of organization **JAMES LAWRENCE KERNAN HOSPITAL, INC.**

Employer identification number
52-0591639

Part III Exclusively religious, charitable, etc., contributions to organizations described in section 501(c)(7), (8), or (10) that total more than \$1,000 for the year from any one contributor. Complete columns (a) through (e) and the following line entry. For organizations completing Part III, enter the total of *exclusively* religious, charitable, etc., contributions of **\$1,000 or less** for the year. (Enter this information once. See instructions.) ► \$ _____
Use duplicate copies of Part III if additional space is needed.

| | | | |
|---|-------------------------|--|-------------------------------------|
| (a) No. from Part I | (b) Purpose of gift | (c) Use of gift | (d) Description of how gift is held |
| _____ | _____ _____ _____ | _____ _____ _____ | _____ _____ _____ |
| (e) Transfer of gift | | | |
| Transferee's name, address, and ZIP + 4 | | Relationship of transferor to transferee | |
| _____ _____ _____ | | _____ _____ _____ | |
| (a) No. from Part I | (b) Purpose of gift | (c) Use of gift | (d) Description of how gift is held |
| _____ | _____ _____ _____ | _____ _____ _____ | _____ _____ _____ |
| (e) Transfer of gift | | | |
| Transferee's name, address, and ZIP + 4 | | Relationship of transferor to transferee | |
| _____ _____ _____ | | _____ _____ _____ | |
| (a) No. from Part I | (b) Purpose of gift | (c) Use of gift | (d) Description of how gift is held |
| _____ | _____ _____ _____ | _____ _____ _____ | _____ _____ _____ |
| (e) Transfer of gift | | | |
| Transferee's name, address, and ZIP + 4 | | Relationship of transferor to transferee | |
| _____ _____ _____ | | _____ _____ _____ | |
| (a) No. from Part I | (b) Purpose of gift | (c) Use of gift | (d) Description of how gift is held |
| _____ | _____ _____ _____ | _____ _____ _____ | _____ _____ _____ |
| (e) Transfer of gift | | | |
| Transferee's name, address, and ZIP + 4 | | Relationship of transferor to transferee | |
| _____ _____ _____ | | _____ _____ _____ | |

SCHEDULE C
(Form 990 or 990-EZ)

Political Campaign and Lobbying Activities

OMB No. 1545-0047

2017

Open to Public Inspection

For Organizations Exempt From Income Tax Under section 501(c) and section 527

- ▶ **Complete if the organization is described below.**
- ▶ **Attach to Form 990 or Form 990-EZ.**
- ▶ **Go to www.irs.gov/Form990 for instructions and the latest information.**

Department of the Treasury
Internal Revenue Service

If the organization answered "Yes," on Form 990, Part IV, line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations: Complete Parts I-A and B. Do not complete Part I-C.
- Section 501(c) (other than section 501(c)(3)) organizations: Complete Parts I-A and C below. Do not complete Part I-B.
- Section 527 organizations: Complete Part I-A only.

If the organization answered "Yes," on Form 990, Part IV, line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)): Complete Part II-A. Do not complete Part II-B.
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)): Complete Part II-B. Do not complete Part II-A.

If the organization answered "Yes," on Form 990, Part IV, line 5 (Proxy Tax) (see separate instructions) or Form 990-EZ, Part V, line 35c (Proxy Tax) (see separate instructions), then

- Section 501(c)(4), (5), or (6) organizations: Complete Part III.

| | |
|--|--|
| Name of organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

- 1 Provide a description of the organization's direct and indirect political campaign activities in Part IV. (see instructions for definition of "political campaign activities")
- 2 Political campaign activity expenditures (see instructions) ▶ \$ _____
- 3 Volunteer hours for political campaign activities (see instructions)

Part I-B Complete if the organization is exempt under section 501(c)(3).

- 1 Enter the amount of any excise tax incurred by the organization under section 4955. ▶ \$ _____
- 2 Enter the amount of any excise tax incurred by organization managers under section 4955 ▶ \$ _____
- 3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? Yes No
- 4a Was a correction made? Yes No
- b If "Yes," describe in Part IV.

Part I-C Complete if the organization is exempt under section 501(c), except section 501(c)(3).

- 1 Enter the amount directly expended by the filing organization for section 527 exempt function activities. ▶ \$ _____
- 2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities ▶ \$ _____
- 3 Total exempt function expenditures. Add lines 1 and 2. Enter here and on Form 1120-POL, line 17b ▶ \$ _____
- 4 Did the filing organization file **Form 1120-POL** for this year? Yes No
- 5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments. For each organization listed, enter the amount paid from the filing organization's funds. Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC). If additional space is needed, provide information in Part IV.

| (a) Name | (b) Address | (c) EIN | (d) Amount paid from filing organization's funds. If none, enter -0-. | (e) Amount of political contributions received and promptly and directly delivered to a separate political organization. If none, enter -0-. |
|----------|-------------|---------|---|--|
| (1) | | | | |
| (2) | | | | |
| (3) | | | | |
| (4) | | | | |
| (5) | | | | |
| (6) | | | | |

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ.

Schedule C (Form 990 or 990-EZ) 2017

Part II-A Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A Check if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures).

B Check if the filing organization checked box A and "limited control" provisions apply.

| Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.) | | (a) Filing organization's totals | (b) Affiliated group totals |
|--|--|----------------------------------|--|
| 1a Total lobbying expenditures to influence public opinion (grass roots lobbying) | | | |
| b Total lobbying expenditures to influence a legislative body (direct lobbying) | | | |
| c Total lobbying expenditures (add lines 1a and 1b) | | | |
| d Other exempt purpose expenditures | | | |
| e Total exempt purpose expenditures (add lines 1c and 1d) | | | |
| f Lobbying nontaxable amount. Enter the amount from the following table in both columns. | | | |
| If the amount on line 1e, column (a) or (b) is: | The lobbying nontaxable amount is: | | |
| Not over \$500,000 | 20% of the amount on line 1e. | | |
| Over \$500,000 but not over \$1,000,000 | \$100,000 plus 15% of the excess over \$500,000. | | |
| Over \$1,000,000 but not over \$1,500,000 | \$175,000 plus 10% of the excess over \$1,000,000. | | |
| Over \$1,500,000 but not over \$17,000,000 | \$225,000 plus 5% of the excess over \$1,500,000. | | |
| Over \$17,000,000 | \$1,000,000. | | |
| g Grassroots nontaxable amount (enter 25% of line 1f) | | | |
| h Subtract line 1g from line 1a. If zero or less, enter -0- | | | |
| i Subtract line 1f from line 1c. If zero or less, enter -0- | | | |
| j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year? | | | <input type="checkbox"/> Yes <input type="checkbox"/> No |

4-Year Averaging Period Under section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the separate instructions for lines 2a through 2f.)

| Lobbying Expenditures During 4-Year Averaging Period | | | | | |
|--|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) | (a) 2014 | (b) 2015 | (c) 2016 | (d) 2017 | (e) Total |
| 2a Lobbying nontaxable amount | | | | | |
| b Lobbying ceiling amount (150% of line 2a, column (e)) | | | | | |
| c Total lobbying expenditures | | | | | |
| d Grassroots nontaxable amount | | | | | |
| e Grassroots ceiling amount (150% of line 2d, column (e)) | | | | | |
| f Grassroots lobbying expenditures | | | | | |

Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

| For each "Yes," response on lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity. | (a) | | (b) |
|--|-----|----|--------|
| | Yes | No | Amount |
| 1 During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of: | | | |
| a Volunteers? | | X | |
| b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)? | | X | |
| c Media advertisements? | | X | |
| d Mailings to members, legislators, or the public? | | X | |
| e Publications, or published or broadcast statements? | | X | |
| f Grants to other organizations for lobbying purposes? | | X | |
| g Direct contact with legislators, their staffs, government officials, or a legislative body? | | X | |
| h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means? | | X | |
| i Other activities? | X | | 4,723. |
| j Total. Add lines 1c through 1i | | | 4,723. |
| 2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)? | | X | |
| b If "Yes," enter the amount of any tax incurred under section 4912 | | | |
| c If "Yes," enter the amount of any tax incurred by organization managers under section 4912 | | | |
| d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year? | | | |

Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

| | Yes | No |
|--|----------|----|
| 1 Were substantially all (90% or more) dues received nondeductible by members? | 1 | |
| 2 Did the organization make only in-house lobbying expenditures of \$2,000 or less? | 2 | |
| 3 Did the organization agree to carry over lobbying and political campaign activity expenditures from the prior year? | 3 | |

Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No," OR (b) Part III-A, line 3, is answered "Yes."

| | | |
|---|-----------|--|
| 1 Dues, assessments and similar amounts from members | 1 | |
| 2 Section 162(e) nondeductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid). | | |
| a Current year | 2a | |
| b Carryover from last year. | 2b | |
| c Total | 2c | |
| 3 Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues. | 3 | |
| 4 If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year? | 4 | |
| 5 Taxable amount of lobbying and political expenditures (see instructions) | 5 | |

Part IV Supplemental Information

Provide the descriptions required for Part I-A, line 1; Part I-B, line 4; Part I-C, line 5; Part II-A (affiliated group list); Part II-A, lines 1 and 2 (see instructions); and Part II-B, line 1. Also, complete this part for any additional information.

SEE PAGE 4

Part IV Supplemental Information (continued)

OTHER ACTIVITIES

SCHEDULE C, PART II-B, LINE 1I

THE ORGANIZATION DOES NOT ENGAGE IN ANY DIRECT LOBBYING ACTIVITIES. THE ORGANIZATION PAYS MEMBERSHIP DUES TO THE MARYLAND HOSPITAL ASSOCIATION (MHA) AND THE AMERICAN HOSPITAL ASSOCIATION (AHA). MHA AND AHA ENGAGE IN MANY SUPPORT ACTIVITIES INCLUDING LOBBYING AND ADVOCATING FOR THEIR MEMBER HOSPITALS. THE MHA AND AHA REPORTED THAT 6.6% AND 22.98% OF MEMBER DUES WERE USED FOR LOBBYING PURPOSES AND AS SUCH, THE ORGANIZATION HAS REPORTED THIS AMOUNT ON SCHEDULE C PART II-B AS LOBBYING ACTIVITIES.

SCHEDULE D (Form 990)

Supplemental Financial Statements

OMB No. 1545-0047

2017

Open to Public Inspection

Department of the Treasury Internal Revenue Service

Complete if the organization answered "Yes" on Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b.

Attach to Form 990.

Go to www.irs.gov/Form990 for instructions and the latest information.

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts.

Complete if the organization answered "Yes" on Form 990, Part IV, line 6.

Table with 2 columns: (a) Donor advised funds, (b) Funds and other accounts. Rows include: 1 Total number at end of year, 2 Aggregate value of contributions to (during year), 3 Aggregate value of grants from (during year), 4 Aggregate value at end of year, 5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?, 6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit?

Part II Conservation Easements.

Complete if the organization answered "Yes" on Form 990, Part IV, line 7.

Table with 2 columns: Held at the End of the Tax Year. Rows include: 1 Purpose(s) of conservation easements held by the organization (check all that apply), 2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year. (2a Total number of conservation easements, 2b Total acreage restricted by conservation easements, 2c Number of conservation easements on a certified historic structure included in (a), 2d Number of conservation easements included in (c) acquired after 7/25/06, and not on a historic structure listed in the National Register), 3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year, 4 Number of states where property subject to conservation easement is located, 5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?, 6 Staff and volunteer hours devoted to monitoring, inspecting, handling of violations, and enforcing conservation easements during the year, 7 Amount of expenses incurred in monitoring, inspecting, handling of violations, and enforcing conservation easements during the year, 8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)?, 9 In Part XIII, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements.

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets.

Complete if the organization answered "Yes" on Form 990, Part IV, line 8.

Table with 2 columns: Revenue, Assets. Rows include: 1a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIII, the text of the footnote to its financial statements that describes these items. 1b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items: (i) Revenue included on Form 990, Part VIII, line 1. (ii) Assets included in Form 990, Part X. 2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items: a Revenue included on Form 990, Part VIII, line 1. b Assets included in Form 990, Part X.

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule D (Form 990) 2017

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

- 3 Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply):
- a Public exhibition
 - b Scholarly research
 - c Preservation for future generations
 - d Loan or exchange programs
 - e Other _____
- 4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIII.
- 5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? Yes No

Part IV Escrow and Custodial Arrangements.

Complete if the organization answered "Yes" on Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

- 1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? Yes No
- b If "Yes," explain the arrangement in Part XIII and complete the following table:
- | | Amount |
|---------------------------------|--------|
| c Beginning balance | 1c |
| d Additions during the year | 1d |
| e Distributions during the year | 1e |
| f Ending balance | 1f |
- 2a Did the organization include an amount on Form 990, Part X, line 21, for escrow or custodial account liability? Yes No
- b If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided on Part XIII

Part V Endowment Funds.

Complete if the organization answered "Yes" on Form 990, Part IV, line 10.

| | (a) Current year | (b) Prior year | (c) Two years back | (d) Three years back | (e) Four years back |
|--|------------------|----------------|--------------------|----------------------|---------------------|
| 1a Beginning of year balance | | | | | |
| b Contributions | | | | | |
| c Net investment earnings, gains, and losses | | | | | |
| d Grants or scholarships | | | | | |
| e Other expenditures for facilities and programs | | | | | |
| f Administrative expenses | | | | | |
| g End of year balance | | | | | |

- 2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:
- a Board designated or quasi-endowment _____%
 - b Permanent endowment _____%
 - c Temporarily restricted endowment _____%
- The percentages on lines 2a, 2b, and 2c should equal 100%.

- 3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:

| | Yes | No |
|--|--------|----|
| (i) unrelated organizations | 3a(i) | |
| (ii) related organizations | 3a(ii) | |
| b If "Yes" on line 3a(ii), are the related organizations listed as required on Schedule R? | 3b | |

- 4 Describe in Part XIII the intended uses of the organization's endowment funds.

Part VI Land, Buildings, and Equipment.

Complete if the organization answered "Yes" on Form 990, Part IV, line 11a. See Form 990, Part X, line 10.

| Description of property | (a) Cost or other basis (investment) | (b) Cost or other basis (other) | (c) Accumulated depreciation | (d) Book value |
|--|--------------------------------------|---------------------------------|------------------------------|----------------|
| 1a Land | | 1,273,668. | | 1,273,668. |
| b Buildings | | 67,220,172. | 36,621,254. | 30,598,918. |
| c Leasehold improvements | | | | |
| d Equipment | | 38,822,561. | 27,301,276. | 11,521,285. |
| e Other | | 2,173,292. | 473,685. | 1,699,607. |
| Total. Add lines 1a through 1e. (Column (d) must equal Form 990, Part X, column (B), line 10c.) | | | | 45,093,478. |

Part VII Investments - Other Securities.

Complete if the organization answered "Yes" on Form 990, Part IV, line 11b. See Form 990, Part X, line 12.

| (a) Description of security or category (including name of security) | (b) Book value | (c) Method of valuation: Cost or end-of-year market value |
|---|----------------|--|
| (1) Financial derivatives | | |
| (2) Closely-held equity interests | | |
| (3) Other | | |
| (A) OTHER SECURITIES | 22,485,707. | FMV |
| (B) | | |
| (C) | | |
| (D) | | |
| (E) | | |
| (F) | | |
| (G) | | |
| (H) | | |
| Total. (Column (b) must equal Form 990, Part X, col. (B) line 12.) ▶ | 22,485,707. | |

Part VIII Investments - Program Related.

Complete if the organization answered "Yes" on Form 990, Part IV, line 11c. See Form 990, Part X, line 13.

| (a) Description of investment | (b) Book value | (c) Method of valuation: Cost or end-of-year market value |
|---|----------------|--|
| (1) | | |
| (2) | | |
| (3) | | |
| (4) | | |
| (5) | | |
| (6) | | |
| (7) | | |
| (8) | | |
| (9) | | |
| Total. (Column (b) must equal Form 990, Part X, col. (B) line 13.) ▶ | | |

Part IX Other Assets.

Complete if the organization answered "Yes" on Form 990, Part IV, line 11d. See Form 990, Part X, line 15.

| (a) Description | (b) Book value |
|---|----------------|
| (1) KERNAN ENDOWMENT | 31,804,429. |
| (2) ASSETS WHOSE USE IS LIMITED | 17,588,766. |
| (3) DUE FROM AFFILIATES | 15,522,898. |
| (4) ECONOMIC INT IN UMMS FND | 3,815,591. |
| (5) OTHER A/R | 637,525. |
| (6) | |
| (7) | |
| (8) | |
| (9) | |
| Total. (Column (b) must equal Form 990, Part X, col. (B) line 15.) ▶ | 69,369,209. |

Part X Other Liabilities.

Complete if the organization answered "Yes" on Form 990, Part IV, line 11e or 11f. See Form 990, Part X, line 25.

| 1. (a) Description of liability | (b) Book value |
|---|----------------|
| (1) Federal income taxes | |
| (2) DUE TO UMMS | 19,795,445. |
| (3) ADVANCES FROM THIRD PARTY PAYORS | 6,525,719. |
| (4) PATIENT A/R CREDIT BALANCES | 1,181,044. |
| (5) FIN 47 ACCRUAL | 144,004. |
| (6) OTHER LIABILITIES | 151,458. |
| (7) | |
| (8) | |
| (9) | |
| Total. (Column (b) must equal Form 990, Part X, col. (B) line 25.) ▶ | 27,797,670. |

2. Liability for uncertain tax positions. In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740). Check here if the text of the footnote has been provided in Part XIII

Part XIII Supplemental Information (continued)

SCHEDULE D, PART X, LINE 2

FIN 48 FOOTNOTE PER AUDIT REPORT

THE ORGANIZATION IS A SUBSIDIARY OF THE UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION (THE CORPORATION). THE CORPORATION ADOPTED THE PROVISIONS OF ASC 740, ACCOUNTING FOR UNCERTAINTY IN THE INCOME TAXES (FIN 48) ON JULY 1, 2007. THE FOOTNOTE RELATED TO ASC 740 IN THE CORPORATION'S AUDITED FINANCIAL STATEMENTS IS AS FOLLOWS: 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.

**SCHEDULE H
(Form 990)**

Hospitals

OMB No. 1545-0047

2017

Open to Public Inspection

▶ **Complete if the organization answered "Yes" on Form 990, Part IV, question 20.**

▶ **Attach to Form 990.**

▶ **Go to www.irs.gov/Form990 for instructions and the latest information.**

Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Financial Assistance and Certain Other Community Benefits at Cost

| | Yes | No |
|---|-----|----|
| 1a Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a | X | |
| b If "Yes," was it a written policy? | X | |
| 2 If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year. <input type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> Generally tailored to individual hospital facilities | | |
| 3 Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year. | | |
| a Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing <i>free care</i> ? If "Yes," indicate which of the following was the FPG family income limit for eligibility for free care: <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ % | X | |
| b Did the organization use FPG as a factor in determining eligibility for providing <i>discounted care</i> ? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care: <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input checked="" type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ % | X | |
| c If the organization used factors other than FPG in determining eligibility, describe in Part VI the criteria used for determining eligibility for free or discounted care. Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining eligibility for free or discounted care. | | |
| 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"? | X | |
| 5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? | X | |
| b If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? | X | |
| c If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? | | X |
| 6a Did the organization prepare a community benefit report during the tax year? | X | |
| b If "Yes," did the organization make it available to the public? | X | |

7 Financial Assistance and Certain Other Community Benefits at Cost

| Financial Assistance and Means-Tested Government Programs | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community benefit expense | (d) Direct offsetting revenue | (e) Net community benefit expense | (f) Percent of total expense |
|--|---|-------------------------------|-------------------------------------|-------------------------------|-----------------------------------|------------------------------|
| a Financial Assistance at cost (from Worksheet 1) | | | 1,787,709. | | 1,787,709. | 1.63 |
| b Medicaid (from Worksheet 3, column a) | | | | | | |
| c Costs of other means-tested government programs (from Worksheet 3, column b) | | | | | | |
| d Total Financial Assistance and Means-Tested Government Programs | | | 1,787,709. | | 1,787,709. | 1.63 |
| Other Benefits | | | | | | |
| e Community health improvement services and community benefit operations (from Worksheet 4) | | | 93,431. | | 93,431. | .09 |
| f Health professions education (from Worksheet 5) | | | 6,394,673. | | 6,394,673. | 5.84 |
| g Subsidized health services (from Worksheet 6) | | | 105,512. | 13,500. | 92,012. | .08 |
| h Research (from Worksheet 7) | | | | | | |
| i Cash and in-kind contributions for community benefit (from Worksheet 8) | | | 85,240. | | 85,240. | .08 |
| j Total Other Benefits | | | 6,678,856. | 13,500. | 6,665,356. | 6.09 |
| k Total Add lines 7d and 7j. | | | 8,466,565. | 13,500. | 8,453,065. | 7.72 |

Part II Community Building Activities Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

| | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community building expense | (d) Direct offsetting revenue | (e) Net community building expense | (f) Percent of total expense |
|---|---|-------------------------------|--------------------------------------|-------------------------------|------------------------------------|------------------------------|
| 1 Physical improvements and housing | | | | | | |
| 2 Economic development | | | | | | |
| 3 Community support | | | | | | |
| 4 Environmental improvements | | | | | | |
| 5 Leadership development and training for community members | | | | | | |
| 6 Coalition building | | | | | | |
| 7 Community health improvement advocacy | | | | | | |
| 8 Workforce development | | | 83,471. | | 83,471. | .08 |
| 9 Other | | | | | | |
| 10 Total | | | 83,471. | | 83,471. | .08 |

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

| | Yes | No |
|--|-----|----|
| 1 Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15? | X | |
| 2 Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount. | | |
| 3 Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit | | |
| 4 Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements. | | |

Section B. Medicare

| | |
|---|-------------|
| 5 Enter total revenue received from Medicare (including DSH and IME) | 33,723,754. |
| 6 Enter Medicare allowable costs of care relating to payments on line 5 | 31,146,661. |
| 7 Subtract line 6 from line 5. This is the surplus (or shortfall) | 2,577,093. |
| 8 Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other | |

Section C. Collection Practices

| | | |
|---|---|--|
| 9a Did the organization have a written debt collection policy during the tax year? | X | |
| b If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI | X | |

Part IV Management Companies and Joint Ventures (owned 10% or more by officers, directors, trustees, key employees, and physicians - see instructions)

| (a) Name of entity | (b) Description of primary activity of entity | (c) Organization's profit % or stock ownership % | (d) Officers, directors, trustees, or key employees' profit % or stock ownership % | (e) Physicians' profit % or stock ownership % |
|--------------------|---|--|--|---|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| 13 | | | | |

Part V Facility Information

Section A. Hospital Facilities

(list in order of size, from largest to smallest - see instructions)

How many hospital facilities did the organization operate during the tax year? 1

Name, address, primary website address, and state license number (and if a group return, the name and EIN of the subordinate hospital organization that operates the hospital facility)

| | Licensed hospital | General medical & surgical | Children's hospital | Teaching hospital | Critical access hospital | Research facility | ER-24 hours | ER-other | Other (describe) | Facility reporting group |
|--|-------------------|----------------------------|---------------------|-------------------|--------------------------|-------------------|-------------|----------|------------------|--------------------------|
| <p>1 JAMES LAWRENCE KERNAN HOSPITAL, INC. 2200 KERNAN DRIVE BALTIMORE MD 21207 HTTP://WWW.UMMS.ORG/REHAB 30-038</p> | X | X | | | | | | | REHABILITATION | 1 |
| 2 | | | | | | | | | | |
| 3 | | | | | | | | | | |
| 4 | | | | | | | | | | |
| 5 | | | | | | | | | | |
| 6 | | | | | | | | | | |
| 7 | | | | | | | | | | |
| 8 | | | | | | | | | | |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |

Part V Facility Information (continued)

Section B. Facility Policies and Practices

(complete a separate Section B for each of the hospital facilities or facility reporting groups listed in Part V, Section A)

Name of hospital facility or letter of facility reporting group JAMES LAWRENCE KERNAN HOSPITAL

Line number of hospital facility, or line numbers of hospital facilities in a facility reporting group (from Part V, Section A): 1

Community Health Needs Assessment

| | | Yes | No |
|------------|--|-----|----|
| 1 | Was the hospital facility first licensed, registered, or similarly recognized by a state as a hospital facility in the current tax year or the immediately preceding tax year? | | X |
| 2 | Was the hospital facility acquired or placed into service as a tax-exempt hospital in the current tax year or the immediately preceding tax year? If "Yes," provide details of the acquisition in Section C | | X |
| 3 | During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 12 If "Yes," indicate what the CHNA report describes (check all that apply): | X | |
| a | <input checked="" type="checkbox"/> A definition of the community served by the hospital facility | | |
| b | <input checked="" type="checkbox"/> Demographics of the community | | |
| c | <input checked="" type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community | | |
| d | <input checked="" type="checkbox"/> How data was obtained | | |
| e | <input checked="" type="checkbox"/> The significant health needs of the community | | |
| f | <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups | | |
| g | <input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs | | |
| h | <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests | | |
| i | <input checked="" type="checkbox"/> The impact of any actions taken to address the significant health needs identified in the hospital facility's prior CHNA(s) | | |
| j | <input type="checkbox"/> Other (describe in Section C) | | |
| 4 | Indicate the tax year the hospital facility last conducted a CHNA: 20 <u>17</u> | | |
| 5 | In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Section C how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted | X | |
| 6a | Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Section C | X | |
| 6b | Was the hospital facility's CHNA conducted with one or more organizations other than hospital facilities? If "Yes," list the other organizations in Section C | X | |
| 7 | Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply): | X | |
| a | <input checked="" type="checkbox"/> Hospital facility's website (list url): <u>WWW.UMMS.ORG/REHAB</u> | | |
| b | <input type="checkbox"/> Other website (list url): _____ | | |
| c | <input type="checkbox"/> Made a paper copy available for public inspection without charge at the hospital facility | | |
| d | <input type="checkbox"/> Other (describe in Section C) | | |
| 8 | Did the hospital facility adopt an implementation strategy to meet the significant community health needs identified through its most recently conducted CHNA? If "No," skip to line 11 | X | |
| 9 | Indicate the tax year the hospital facility last adopted an implementation strategy: 20 <u>17</u> | | |
| 10 | Is the hospital facility's most recently adopted implementation strategy posted on a website? | X | |
| a | If "Yes," (list url): <u>WWW.UMMS.ORG/REHAB</u> | | |
| b | If "No," is the hospital facility's most recently adopted implementation strategy attached to this return? | | |
| 11 | Describe in Section C how the hospital facility is addressing the significant needs identified in its most recently conducted CHNA and any such needs that are not being addressed together with the reasons why such needs are not being addressed. | | |
| 12a | Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)? | | X |
| b | If "Yes" to line 12a, did the organization file Form 4720 to report the section 4959 excise tax? | | |
| c | If "Yes" to line 12b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$ | | |

Part V Facility Information (continued)

Financial Assistance Policy (FAP)

Name of hospital facility or letter of facility reporting group JAMES LAWRENCE KERNAN HOSPITAL

| | | Yes | No |
|---|---|-----|----|
| Did the hospital facility have in place during the tax year a written financial assistance policy that: | | | |
| 13 | Explained eligibility criteria for financial assistance, and whether such assistance included free or discounted care? If "Yes," indicate the eligibility criteria explained in the FAP: | X | |
| a | <input checked="" type="checkbox"/> Federal poverty guidelines (FPG), with FPG family income limit for eligibility for free care of <u>200.0000</u> % and FPG family income limit for eligibility for discounted care of <u>300.0000</u> % | | |
| b | <input checked="" type="checkbox"/> Income level other than FPG (describe in Section C) | | |
| c | <input checked="" type="checkbox"/> Asset level | | |
| d | <input checked="" type="checkbox"/> Medical indigency | | |
| e | <input checked="" type="checkbox"/> Insurance status | | |
| f | <input checked="" type="checkbox"/> Underinsurance status | | |
| g | <input type="checkbox"/> Residency | | |
| h | <input type="checkbox"/> Other (describe in Section C) | | |
| 14 | Explained the basis for calculating amounts charged to patients? | X | |
| 15 | Explained the method for applying for financial assistance? If "Yes," indicate how the hospital facility's FAP or FAP application form (including accompanying instructions) explained the method for applying for financial assistance (check all that apply): | X | |
| a | <input checked="" type="checkbox"/> Described the information the hospital facility may require an individual to provide as part of his or her application | | |
| b | <input checked="" type="checkbox"/> Described the supporting documentation the hospital facility may require an individual to submit as part of his or her application | | |
| c | <input checked="" type="checkbox"/> Provided the contact information of hospital facility staff who can provide an individual with information about the FAP and FAP application process | | |
| d | <input type="checkbox"/> Provided the contact information of nonprofit organizations or government agencies that may be sources of assistance with FAP applications | | |
| e | <input type="checkbox"/> Other (describe in Section C) | | |
| 16 | Was widely publicized within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply): | X | |
| a | <input checked="" type="checkbox"/> The FAP was widely available on a website (list url): <u>WWW.UMMS.ORG/REHAB</u> | | |
| b | <input checked="" type="checkbox"/> The FAP application form was widely available on a website (list url): <u>WWW.UMMS.ORG/REHAB</u> | | |
| c | <input checked="" type="checkbox"/> A plain language summary of the FAP was widely available on a website (list url): <u>WWW.UMMS.ORG/REHAB</u> | | |
| d | <input checked="" type="checkbox"/> The FAP was available upon request and without charge (in public locations in the hospital facility and by mail) | | |
| e | <input checked="" type="checkbox"/> The FAP application form was available upon request and without charge (in public locations in the hospital facility and by mail) | | |
| f | <input checked="" type="checkbox"/> A plain language summary of the FAP was available upon request and without charge (in public locations in the hospital facility and by mail) | | |
| g | <input checked="" type="checkbox"/> Individuals were notified about the FAP by being offered a paper copy of the plain language summary of the FAP, by receiving a conspicuous written notice about the FAP on their billing statements, and via conspicuous public displays or other measures reasonably calculated to attract patients' attention | | |
| h | <input checked="" type="checkbox"/> Notified members of the community who are most likely to require financial assistance about availability of the FAP | | |
| i | <input checked="" type="checkbox"/> The FAP, FAP application form, and plain language summary of the FAP were translated into the primary language(s) spoken by LEP populations | | |
| j | <input type="checkbox"/> Other (describe in Section C) | | |

Part V Facility Information (continued)

Billing and Collections

Name of hospital facility or letter of facility reporting group JAMES LAWRENCE KERNAN HOSPITAL

| | | Yes | No |
|-----------|---|-----|----|
| 17 | Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained all of the actions the hospital facility or other authorized party may take upon nonpayment? | X | |
| 18 | Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP: | | |
| a | <input type="checkbox"/> Reporting to credit agency(ies) | | |
| b | <input type="checkbox"/> Selling an individual's debt to another party | | |
| c | <input type="checkbox"/> Deferring, denying, or requiring a payment before providing medically necessary care due to nonpayment of a previous bill for care covered under the hospital facility's FAP | | |
| d | <input type="checkbox"/> Actions that require a legal or judicial process | | |
| e | <input type="checkbox"/> Other similar actions (describe in Section C) | | |
| f | <input checked="" type="checkbox"/> None of these actions or other similar actions were permitted | | |
| 19 | Did the hospital facility or other authorized party perform any of the following actions during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged: | | X |
| a | <input type="checkbox"/> Reporting to credit agency(ies) | | |
| b | <input type="checkbox"/> Selling an individual's debt to another party | | |
| c | <input type="checkbox"/> Deferring, denying, or requiring a payment before providing medically necessary care due to nonpayment of a previous bill for care covered under the hospital facility's FAP | | |
| d | <input type="checkbox"/> Actions that require a legal or judicial process | | |
| e | <input type="checkbox"/> Other similar actions (describe in Section C) | | |
| 20 | Indicate which efforts the hospital facility or other authorized party made before initiating any of the actions listed (whether or not checked) in line 19 (check all that apply): | | |
| a | <input checked="" type="checkbox"/> Provided a written notice about upcoming ECAs (Extraordinary Collection Action) and a plain language summary of the FAP at least 30 days before initiating those ECAs | | |
| b | <input checked="" type="checkbox"/> Made a reasonable effort to orally notify individuals about the FAP and FAP application process | | |
| c | <input checked="" type="checkbox"/> Processed incomplete and complete FAP applications | | |
| d | <input checked="" type="checkbox"/> Made presumptive eligibility determinations | | |
| e | <input type="checkbox"/> Other (describe in Section C) | | |
| f | <input type="checkbox"/> None of these efforts were made | | |

Policy Relating to Emergency Medical Care

| | | Yes | No |
|------------------------|---|-----|----|
| 21 | Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that required the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? | | X |
| If "No," indicate why: | | | |
| a | <input checked="" type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions | | |
| b | <input type="checkbox"/> The hospital facility's policy was not in writing | | |
| c | <input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Section C) | | |
| d | <input type="checkbox"/> Other (describe in Section C) | | |

Part V Facility Information *(continued)*

Charges to Individuals Eligible for Assistance Under the FAP (FAP-Eligible Individuals)

Name of hospital facility or letter of facility reporting group JAMES LAWRENCE KERNAN HOSPITAL

| | | Yes | No |
|---|---|-----|----|
| 22 | Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care. | | |
| | a <input type="checkbox"/> The hospital facility used a look-back method based on claims allowed by Medicare fee-for-service during a prior 12-month period | | |
| | b <input type="checkbox"/> The hospital facility used a look-back method based on claims allowed by Medicare fee-for-service and all private health insurers that pay claims to the hospital facility during a prior 12-month period | | |
| | c <input type="checkbox"/> The hospital facility used a look-back method based on claims allowed by Medicaid, either alone or in combination with Medicare fee-for-service and all private health insurers that pay claims to the hospital facility during a prior 12-month period | | |
| d <input checked="" type="checkbox"/> The hospital facility used a prospective Medicare or Medicaid method | | | |
| 23 | During the tax year, did the hospital facility charge any FAP-eligible individual to whom the hospital facility provided emergency or other medically necessary services more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Section C. | | X |
| 24 | During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual? If "Yes," explain in Section C. | | X |

Schedule H (Form 990) 2017

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

COMMUNITY HEALTH NEEDS ASSESSMENT

SCHEDULE H, PART V, LINE 5

UM REHAB UTILIZED TWO MAJOR FRAMEWORKS FOR COMPLETING ITS MOST RECENT COMMUNITY HEALTH NEEDS ASSESSMENT (CHNA). TO COMPLETE THIS COMPREHENSIVE ASSESSMENT OF THE NEEDS OF THE COMMUNITY, THE ASSOCIATION FOR COMMUNITY HEALTH IMPROVEMENT'S (ACHI) 9-STEP COMMUNITY HEALTH ASSESSMENT PROCESS WAS UTILIZED AS AN ORGANIZING METHODOLOGY. AN ADDITIONAL 5-COMPONENT ASSESSMENT AND ENGAGEMENT STRATEGY WAS ALSO UTILIZED TO LEAD THE DATA COLLECTION METHODOLOGY. DATA WAS COLLECTED FROM MULTIPLE SOURCES, GROUPS, AND INDIVIDUALS AND INTEGRATED INTO A COMPREHENSIVE DOCUMENT WHICH WAS UTILIZED AT A MEETING IN JANUARY 2018 OF THE UM REHAB COMMUNITY HEALTH LEADERSHIP TEAM. DURING THAT MEETING, PRIORITIES WERE IDENTIFIED USING THE COLLECTED DATA AND AN ADAPTED VERSION OF THE CATHOLIC HEALTH ASSOCIATION'S (CHA) PRIORITY SETTING CRITERIA. THE IDENTIFIED PRIORITIES WERE ALSO VALIDATED BY THE LARGER LEADERSHIP TEAM OF UM REHABILITATION & ORTHOPEDIC INSTITUTE.

UM REHAB USED PRIMARY AND SECONDARY SOURCES OF DATA AS WELL AS QUANTITATIVE AND QUALITATIVE DATA AND CONSULTED WITH NUMEROUS INDIVIDUALS AND ORGANIZATIONS DURING THE CHNA, INCLUDING OTHER UNIVERSITY OF MARYLAND MEDICAL SYSTEM (UMMS) BALTIMORE CITY-BASED HOSPITALS, UNIVERSITY OF MARYLAND MEDICAL CENTER DOWNTOWN AND MIDTOWN CAMPUSES, COMMUNITY LEADERS, COMMUNITY PARTNERS, THE UNIVERSITY OF MARYLAND BALTIMORE (UMB) ACADEMIC COMMUNITY, THE GENERAL PUBLIC, LOCAL HEALTH EXPERTS, AND THE BALTIMORE CITY HEALTH DEPARTMENT.

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

ADDITIONALLY, FOR THE FIRST TIME IN THE CITY'S HISTORY, MOST LOCAL BALTIMORE CITY HOSPITALS JOINED TOGETHER IN FISCAL YEAR 2018 TO COLLABORATE ON SEVERAL KEY DATA COLLECTION STRATEGIES FOR A JOINT CHNA. UM REHAB WORKED CLOSELY WITH THE UNIVERSITY OF MARYLAND MEDICAL CENTER (UMMC) WHO PARTNERED WITH JOHNS HOPKINS HOSPITAL, SINAI HOSPITAL (LIFEBRIDGE), MEDSTAR HEALTH, ST. AGNES HEALTH SYSTEM, AND MERCY MEDICAL CENTER. THE ABOVE HOSPITALS/HEALTH SYSTEMS HAD BEEN COLLABORATING ON SEVERAL INITIATIVES PRIOR TO THE CHNA YEAR AND AGREED THAT IT WOULD BE BENEFICIAL TO WORK ON A MORE DETAILED LEVEL ON A JOINT CITY-WIDE CHNA. THIS MULTI-HOSPITAL COLLABORATIVE WORKED ON THE FOLLOWING DATA COLLECTION COMPONENTS TOGETHER:

- PUBLIC SURVEY OF BALTIMORE CITY RESIDENTS
- KEY STAKEHOLDER INTERVIEWS
- KEY POPULATION FOCUS GROUPS
- KEY COMMUNITY PARTNER FOCUS GROUPS

AFTER THE DATA WAS COLLECTED AND ANALYZED JOINTLY, EACH INDIVIDUAL HOSPITAL USED THE COLLECTED DATA FOR THEIR RESPECTIVE COMMUNITY BENEFIT SERVICE AREAS TO IDENTIFY THEIR UNIQUE PRIORITIES FOR THEIR COMMUNITIES. THE COLLABORATING HOSPITALS/HEALTH SYSTEMS DID AGREE TO JOINTLY FOCUS ON MENTAL HEALTH AS A KEY CITY-WIDE PRIORITY.

THE FOLLOWING DESCRIBES THE INDIVIDUAL DATA COLLECTION STRATEGIES WITH

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

THE ACCOMPANYING RESULTS.

A) COMMUNITY PERSPECTIVE

THE COMMUNITY'S PERSPECTIVE WAS OBTAINED THROUGH ONE SURVEY OFFERED TO THE PUBLIC USING SEVERAL METHODS THROUGHOUT BALTIMORE CITY. A 6-ITEM SURVEY QUERIED BALTIMORE CITY RESIDENTS TO IDENTIFY THEIR TOP HEALTH CONCERNS AND THEIR TOP BARRIERS IN ACCESSING HEALTH CARE. (SEE APPENDIX FOR THE ACTUAL SURVEY)

METHODS

6-ITEM SURVEY DISTRIBUTED IN FY2018 USING THE FOLLOWING METHODS:

- CONDUCTED FROM LATE SEPTEMBER THROUGH NOVEMBER 2017
- PARTICIPATING HOSPITALS COLLECTED DATA THROUGHOUT THE CITY
- DISTRIBUTED IN PERSON AND OFFERED ONLINE
- OFFERED IN ENGLISH, SPANISH, AND RUSSIAN
- COLLECTED 4,755 SURVEYS
- ALL BALTIMORE CITY ZIP CODES REPRESENTED

RESULTS

- TOP 6 HEALTH CONCERNS:
 - ALCOHOL/DRUG ADDICTION
 - MENTAL HEALTH
 - DIABETES/HIGH BLOOD SUGAR
 - OVERWEIGHT/OBESITY

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

-HEART DISEASE/HIGH BLOOD PRESSURE

-SMOKING/TOBACCO USE

ANALYSIS BY CBSA TARGETED ZIP CODES REVEALED THE SAME TOP HEALTH CONCERNS AND TOP HEALTH BARRIERS WITH LITTLE DEVIATION FROM THE OVERALL BALTIMORE CITY DATA. THE SAMPLE SIZE WAS 4,755 FOR ALL OF BALTIMORE CITY AND 71 FOR INDIVIDUALS FROM THE UM REHAB'S DISABLED COMMUNITY.

COMMUNITY'S TOP HEALTH CONCERNS (ALL BALTIMORE CITY)

-ALCOHOL/DRUG ADDICTION

-MENTAL HEALTH

-DIABETES/HIGH BLOOD SUGAR

-OVERWEIGHT/OBESITY

-HEART DISEASE/HIGH BLOOD PRESSURE

-SMOKING/TOBACCO USE

COMMUNITY'S TOP SOCIAL/ENVIRONMENTAL ISSUES (ALL BALTIMORE CITY)

-NEIGHBORHOOD SAFETY/VIOLENCE

-LACK OF JOB OPPORTUNITIES

-HOUSING/HOMELESSNESS

-AVAILABILITY/ACCESS TO INSURANCE

-POVERTY

-LIMITED ACCESS TO HEALTHY FOODS

UM REHAB'S DISABLED COMMUNITY'S TOP HEALTH CONCERNS

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

-ALCOHOL/DRUG ADDICTION

-DIABETES/HIGH BLOOD SUGAR

-OVERWEIGHT/OBESITY

-MENTAL HEALTH

-SMOKING/TOBACCO USE

-HEART DISEASE/HIGH BLOOD PRESSURE

UM REHAB'S DISABLED COMMUNITY TOP SOCIAL/ENVIRONMENTAL ISSUES

-AVAILABILITY/ACCESS TO INSURANCE

-LACK OF JOB OPPORTUNITIES

-HOUSING/HOMELESSNESS

-LIMITED AVAILABILITY OF RECREATIONAL ACTIVITIES

-TRANSPORTATION PROBLEMS

-LIMITED ACCESS TO HEALTHY FOODS

UM REHAB'S DISABLED COMMUNITY TOP BARRIERS TO HEALTHCARE

-COST/TOO EXPENSIVE/CAN'T AFFORD

-NO INSURANCE

-INSURANCE NOT ACCEPTED

-LACK OF TRANSPORTATION

B) HEALTH EXPERTS

METHODS

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

-REVIEWED & INCLUDED NATIONAL PREVENTION STRATEGY PRIORITIES, MARYLAND STATE HEALTH IMPROVEMENT PLAN (SHIP) INDICATORS, AND HEALTHY BALTIMORE 2020 PLAN FROM THE BALTIMORE CITY HEALTH DEPARTMENT

-REVIEWED HEALTHY BALTIMORE 2020: A BLUEPRINT FOR HEALTH

-REVIEWED BALTIMORE CITY HEALTH DEPARTMENT'S 2017 COMMUNITY HEALTH ASSESSMENT

-REVIEWED THE CENTER FOR DISEASE CONTROL'S DATA ON MARYLAND' DISABILITY STATUS PROFILE

RESULTS

-NATIONAL PREVENTION STRATEGY - 7 PRIORITY AREAS

-TOBACCO FREE LIVING

-PREVENTING DRUG ABUSE AND EXCESSIVE ALCOHOL USE

-HEALTHY EATING

-ACTIVE LIVING

-INJURY AND VIOLENCE FREE LIVING

-REPRODUCTIVE AND SEXUAL HEALTH

-MENTAL AND EMOTIONAL WELL BEING

-SHIP: 39 OBJECTIVES IN 5 VISION AREAS FOR THE STATE, INCLUDES TARGETS FOR BALTIMORE CITY

-WHILE PROGRESS HAS BEEN MADE SINCE 2015, MEASURES WITHIN BALTIMORE CITY HAVE NOT MET IDENTIFIED TARGETS; EVEN WIDER MINORITY DISPARITIES EXIST WITHIN THE CITY.

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

-HEALTHY BALTIMORE 2020: FOUR PRIORITY AREAS FOR BALTIMORE CITY

- 1) STRATEGIC PRIORITY 1: BEHAVIORAL HEALTH
- 2) STRATEGIC PRIORITY 2: VIOLENCE PREVENTION
- 3) STRATEGIC PRIORITY 3: CHRONIC DISEASE PREVENTION
- 4) STRATEGIC PRIORITY 4: LIFE COURSE APPROACH AND CORE SERVICES

-HEALTH EXPERT UMB CAMPUS PANEL FOCUS GROUP TOP ACTION ITEMS INCLUDED:

- CONTINUE COLLABORATIVE WORK FROM THE UMMC/UMB STRATEGIC COMMUNITY PLAN
- IMPROVE COMMUNICATION AND SYNERGY ACROSS CAMPUS SCHOOLS AND UMMC
- IDENTIFY WAYS TO PARTNER AND SUPPORT EACH OTHER
- CENTER FOR DISEASE CONTROL'S DISABILITY DATA FOR MARYLAND

C) COMMUNITY LEADERS

METHODS

-HOSTED TWO FOCUS GROUPS IN COLLABORATION WITH THE OTHER BALTIMORE-BASED HOSPITALS FOR COMMUNITY-BASED ORGANIZATION PARTNERS TO SHARE THEIR PERSPECTIVES ON HEALTH NEEDS (NOVEMBER 2017)

RESULTS

-CONSENSUS REACHED THAT SOCIAL DETERMINANTS OF HEALTH (AND "UPSTREAM FACTORS") ARE KEY ELEMENTS THAT DETERMINE HEALTH OUTCOMES

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

-TOP NEEDS AND BARRIERS WERE IDENTIFIED AS WELL POTENTIAL SUGGESTIONS FOR IMPROVEMENT AND COLLABORATION

-TOP NEEDS:

-HEALTH LITERACY

-EMPLOYMENT/POVERTY

-MENTAL/BEHAVIORAL HEALTH

-CARDIOVASCULAR HEALTH (OBESITY, HYPERTENSION, STROKE, & DIABETES)

-MATERNAL/CHILD HEALTH - FOCUSING ON PROMOTING A HEALTHY START FOR ALL CHILDREN

-TOP BARRIERS:

-FOCUSING ON THE OUTCOME AND NOT THE ROOT OF THE PROBLEMS (I.E. SDOH)

-LACK OF INTER-AGENCY COLLABORATION/WORKING IN SILOS

-SUGGESTIONS FOR IMPROVEMENT:

-LEVERAGE EXISTING RESOURCES

-INCREASE COLLABORATION

-FOCUS ON SOCIAL DETERMINANTS OF HEALTH

-ENHANCE BEHAVIORAL HEALTH RESOURCES

CHNA CONDUCTED WITH ONE OR MORE OTHER HOSPITAL FACILITIES

SCHEDULE H, PART V, LINE 6A

UM REHAB CONDUCTED ITS FY18 CHNA WITH THE UMMC. ADDITIONALLY, MOST

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

BALTIMORE CITY HOSPITALS COLLABORATED TOGETHER FOR THE FIRST TIME TO GATHER PRIMARY DATA TOGETHER. THE ADDITIONAL HOSPITALS WHO COLLABORATED WITH UM REHAB INCLUDE JOHNS HOPKINS HOSPITAL, ST AGNES HOSPITAL, SINAI HOSPITAL (LIFEBRIDGE), MERCY MEDICAL CENTER, AND MEDSTAR HEALTH.

CHNA CONDUCTED WITH ONE OR MORE ORGANIZATIONS

SCHEDULE H, PART V, LINE 6B

THE CHNA WAS CONDUCTED WITH THE FOLLOWING ORGANIZATIONS OTHER THAN HOSPITAL FACILITIES:

- BARS
- DEPT OF REHABILITATION SERVICES
- MAYOR'S OFFICE ON DISABILITIES
- MOUNT DE SALES ACADEMY
- HOWARD COUNTY PUBLIC SCHOOLS

ADDRESSING SIGNIFICANT NEEDS FROM CHNA

SCHEDULE H, PART V, LINE 11

ANALYSIS OF ALL QUANTITATIVE AND QUALITATIVE DATA DESCRIBED IN THE ABOVE SECTION IDENTIFIED THE FOLLOWING TOP THREE AREAS OF NEED WITHIN BALTIMORE CITY FOR DISABLED ADULTS. THESE TOP PRIORITIES REPRESENT THE INTERSECTION OF DOCUMENTED UNMET COMMUNITY HEALTH NEEDS AND THE ORGANIZATION'S KEY STRENGTHS AND MISSION. THESE PRIORITIES WERE IDENTIFIED AND APPROVED BY THE UM REHAB COMMUNITY LEADERSHIP TEAM AND VALIDATED WITH THE LARGER UM REHAB LEADERSHIP TEAM:

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

- 1) QUALITY OF LIFE
- 2) TRANSITION TO THE COMMUNITY
- 3) COMMUNITY AWARENESS

PROGRAMMING FOR THE COMMUNITY IS BASED ON THE IDENTIFIED NEEDS ABOVE AND EXAMPLES INCLUDE THE ADAPTED SPORTS PROGRAM, LIVING WELL WITH CHRONIC DISEASE PROGRAMS, A DENTAL CLINIC FOR DISABLED, AND SEVERAL OTHER PROGRAMS. UM REHAB'S IDENTIFIED CORE PRIORITIES AND PROGRAMMING TARGET THE INTERSECTION OF THE IDENTIFIED COMMUNITY NEEDS AND THE ORGANIZATION'S KEY STRENGTHS AND MISSION.

SEVERAL ADDITIONAL TOPIC AREAS WERE IDENTIFIED BY THE COMMUNITY HEALTH IMPROVEMENT LEADERSHIP TEAM DURING THE CHNA PROCESS INCLUDING: BEHAVIORAL/MENTAL HEALTH, SAFE HOUSING, TRANSPORTATION, AND SUBSTANCE ABUSE. WHILE UM REHAB WILL FOCUS THE MAJORITY OF ITS EFFORTS ON THE IDENTIFIED STRATEGIC PROGRAMS OUTLINED IN THE TABLE BELOW, THE ORGANIZATION WILL REVIEW THE COMPLETE SET OF NEEDS IDENTIFIED IN THE CHNA FOR FUTURE COLLABORATION AND WORK. THESE AREAS, WHILE STILL IMPORTANT TO THE HEALTH OF THE COMMUNITY, WILL BE MET THROUGH EITHER EXISTING CLINICAL PROGRAMS AT THE MEDICAL CENTER (I.E. METHADONE CLINICS, RESIDENTIAL PSYCHIATRIC PROGRAM) OR THROUGH COLLABORATION WITH OTHER HEALTH CARE ORGANIZATIONS AS NEEDED. ADDITIONALLY, SUBSTANCE ABUSE PROGRAMMING IS ALREADY INTEGRATED INTO EXISTING PROGRAMS SUCH AS THE THINK FIRST FOR TEENS PROGRAM. THE ADDITIONAL UNMET NEEDS NOT ADDRESSED BY UM REHAB WILL ALSO CONTINUE TO BE ADDRESSED BY KEY BALTIMORE CITY GOVERNMENTAL AGENCIES

Part V Facility Information (continued)

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 2, 3j, 5, 6a, 6b, 7d, 11, 13b, 13h, 15e, 16j, 18e, 19e, 20e, 21c, 21d, 23, and 24. If applicable, provide separate descriptions for each hospital facility in a facility reporting group, designated by facility reporting group letter and hospital facility line number from Part V, Section A ("A, 1," "A, 4," "B, 2," "B, 3," etc.) and name of hospital facility.

AND EXISTING COMMUNITY-BASED ORGANIZATIONS.

ELIGIBILITY CRITERIA FOR FINANCIAL ASSISTANCE

SCHEDULE H, PART V, LINE 13B

THE FINANCIAL ASSISTANCE POLICY EXPLAINS SEVERAL ELIGIBILITY CRITERIA, INCLUDING PARTICIPATION IN MEDICAID/MEDICARE PROGRAMS AS WELL AS ELIGIBILITY UNDER VARIOUS STATE REGULATIONS. IN ADDITION TO FPG, THE INCOME LEVELS DEFINED BY THE MARYLAND STATE DEPARTMENT OF HEALTH AND MENTAL HYGIENE (MD DHMH) ARE USED TO DETERMINE ELIGIBILITY FOR FINANCIAL ASSISTANCE. THE MD DHMH INCOME LEVELS ARE MORE GENEROUS THAN THE FPG INCOME LEVELS.

HOSPITAL EFFORTS BEFORE INITIATING ACTION

SCHEDULE H, PART V, LINE 20C

IN THE CASE OF AN INCOMPLETE FAP APPLICATION, PATIENTS ARE NOT AUTOMATICALLY DENIED. A LETTER IS MAILED TO THE PATIENT REQUESTING THE MISSING DOCUMENTATION, AND FAP APPLICATIONS ARE APPROVED ONCE THE MISSING DOCUMENTATION IS PROVIDED.

Part V Facility Information (continued)

Section D. Other Health Care Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size, from largest to smallest)

How many non-hospital health care facilities did the organization operate during the tax year? _____

| Name and address | Type of Facility (describe) |
|------------------|-----------------------------|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| 8 | |
| 9 | |
| 10 | |

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

CRITERIA FOR FREE OR DISCOUNTED CARE

SCHEDULE H, PART I, LINE 3C

UM REHAB IS COMMITTED TO PROVIDING FINANCIAL ASSISTANCE TO PERSONS WHO HAVE HEALTH CARE NEEDS AND ARE UNINSURED, UNDERINSURED, INELIGIBLE FOR A GOVERNMENT PROGRAM, OR OTHERWISE UNABLE TO PAY, FOR MEDICALLY NECESSARY CARE BASED ON THEIR INDIVIDUAL FINANCIAL SITUATION. IN ADDITION TO FPG, THE INCOME LEVELS DEFINED BY THE MARYLAND STATE DEPARTMENT OF HEALTH AND MENTAL HYGIENE (MD DHMH) ARE USED TO DETERMINE ELIGIBILITY FOR FINANCIAL ASSISTANCE. THE MD DHMH INCOME LEVELS ARE MORE GENEROUS THAN THE FPG INCOME LEVELS.

THE FAP ALSO USES A FINANCIAL HARDSHIP THRESHOLD WHEN DETERMINING ELIGIBILITY. A PATIENT WITH MEDICAL DEBT EXCEEDING 25% OF FAMILY ANNUAL HOUSEHOLD INCOME MAY BE ELIGIBLE FOR FINANCIAL ASSISTANCE.

RELATED ORGANIZATION REPORT

SCHEDULE H, PART I, LINE 6B

THE ORGANIZATION ANNUALLY FILES A COMMUNITY BENEFIT REPORT AS REQUIRED BY

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
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- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

THE MARYLAND HSCRC. THE REPORT CAN BE FOUND AT

[HTTPS://HSRC.STATE.MD.US/PAGES/INIT_CB.ASPX.](https://hsrc.state.md.us/pages/init_cb.aspx)

COSTING METHODOLOGY

SCHEDULE H, PART I, LINE 7

MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION. THE HEALTH SERVICES COST REVIEW COMMISSION, (HSCRC) DETERMINES PAYMENT THROUGH A RATE SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL. MARYLAND'S UNIQUE ALL PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE.

COMMUNITY BENEFIT EXPENSES ARE EQUAL TO MEDICAID REVENUES IN MARYLAND, AS SUCH, THE NET EFFECT IS ZERO. ADDITIONALLY, NET REVENUES FOR MEDICAID SHOULD REFLECT THE FULL IMPACT ON THE HOSPITAL OF ITS SHARE OF THE MEDICAID ASSESSMENT.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

COMMUNITY BUILDING ACTIVITIES

SCHEDULE H, PART II

COMMUNITY BUILDING ACTIVITIES INCLUDE THE WORKFORCE/CAREER

DEVELOPMENT/VOLUNTEER PROGRAMS THAT ARE IN PLACE AT UM REHAB. THESE

PROGRAMS PROMOTE LITERACY, HEALTH LITERACY, AND JOB SKILLS TO PREPARE

ADULTS AND CURRENT EMPLOYEES FOR A VARIETY OF POSITIONS. VOLUNTEERS ALSO

GAIN VALUABLE SOFT SKILLS WHICH ARE IMPORTANT TO LONG-TERM SUCCESS IN THE

JOB MARKET. THE HEALTH OF THE COMMUNITY IS IMPACTED BY HAVING INDIVIDUALS

PREPARED FOR JOBS THAT ENABLE THEM TO OBTAIN HEALTH INSURANCE WHILE ALSO

ASSISTING THEM TO BE MORE AWARE OF THEIR OWN HEALTHCARE NEEDS.

BAD DEBT EXPENSE REPORTING IN MARYLAND

SCHEDULE H, PART III, LINES 2 AND 3

THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC) STARTED SETTING

HOSPITAL RATES IN 1974. AT THAT TIME, THE HSCRC APPROVED RATES APPLIED

ONLY TO COMMERCIAL INSURERS. IN 1977, THE HSCRC NEGOTIATED A WAIVER FROM

MEDICARE HOSPITAL PAYMENT RULES FOR MARYLAND HOSPITALS TO BRING THE

FEDERAL MEDICARE PAYMENTS UNDER HSCRC CONTROL.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

IN 2014, MARYLAND'S WAIVER WITH MEDICARE WAS RENEGOTIATED AND UPDATED TO REFLECT THE CURRENT HEALTHCARE ENVIRONMENT. UNDER THIS NEW WAIVER, SEVERAL CRITERIA WERE ESTABLISHED TO MONITOR THE SUCCESS OF THE SYSTEM IN CONTROLLING HEALTHCARE COSTS AND THE CONTINUANCE OF THE WAIVER ITSELF:

1. REVENUE GROWTH PER CAPITA
2. MEDICARE HOSPITAL REVENUE PER BENEFICIARY
3. MEDICARE ALL PROVIDER REVENUE GROWTH PER BENEFICIARY
4. MEDICARE READMISSION RATES
5. HOSPITAL ACQUIRED CONDITION RATE

BECAUSE OF THIS SYSTEM, THE HOSPITAL IS UNABLE TO ESTIMATE HOW MUCH OF THE AMOUNT REPORTED IN LINE 2 IS ATTRIBUTED TO PATIENTS WHO WOULD APPLY UNDER THE FAP.

FOOTNOTE FOR BAD DEBT EXPENSE IN AUDITED FINANCIAL STATEMENTS

SCHEDULE H, PART III, LINE 4

THE CORPORATION RECORDS REVENUES AND ACCOUNTS RECEIVABLE FROM PATIENTS

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
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- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

AND THIRD-PARTY PAYORS AT THEIR ESTIMATED NET REALIZABLE VALUE. REVENUE IS REDUCED FOR ANTICIPATED DISCOUNTS UNDER CONTRACTUAL ARRANGEMENTS AND FOR CHARITY CARE. AN ESTIMATED PROVISION FOR BAD DEBTS IS RECORDED IN THE PERIOD THE RELATED SERVICES ARE PROVIDED BASED UPON ANTICIPATED UNCOMPENSATED CARE, AND IS ADJUSTED AS ADDITIONAL INFORMATION BECOMES AVAILABLE.

THE PROVISION FOR BAD DEBTS IS BASED UPON MANAGEMENT'S ASSESSMENT OF HISTORICAL AND EXPECTED NET COLLECTIONS CONSIDERING HISTORICAL BUSINESS AND ECONOMIC CONDITIONS, TRENDS IN HEALTHCARE COVERAGE, AND OTHER COLLECTION INDICATORS. PERIODICALLY THROUGHOUT THE YEAR, MANAGEMENT ASSESSES THE ADEQUACY OF THE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS BASED UPON HISTORICAL WRITE-OFF EXPERIENCE BY PAYOR CATEGORY. THE RESULTS OF THIS REVIEW ARE THEN USED TO MAKE MODIFICATIONS TO THE PROVISION FOR BAD DEBTS AND TO ESTABLISH AN ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES. AFTER COLLECTION OF AMOUNTS DUE FROM INSURERS, THE CORPORATION FOLLOWS INTERNAL GUIDELINES FOR PLACING CERTAIN PAST DUE BALANCES WITH COLLECTION AGENCIES.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
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- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

FOR RECEIVABLES ASSOCIATED WITH SERVICES PROVIDED TO PATIENTS WHO HAVE THIRD-PARTY COVERAGE, THE CORPORATION ANALYZES CONTRACTUALLY DUE AMOUNTS AND PROVIDES AN ALLOWANCE FOR BAD DEBTS, ALLOWANCE FOR CONTRACTUAL ADJUSTMENTS, PROVISION FOR BAD DEBTS, AND CONTRACTUAL ADJUSTMENTS ON ACCOUNTS FOR WHICH THE THIRD-PARTY PAYOR HAS NOT YET PAID OR FOR PAYORS WHO ARE KNOWN TO BE HAVING FINANCIAL DIFFICULTIES THAT MAKE THE REALIZATION OF AMOUNTS DUE UNLIKELY. FOR RECEIVABLES ASSOCIATED WITH SELF-PAY PATIENTS OR WITH BALANCES REMAINING AFTER THE THIRD-PARTY COVERAGE HAD ALREADY PAID, THE CORPORATION RECORDS A SIGNIFICANT PROVISION FOR BAD DEBTS IN THE PERIOD OF SERVICE ON THE BASIS OF ITS HISTORICAL COLLECTIONS, WHICH INDICATES THAT MANY PATIENTS ULTIMATELY DO NOT PAY THE PORTION OF THEIR BILL FOR WHICH THEY ARE FINANCIALLY RESPONSIBLE. THE DIFFERENCE BETWEEN THE DISCOUNTED RATES AND THE AMOUNTS COLLECTED AFTER ALL REASONABLE COLLECTION EFFORTS HAVE BEEN EXHAUSTED IS CHARGED AGAINST THE ALLOWANCE FOR DOUBTFUL ACCOUNTS.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
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- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

MEDICARE COST REPORT

SCHEDULE H, PART III, LINE 8

THE ORGANIZATION FILES ANNUALLY A COMMUNITY BENEFIT REPORT WITH THE STATE OF MARYLAND'S HEALTH SERVICES COST REVIEW COMMISSION (HSCRC). THE HSCRC, WHICH OPERATES UNDER A MEDICARE WAIVER, DOES NOT CONSIDER MEDICARE SHORTFALL AS COMMUNITY BENEFIT. THE COSTING METHODOLOGY USED BY THE ORGANIZATION IS A COST-TO-CHARGE RATIO.

COLLECTION PRACTICES

SCHEDULE H, PART III, LINE 9B

THE ORGANIZATION EXPECTS PAYMENT AT THE TIME THE SERVICE IS PROVIDED. OUR POLICY IS TO COMPLY WITH ALL STATE AND FEDERAL LAW AND THIRD PARTY REGULATIONS AND TO PERFORM ALL CREDIT AND COLLECTION FUNCTIONS IN A DIGNIFIED AND RESPECTFUL MANNER. EMERGENCY SERVICES WILL BE PROVIDED TO ALL PATIENTS REGARDLESS OF ABILITY TO PAY. FINANCIAL ASSISTANCE IS AVAILABLE FOR PATIENTS BASED ON FINANCIAL NEED AS DEFINED IN THE FINANCIAL ASSISTANCE POLICY. THE ORGANIZATION DOES NOT DISCRIMINATE ON THE BASIS OF AGE, RACE, CREED, SEX OR ABILITY TO PAY.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
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- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

PATIENTS WHO ARE UNABLE TO PAY MAY REQUEST A FINANCIAL ASSISTANCE APPLICATION AT ANY TIME PRIOR TO SERVICE OR DURING THE BILLING AND COLLECTION PROCESS, EVEN IN EXCESS OF 240 DAYS FOLLOWING THE FIRST POST-DISCHARGE BILLING STATEMENT. THE ORGANIZATION MAY REQUEST THE PATIENT TO APPLY FOR MEDICAL ASSISTANCE PRIOR TO APPLYING FOR FINANCIAL ASSISTANCE. THE ACCOUNT WILL NOT BE FORWARDED FOR COLLECTION DURING THE MEDICAL ASSISTANCE APPLICATION PROCESS OR THE FINANCIAL ASSISTANCE APPLICATION PROCESS. NO EXTRAORDINARY COLLECTION ACTIONS (ECAS) WILL OCCUR EARLIER THAN 120 DAYS FROM SUBMISSION OF FIRST BILL TO THE PATIENT AND WILL BE PRECEDED BY NOTICE 30 DAYS PRIOR TO COMMENCEMENT OF THE ACTION. AVAILABILITY OF FINANCIAL ASSISTANCE WILL BE COMMUNICATED TO THE PATIENT AND A PRESUMPTIVE ELIGIBILITY REVIEW WILL OCCUR PRIOR TO ANY ACTION BEING TAKEN. IF A PATIENT IS DETERMINED TO BE ELIGIBLE FOR FINANCIAL ASSISTANCE AFTER AN ECA IS INITIATED, THE ORGANIZATION WILL TAKE REASONABLE MEASURES TO REVERSE THE ECAS AGAINST THE PATIENT ACCOUNT.

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
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- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

COMMUNITY HEALTH CARE NEEDS ASSESSMENT

SCHEDULE H, PART VI, LINE 2

SINCE FISCAL YEAR 2012, UM REHAB HAS COMPLETED A COMPREHENSIVE CHNA EVERY THREE YEARS. TO COMPLETE THIS COMPREHENSIVE ASSESSMENT OF THE NEEDS OF THE COMMUNITY IN FISCAL YEAR 2018, THE ASSOCIATION FOR COMMUNITY HEALTH IMPROVEMENT'S (ACHI) 9-STEP COMMUNITY HEALTH ASSESSMENT PROCESS WAS UTILIZED AS AN ORGANIZING METHODOLOGY. THE UM REHAB COMMUNITY HEALTH LEADERSHIP TEAM SERVED AS THE LEAD TEAM TO OVERSEE THE CHNA WITH INPUT FROM OTHER UMMS SYSTEM BALTIMORE CITY-BASED HOSPITALS, COMMUNITY LEADERS, THE ACADEMIC COMMUNITY, THE PUBLIC, HEALTH EXPERTS, AND THE BALTIMORE CITY HEALTH DEPARTMENT. UM REHAB ADOPTED THE ACHI 9-STEP PROCESS TO LEAD THE ASSESSMENT PROCESS AND AN ADDITIONAL 5-COMPONENT ASSESSMENT AND ENGAGEMENT STRATEGY TO LEAD THE DATA COLLECTION METHODOLOGY.

DATA WAS COLLECTED FROM THE MAJOR AREAS OF THE COMMUNITY'S PERSPECTIVE, HEALTH EXPERTS' OPINIONS, AND COMMUNITY LEADERS' PERSPECTIVES ALONG WITH A REVIEW OF SOCIAL DETERMINANTS OF HEALTH AND EPIDEMIOLOGIC DATA TO COMPLETE A COMPREHENSIVE ASSESSMENT OF THE COMMUNITY'S NEEDS. DATA

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
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- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

INCLUDES PRIMARY AND SECONDARY SOURCES OF DATA. THIS COMMUNITY HEALTH NEEDS ASSESSMENT REPORT WAS APPROVED BY THE UM REHAB COMMUNITY HEALTH LEADERSHIP TEAM IN MAY AND BY THE BOARD OF DIRECTORS ON MAY 24, 2018.

WWW.UMREHABORTHO.ORG/2018CHNA

ELGIBILITY EDUCATION & FINANCIAL ASSISTANCE

SCHEDULE H, PART VI, LINE 3

UM REHAB MAKES EVERY EFFORT TO MAKE FINANCIAL ASSISTANCE INFORMATION AVAILABLE TO OUR PATIENTS INCLUDING, BUT NOT LIMITED TO:

- SIGNAGE IN MAIN ADMITTING AREAS AND EMERGENCY ROOMS OF THE HOSPITAL
- THE ORGANIZATION'S WEBSITE
- PATIENT HANDBOOK DISTRIBUTED TO ALL PATIENTS
- BROCHURES EXPLAINING FINANCIAL ASSISTANCE ARE MADE AVAILABLE IN ALL PATIENT CARE AREAS
- PATIENT PLAIN LANGUAGE SHEETS (AVAILABLE IN ENGLISH, AS WELL AS LANGUAGES SPOKEN BY UMMS PATIENTS WITH LIMITED ENGLISH PROFICIENCY)
- APPEARING IN PRINT MEDIA THROUGH LOCAL NEWSPAPERS

Part VI Supplemental Information

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DESCRIPTION OF COMMUNITY SERVED

SCHEDULE H, PART VI, LINE 4

THE LARGER REGIONAL PATIENT MIX OF UM REHAB CONSISTS OF DISABLED ADULTS FROM THE METROPOLITAN AREA, STATE, AND REGION. FOR PURPOSES OF COMMUNITY BENEFITS PROGRAMMING AND THE FY18 CHNA, THE COMMUNITY BENEFIT SERVICE AREA (CBSA) OF UM REHAB INCLUDES DISABLED ADULTS FROM BALTIMORE CITY AND THE SURROUNDING COUNTIES OF BALTIMORE, HOWARD, AND ANNE ARUNDEL.

IT IS ESTIMATED THAT 7.3% OF MARYLANDERS UNDER 65 YEARS OF AGE HAVE SOME TYPE OF DISABILITY. THIS PREVALENCE ACCOUNTS FOR 441,808 MARYLANDERS WHO NEED SOME TYPE OF SUPPORT AND/OR RESOURCES TO IMPROVE THEIR DAILY QUALITY OF LIFE. THESE INDIVIDUALS REPORT BARRIERS TO HEALTH WHICH INCLUDE MOBILITY, TRANSPORTATION, LIMITED RECREATIONAL OPTIONS, UNEMPLOYMENT, INSURANCE COVERAGE, AND MENTAL HEALTH ISSUES.

DISABILITY* IN THE UM REHAB SERVICE AREA

| | ANNE ARUNDEL CO. | BALTIMORE CITY | BALTIMORE CO | HOWARD CO |
|----------------|------------------|----------------|--------------|-----------|
| UNDER 21 YEARS | 12% | 19.8% | 13.6% | 8.5% |

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| | | | | |
|----------------|------|-------|-------|------|
| 21 TO 64 YEARS | 9.5% | 18.2% | 10.4% | 6.9% |
| 64 + YEARS | 9.3% | 17.2% | 10% | 6.8% |

*DISABILITY DEFINED AS MILD TO SEVERE VISUAL, HEARING, AMBULATORY, COGNITIVE, SELF-CARE, AND INDEPENDENT LIVING.

SOURCE: LOCAL DISABILITY DATA FOR PLANNERS

([HTTP://DISABILITYPLANNINGDATA.COM](http://disabilityplanningdata.com))

PROMOTION OF COMMUNITY HEALTH

SCHEDULE H, PART VI, LINE 5

UM REHAB PROMOTES THE HEALTH OF ITS COMMUNITY IN A VARIETY OF WAYS.

PROGRAMMING IS BASED ON THE STRATEGIC PRIORITIES IDENTIFIED IN THE CHNA.

THE FOLLOWING THREE PROGRAMS HIGHLIGHT THE MAJOR COMMUNITY HEALTH

INITIATIVES TO ADDRESS THE THREE MAJOR PRIORITIES OF:

-QUALITY OF LIFE

-TRANSITION TO THE COMMUNITY

-COMMUNITY AWARENESS

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IDENTIFIED NEED/PRIORITY: QUALITY OF LIFE: ACTIVE LIFESTYLE

IDENTIFIED NEED: ADAPTED SPORTS PROGRAM

THROUGH PATIENT AND COMMUNITY RESIDENT SURVEYS AS WELL AS KEY INFORMANT INTERVIEWS, THE ADAPTED SPORTS PROGRAM WAS IDENTIFIED AS PART OF THE CHNA FY'18 AS A VALUED SERVICE WHICH ADDRESSES A NEED FOR PHYSICAL ACTIVITY IN THE DISABLED POPULATION. A NEED TO EXPAND THE PROGRAM WAS ALSO IDENTIFIED TO FURTHER MEET HEALTH, FITNESS, SOCIAL AND OVERALL QUALITY OF LIFE NEEDS.

HOSPITAL INITIATIVE: THE ADAPTED SPORTS PROGRAMS PROVIDE EXPOSURE AND OPPORTUNITIES TO PARTICIPATE IN ADAPTED SPORTS TO IMPROVE HEALTH, FITNESS, SOCIAL AND OVERALL QUALITY OF LIFE FOR INDIVIDUALS WITH PHYSICAL DISABILITIES.

-ADAPTED SPORTS FESTIVAL

-WHEELCHAIR RUGBY TEAM

-WHEELCHAIR BASKETBALL CLINIC

-ADAPTED GOLF PROGRAM

Part VI Supplemental Information

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-AMPUTEE WALKING/RUNNING CLINIC

PRIMARY OBJECTIVES OF INITIATIVE: ADAPTED SPORTS PROGRAM

- 1) INCREASE PHYSICAL ACTIVITY (MARYLAND SHIP)
- 2) INCREASE AWARENESS & BENEFITS OF ADAPTED SPORTS FOR DISABLED INDIVIDUALS
- 3) INCREASE SELF-REPORTED QUALITY OF LIFE OF DISABLED ADULTS

SINGLE OR MULTI-YEAR PLAN: ALL PROGRAMS ARE MULTI-YEAR, ONGOING INITIATIVES.

KEY COLLABORATORS IN DELIVERY:

- UNITED STATES OLYMPIC COMMITTEE
- UNITED STATES PARALYMPIC COMMITTEE
- BALTIMORE MUNICIPAL GOLF CORPORATION - FOREST PARK GOLF COURSE
- BALTIMORE CITY RECREATION AND PARKS
- BALTIMORE COUNTY RECREATION AND PARKS

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IMPACT OF HOSPITAL INITIATIVE: THE ADAPTED SPORTS PROGRAM MAXIMIZES PARTICIPATION FOR INDIVIDUALS WITH DISABILITIES IN ADAPTED RECREATIONAL AND COMPETITIVE SPORTS, IN ORDER TO PROMOTE INDEPENDENCE, SELF-CONFIDENCE, HEALTH AND OVERALL WELL-BEING THROUGH STRUCTURED, INDIVIDUAL AND TEAM SPORTS.

METRICS:

-# OF PARTICIPANTS

-% OF PARTICIPANTS WHO REPORT LEARNING ABOUT ADAPTED SPORTS THAT THEY CAN PARTICIPATE IN

-% OF PARTICIPANTS WHO REPORT POSITIVE IMPACT ON LIFE

(PARTICIPANTS OF THE ADAPTED SPORTS PROGRAM COMPLETE A SURVEY REGARDING THE IMPACT OF THE PROGRAM ON AWARENESS OF PROGRAMS AVAILABLE IN THE COMMUNITY, IMPACT ON HEALTH, FITNESS, SOCIALIZATION AND OVERALL QUALITY OF LIFE.)

EVALUATION OF OUTCOMES:

-506 PARTICIPANTS IN ALL PROGRAMS

Part VI Supplemental Information

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-80% OF PARTICIPANTS REPORTED LEARNING ABOUT THE BENEFIT OF PHYSICAL AND PSYCHOSOCIAL HEALTH AS A RESULT OF PARTICIPATING IN THE ADAPTED SPORTS PROGRAM.

-70% OF PARTICIPANTS REPORTED THAT THEY HAVE EXPERIENCED SOME TYPE OF HEALTH BENEFIT AS A RESULT OF PARTICIPATION.

CONTINUATION OF INITIATIVE:

UM REHAB WILL CONTINUE TO MONITOR PERFORMANCE AND OUTCOME MEASURES ANNUALLY. THIS PRIORITY AND THE ACCOMPANYING INITIATIVES WILL CONTINUE UNTIL THE FY18 CHNA IS COMPLETED AND AS LONG AS THERE CONTINUES TO BE INTEREST AND PERCEIVED BENEFIT TO OUR PARTICIPANTS.

IDENTIFIED NEED: TRANSITION TO THE COMMUNITY - LIVING WELL WITH CHRONIC DISEASE PROGRAMS

THROUGH PATIENT AND RESIDENT SURVEYS AS WELL AS KEY INFORMANT INTERVIEWS, A NEED FOR ONGOING EDUCATION ON HOW TO LIVE WITH A DISABILITY WAS IDENTIFIED AS PART OF THE COMMUNITY HEALTH NEEDS ASSESSMENT FY'18.

Part VI Supplemental Information

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HOSPITAL INITIATIVE: LIVING WELL WITH CHRONIC DISEASE PROGRAMS

UM REHAB SERVES DISABLED ADULTS WHO HAVE LIMITED ACCESS TO ONGOING SUPPORT AND EDUCATION IN THE COMMUNITY. THE LIVING WELL WITH CHRONIC DISEASE PROGRAM IS AN EVIDENCE-BASED SERIES OF WORKSHOPS FOR INDIVIDUALS WITH A CHRONIC CONDITION LIKE A DISABILITY ALONG WITH THEIR CAREGIVERS. THIS EVIDENCE-BASED INITIATIVE WAS DEVELOPED BY STANFORD UNIVERSITY AND IS USED NATIONALLY. THE WORKSHOP IS SCRIPTED TO DELIVER HIGH FIDELITY BUT IS ALSO VERY INTERACTIVE WITH SMALL GROUPS. THE RESULTS HAVE BEEN VERY POSITIVE THROUGHOUT THE US.

PRIMARY OBJECTIVES OF INITIATIVE:

1) TO IMPROVE HEALTH LITERACY AND SELF-CARE OF INDIVIDUALS WITH CHRONIC CONDITIONS, REDUCE HEALTH COMPLICATIONS AND THE NEED FOR EMERGENCY ROOM VISITS.

SINGLE OR MULTI-YEAR PLAN: ONGOING INITIATIVE

Part VI Supplemental Information

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KEY COLLABORATORS IN DELIVERY:

UMMC

MAC, INC.

IMPACT OF HOSPITAL INITIATIVE:

OUTCOMES ARE EVALUATED BY TRACKING THE NUMBER OF VISITS THAT TAKE PLACE IN THE DENTAL CLINIC EACH YEAR, AND MEASURING THE PERCENT OF VISITS THAT ARE PREVENTIVE.

METRICS:

-# OF PARTICIPANTS

-% OF PARTICIPANTS COMPLETING PROGRAM

EVALUATION OF OUTCOMES:

-20 PARTICIPANTS (JUST STARTED IN FY'18)

-12 PARTICIPANTS COMPLETED PROGRAM

-100% OF PARTICIPANTS REPORTED THAT THEY NOW HAVE A BETTER UNDERSTANDING OF HOW TO MANAGE THEIR SYMPTOMS OF THEIR CHRONIC CONDITION.

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-100% OF PARTICIPANTS ALSO REPORTED THAT THEY FEEL MORE MOTIVATED TO TAKE CARE OF THEIR HEALTH SINCE THEY TOOK THE WORKSHOP.

CONTINUATION OF INITIATIVE:

THIS IS AN ONGOING INITIATIVE WHICH IS SLATED TO CONTINUE INDEFINITELY BECAUSE IT ADDRESSES THE UNIQUE EDUCATIONAL NEEDS OF PHYSICALLY DISABLED ADULTS.

IDENTIFIED NEED: TRANSITION TO THE COMMUNITY - DENTAL CLINIC THROUGH PATIENT AND STAFF FOCUS GROUPS AS WELL AS KEY INFORMANT INTERVIEWS, THE DENTAL CLINIC WAS IDENTIFIED AS PART OF THE CHNA FY'18 AS A VALUED SERVICE CURRENTLY PROVIDED.

HOSPITAL INITIATIVE: DENTAL CLINIC THE UM REHAB DENTAL CLINIC SERVES CHILDREN AND ADULTS WHO HAVE LIMITED ACCESS TO ORAL HEALTH CARE IN THE COMMUNITY. THIS POPULATION INCLUDES SPECIAL HEALTH CARE NEEDS (SHCN) PATIENTS (INDIVIDUALS WHO ARE MENTALLY AND/OR PHYSICALLY DISABLED), AS WELL AS MANY CHILDREN IN THE MARYLAND

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MEDICAID PROGRAM. THE DENTAL CLINIC AT UM REHAB IS ONE OF THE FEW PROVIDERS IN THE STATE WHO SERVES BOTH PEDIATRIC AND ADULT SHCN POPULATIONS. THESE INDIVIDUALS MAY NOT RECEIVE CARE OTHERWISE AS MANY DENTISTS IN THE COMMUNITY ARE NOT COMFORTABLE PERFORMING DENTAL SERVICES FOR SPECIAL HEALTH CARE NEEDS PATIENTS.

PRIMARY OBJECTIVES OF INITIATIVE:

- 1) INCREASE CHILDREN RECEIVING DENTAL CARE (MARYLAND SHIP)
- 2) DECREASE EMERGENCY DEPARTMENT VISIT RATE FOR DENTAL CARE (MARYLAND SHIP)
- 3) INCREASE NUMBER OF DENTAL TREATMENTS AVAILABLE TO DISABLED POPULATION
- 4) IMPROVE THE ORAL HEALTH FOR THOSE PATIENTS WITH SPECIAL NEEDS AND WHO HAVE LIMITED ACCESS TO GOOD DENTAL CARE.

SINGLE OR MULTI-YEAR PLAN: ONGOING INITIATIVE; HAS EXISTED FOR MANY YEARS AND WILL CONTINUE INDEFINITELY.

KEY COLLABORATORS IN DELIVERY:

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UNIVERSITY OF MARYLAND SCHOOL OF DENTISTRY

-HYGIENIST PROGRAM

-4TH YEAR DENTAL STUDENTS (EXTERNSHIP PROGRAM)

BALTIMORE CITY COMMUNITY COLLEGE

-HYGIENIST PROGRAM

COMMUNITY COLLEGE OF BALTIMORE COUNTY, DUNDALK

-HYGIENIST PROGRAM

IMPACT OF HOSPITAL INITIATIVE:

PATIENTS WITH LIMITED ACCESS TO GOOD DENTAL CARE EXPERIENCE REDUCED HEALTH CARE COSTS AND IMPROVED PATIENT CARE BY RECEIVING TREATMENT FOR DENTAL DISEASE IN THE DENTAL CLINIC INSTEAD OF IN THE ER. OUTCOMES ARE EVALUATED BY TRACKING THE NUMBER OF VISITS THAT TAKE PLACE IN THE DENTAL CLINIC EACH YEAR, AND MEASURING THE PERCENT OF VISITS THAT ARE PREVENTIVE.

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METRICS:

-# OF VISITS

-% OF VISITS WHICH WERE PREVENTIVE

-% OF VISITS WHICH WERE EMERGENT

EVALUATION OF OUTCOMES:

-7,422 TOTAL VISITS

-67% WERE PREVENTIVE

-28% RESTORATIVE

-4% (OR 406) WERE EMERGENT

CONTINUATION OF INITIATIVE:

THE DENTAL CLINIC HAS EXISTED FOR MANY YEARS AND WILL CONTINUE

INDEFINITELY.

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- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

AFFILIATED HEALTH CARE SYSTEM ROLES

SCHEDULE H, PART VI, LINE 6

UM REHAB IS A PRIVATE, NOT-FOR-PROFIT CORPORATION PROVIDING COMPREHENSIVE HEALTHCARE SERVICES THROUGH AN INTEGRATED REGIONAL NETWORK OF HOSPITALS AND RELATED CLINICAL ENTERPRISES. UMMS WAS CREATED IN 1984 WHEN ITS FOUNDING HOSPITAL WAS PRIVATIZED BY THE STATE OF MARYLAND. OVER ITS 30-YEAR HISTORY, UMMS EVOLVED INTO A MULTI-HOSPITAL SYSTEM WITH ACADEMIC, COMMUNITY AND SPECIALTY SERVICE MISSIONS REACHING PRIMARILY ACROSS MARYLAND.

AS PART OF THE UMMS SYSTEM, UM REHAB UNDERSTANDS THAT HEALTH CARE GOES BEYOND THE WALLS OF THE HOSPITAL AND INTO THE COMMUNITY IT SERVES. UMMS HOSPITALS ARE COMMITTED TO STRENGTHENING THEIR NEIGHBORING COMMUNITIES. IN DOING SO, UM REHAB ASSESSES THE COMMUNITY'S HEALTH NEEDS, IDENTIFIES KEY PRIORITIES, AND RESPONDS WITH SERVICES, PROGRAMS AND INITIATIVES WHICH MAKE A POSITIVE, SUSTAINED IMPACT ON THE HEALTH OF THE COMMUNITY. WITH REPRESENTATION FROM ALL UMMS HOSPITALS, THE MEDICAL SYSTEM'S COMMUNITY HEALTH IMPROVEMENT COUNCIL COORDINATES THE EFFECTIVE AND

Part VI Supplemental Information

Provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II and Part III, lines 2, 3, 4, 8 and 9b.
- 2 Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B.
- 3 Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy.
- 4 Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.
- 5 Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).
- 6 Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.
- 7 State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

EFFICIENT UTILIZATION AND DEPLOYMENT OF RESOURCES FOR COMMUNITY-BASED
ACTIVITIES AND EVALUATES HOW SERVICES AND ACTIVITIES MEET TARGETED
COMMUNITY NEEDS WITHIN DEFINED GEOGRAPHIC AREAS.

UM REHAB IS COMMITTED TO HEALTH EDUCATION, ADVOCACY, COMMUNITY
PARTNERSHIPS, AND ENGAGING PROGRAMS WHICH FOCUS ON HEALTH AND WELLNESS
FOR THE DISABLED ADULT COMMUNITY IN BALTIMORE CITY AND BALTIMORE, HOWARD,
AND ANNE ARUNDEL COUNTIES.

STATE FILING OF COMMUNITY BENEFIT REPORT
SCHEDULE H, PART VI, LINE 7
AS REQUIRED BY MARYLAND STATUTE FOR ALL HOSPITALS, UM REHAB FILES AN
ANNUAL COMMUNITY BENEFIT REPORT WITH MARYLAND'S HEALTH SERVICES COST
REVIEW COMMISSION (HSCRC) BY DECEMBER 15TH EACH YEAR.

**SCHEDULE J
(Form 990)**

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

- ▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 23.
- ▶ Attach to Form 990.
- ▶ Go to www.irs.gov/Form990 for instructions and the latest information.

OMB No. 1545-0047

2017

**Open to Public
Inspection**

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Questions Regarding Compensation

1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed on Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items.

- | | |
|--|---|
| <input type="checkbox"/> First-class or charter travel | <input type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input type="checkbox"/> Tax indemnification and gross-up payments | <input type="checkbox"/> Health or social club dues or initiation fees |
| <input type="checkbox"/> Discretionary spending account | <input type="checkbox"/> Personal services (such as, maid, chauffeur, chef) |

b If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain

2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all directors, trustees, and officers, including the CEO/Executive Director, regarding the items checked on line 1a?

3 Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director. Check all that apply. Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III.

- | | |
|---|---|
| <input checked="" type="checkbox"/> Compensation committee | <input type="checkbox"/> Written employment contract |
| <input checked="" type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

4 During the year, did any person listed on Form 990, Part VII, Section A, line 1a, with respect to the filing organization or a related organization:

- a** Receive a severance payment or change-of-control payment?
 - b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?
 - c** Participate in, or receive payment from, an equity-based compensation arrangement?
- If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III.

Only section 501(c)(3), 501(c)(4), and 501(c)(29) organizations must complete lines 5-9.

5 For persons listed on Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of:

- a** The organization?
 - b** Any related organization?
- If "Yes" on line 5a or 5b, describe in Part III.

6 For persons listed on Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of:

- a** The organization?
 - b** Any related organization?
- If "Yes" on line 6a or 6b, describe in Part III.

7 For persons listed on Form 990, Part VII, Section A, line 1a, did the organization provide any nonfixed payments not described on lines 5 and 6? If "Yes," describe in Part III.

8 Were any amounts reported on Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III.

9 If "Yes" on line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

| | Yes | No |
|-----------|-----|----|
| 1a | | |
| 1b | | |
| 2 | | |
| 3 | | |
| 4a | | X |
| 4b | X | |
| 4c | | X |
| 5a | | X |
| 5b | | X |
| 6a | | X |
| 6b | | X |
| 7 | X | |
| 8 | | X |
| 9 | | |

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Schedule J (Form 990) 2017

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported on Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions, on row (ii). Do not list any individuals that aren't listed on Form 990, Part VII.

Note: The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

| (A) Name and Title | (B) Breakdown of W-2 and/or 1099-MISC compensation | | | (C) Retirement and other deferred compensation | (D) Nontaxable benefits | (E) Total of columns (B)(i)-(D) | (F) Compensation in column (B) reported as deferred on prior Form 990 |
|--|--|-------------------------------------|-------------------------------------|--|-------------------------|---------------------------------|---|
| | (i) Base compensation | (ii) Bonus & incentive compensation | (iii) Other reportable compensation | | | | |
| 1 ROBERT A. CHRENCIK DIRECTOR/TREASURER | (i) | 0. | 0. | 0. | 0. | 0. | 0. |
| | (ii) | 1,318,061. | 995,265. | 276,702. | 10,800. | 14,219. | 2,615,047. |
| 2 ALISON GATES BROWN, MPH DIRECTOR | (i) | 0. | 0. | 0. | 0. | 0. | 0. |
| | (ii) | 430,747. | 157,308. | 60,263. | 10,800. | 11,481. | 670,599. |
| 3 KAREN E. DOYLE, MBA, MS DIRECTOR | (i) | 0. | 0. | 0. | 0. | 0. | 0. |
| | (ii) | 252,361. | 104,547. | 37,520. | 10,455. | 15,776. | 420,659. |
| 4 CYNTHIA KELLEHER PRESIDENT AND CEO | (i) | 292,575. | 126,656. | 2,806. | 56,464. | 8,724. | 487,225. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 5 W. WALTER AUGUSTIN, III VP FINANCIAL SERVICES AND CFO | (i) | 217,923. | 69,489. | 26,255. | 8,966. | 11,495. | 334,128. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 6 CHERYL D. LEE, RN, MSN VP PATIENT SERVICES AND CNO | (i) | 190,065. | 64,152. | 133,437. | 7,776. | 8,666. | 404,096. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 7 LOBNA ZADA DENTAL CLINICAL CHIEF | (i) | 188,823. | 0. | 743. | 9,656. | 8,610. | 207,832. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 8 DEBORAH O'CONNOR KH NURSING SUPERVISOR | (i) | 149,293. | 3,300. | 311. | 4,860. | 0. | 157,764. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 9 SHERRY LAMONS CLINICAL NURSE | (i) | 139,442. | 8,075. | 75. | 4,203. | 9,509. | 161,304. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 10 MARY RICE DIR-SURG AND AMB SVCS | (i) | 124,697. | 17,757. | 646. | 6,588. | 13,769. | 163,457. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 11 JENNIFER MERENDA DIRECTOR CLINICAL OPS | (i) | 121,222. | 16,520. | 213. | 6,529. | 16,686. | 161,170. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 12 MICHAEL R. JABLONOVER FORMER CEO | (i) | 0. | 0. | 0. | 0. | 0. | 0. |
| | (ii) | 458,933. | 175,568. | 70,797. | 10,800. | 16,017. | 732,115. |
| 13 JOHN P. STRAUMANIS FORMER CMO | (i) | 151,637. | 0. | 350. | 9,656. | 11,538. | 173,181. |
| | (ii) | 0. | 0. | 0. | 0. | 0. | 0. |
| 14 | (i) | | | | | | |
| | (ii) | | | | | | |
| 15 | (i) | | | | | | |
| | (ii) | | | | | | |
| 16 | (i) | | | | | | |
| | (ii) | | | | | | |

Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

SUPPLEMENTAL NONQUALIFIED RETIREMENT PLAN

SCHEDULE J, PART I, LINE 4B

DURING THE FISCAL YEAR ENDED JUNE 30, 2018, CERTAIN OFFICERS AND KEY EMPLOYEES PARTICIPATED IN THE UMMS SUPPLEMENTAL NONQUALIFIED RETIREMENT PLAN. THE INDIVIDUALS LISTED BELOW HAVE NOT VESTED IN THE PLAN THEREFORE THE ACCRUED CONTRIBUTION TO THE PLAN FOR THE FISCAL YEAR IS REPORTED ON SCHEDULE J, PART II, COLUMN C, RETIREMENT AND OTHER DEFERRED COMPENSATION:

CYNTHIA KELLEHER

DURING THE FISCAL YEAR, ENDED JUNE 30, 2018, CERTAIN OFFICERS AND KEY EMPLOYEES PARTICIPATED IN THE UMMS SUPPLEMENTAL NONQUALIFIED RETIREMENT PLAN. THE INDIVIDUALS LISTED BELOW HAVE VESTED IN THE PLAN IN A PRIOR YEAR, THEREFORE THE CONTRIBUTIONS TO THE PLAN FOR THE FISCAL YEAR ARE REPORTED AS TAXABLE COMPENSATION AND REPORTED ON SCHEDULE J, PART II, LINE B (III), OTHER REPORTABLE COMPENSATION:

MICHAEL R. JABLONOVER

Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

W. WALTER AUGUSTIN, III

ROBERT A. CHRENCIK

ALISON GATES BROWN

KAREN DOYLE

JOHN P. STRAUMANIS

DURING THE FISCAL YEAR-ENDED JUNE 30, 2018, CERTAIN OFFICERS PARTICIPATED IN THE UMMS SUPPLEMENTAL NONQUALIFIED RETIREMENT PLAN. THE INDIVIDUALS LISTED BELOW HAVE VESTED IN THE PLAN IN THE REPORTING TAX YEAR, THEREFORE THE FULL VALUE OF THE PLAN, INCLUDING ANY CONTRIBUTIONS TO THE PLAN FOR THE CURRENT FISCAL YEAR IS REPORTED AS TAXABLE COMPENSATION AND REPORTED ON SCHEDULE J, PART II, LINE B(III), OTHER REPORTABLE COMPENSATION.

PRIOR YEAR CONTRIBUTIONS TO THE PLAN WERE PREVIOUSLY REPORTED ON FORM 990 AND ARE INDICATED ON SCHEDULE J, PART II, COLUMN (F).

CHERYL D. LEE \$122,288.

Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

NON FIXED COMPENSATION

SCHEDULE J, PART I, LINE 7

BONUSES PAID ARE BASED ON A NUMBER OF VARIABLES INCLUDING BUT NOT LIMITED TO INDIVIDUAL GOAL ACHIEVEMENTS AS WELL AS ORGANIZATION OPERATION ACHIEVEMENTS. THE FINAL DETERMINATION OF THE BONUS AMOUNT IS DETERMINED AND APPROVED BY THE BOARD AS PART OF THE OVERALL COMPENSATION REVIEW OF THE OFFICERS AND KEY EMPLOYEES.

INDIVIDUALS RECEIVING COMPENSATION FROM AN UNRELATED ORGANIZATION

FORM 990, PART VII, SECTION A, COLUMN (D)

GEORGE BROUILLET, JR., MD RECEIVED \$94,992 OF COMPENSATION FROM AN UNRELATED ORGANIZATION. THIS COMPENSATION IS REPORTED IN COLUMN (D).

**SCHEDULE O
(Form 990 or 990-EZ)**

Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or 990-EZ or to provide any additional information.

▶ Attach to Form 990 or 990-EZ.

▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No. 1545-0047

2017

**Open to Public
Inspection**

Employer identification number

52-0591639

MEMBERS OR STOCKHOLDERS

PART VI, LINE 6, LINE 7A AND LINE 7B

UMMS IS THE SOLE MEMBER OF UM REHAB. UMMS MAY ELECT ONE OR MORE BOARD

MEMBERS OF THE GOVERNING BODY AND ALL DECISIONS OF THE GOVERNING BODY

MUST BE APPROVED BY UMMS.

FORM 990 REVIEW PROCESS

FORM 990, PART VI, SECTION B, LINE 11B:

UMMS ENGAGES THE ACCOUNTING FIRM GRANT THORNTON TO PREPARE AND REVIEW THE

IRS FORM 990 FOR UMMS AND ITS AFFILIATES. INFORMATION NEEDED TO COMPLETE

THE RETURN IS GATHERED BY ACCOUNTING PERSONNEL IN THE FINANCE SHARED

SERVICES DEPARTMENT UNDER THE SUPERVISION OF THE UMMS TAX DIRECTOR AND

PROVIDED TO GRANT THORNTON.

ONCE A DRAFT RETURN IS PREPARED, IT UNDERGOES MULTIPLE LEVELS OF REVIEW

BOTH INTERNALLY BY UMMS TAX & FINANCE PERSONNEL, AND EXTERNALLY BY GRANT

THORNTON, INCLUDING AT THE PARTNER LEVEL. FOLLOWING ANY NECESSARY CHANGES

TO THE RETURN, A FINAL DRAFT IS REVIEWED BY EACH AFFILIATE'S VICE

PRESIDENT OF FINANCE AND/OR CFO.

PRIOR TO FILING THE IRS FORM 990, THE ORGANIZATION'S BOARD CHAIRMAN,

TREASURER, AUDIT COMMITTEE CHAIRMAN, EXECUTIVE COMMITTEE CHAIRMAN OR

OTHER MEMBER OF THE BOARD WITH SIMILAR AUTHORITY WILL REVIEW THE IRS FORM

990. ALL BOARD MEMBERS ARE PROVIDED WITH A COPY OF THE FINAL IRS FORM 990

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

BEFORE FILING.

CONFLICT OF INTEREST POLICY MONITORING & ENFORCEMENT

FORM 990, PART VI, SECTION B, LINE 12C

THE ORGANIZATION'S OFFICERS, DIRECTORS AND MEDICAL STAFF MEMBERS, AS APPLICABLE, SHALL DISCLOSE CONFLICTS OF INTEREST OR POTENTIAL CONFLICTS OF INTEREST BETWEEN THEIR PERSONAL INTERESTS AND THE INTERESTS OF THE ORGANIZATION, OR ANY ENTITY CONTROLLED BY OR OWNED IN SUBSTANTIAL PART BY THE ORGANIZATION.

A QUESTIONNAIRE WHICH DISCLOSES POTENTIAL CONFLICTS OF INTEREST IS DISTRIBUTED ANNUALLY TO OFFICERS, DIRECTORS AND KEY EMPLOYEES. THE GENERAL COUNSEL OF UMMS REVIEWS THE RESPONSES FOR UMMS AND CERTAIN OTHER AFFILIATES. THE CEO OR CFO OF EACH OF THE OTHER ENTITIES IN THE UMMS SYSTEM REVIEWS THE RESPONSES FOR THOSE ENTITIES.

THE GENERAL COUNSEL, IN CONSULTATION WITH THE AUDIT COMMITTEE, IF NECESSARY, WOULD DETERMINE IF A CONFLICT OF INTEREST EXISTED. WITH RESPECT TO THE OTHER ENTITIES IN THE UMMS SYSTEM, THE GENERAL COUNSEL MAY BE CALLED FOR CONSULT. IF SO, THE GENERAL COUNSEL MAY CONSULT THE AUDIT COMMITTEE, IF NECESSARY.

WHENEVER A CONFLICT OR POTENTIAL CONFLICT OF INTEREST EXISTS, THE NATURE OF THE CONFLICT OR POTENTIAL CONFLICT OF INTEREST MUST BE DISCLOSED IN WRITING TO THE ORGANIZATION'S BOARD, BOARD COMMITTEE, AN OFFICER OF THE ORGANIZATION OR OTHER APPROPRIATE EXECUTIVE. SUCH INDIVIDUAL HAVING A

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

POTENTIAL CONFLICT OF INTEREST SHALL PLAY NO ROLE ON BEHALF OF THE ORGANIZATION, OR ANY ORGANIZATION CONTROLLED OR SUBSTANTIALLY OWNED, IN ANY TRANSACTION IN WHICH A CONFLICT EXISTS.

ALL INVITATIONS FOR BIDS, PROPOSALS OR SOLICITATIONS FOR OFFERS INCLUDE THE FOLLOWING PROVISION:

ANY VENDOR, SUPPLIER OR CONTRACTOR MUST DISCLOSE ANY ACTUAL OR POTENTIAL TRANSACTION WITH ANY ORGANIZATION OFFICER, DIRECTOR, EMPLOYEE OR MEMBER OF THE MEDICAL STAFF, INCLUDING FAMILY MEMBERS WITHIN FIVE DAYS OF THE TRANSACTION. FAILURE TO COMPLY WITH THIS PROVISION IS A MATERIAL BREACH OF AGREEMENT.

IN ADDITION, A BOARD DISCLOSURE REPORT IS FILED WITH THE MARYLAND HEALTH SERVICES COST REVIEW COMMISSION ON AN ANNUAL BASIS SHOWING ANY BUSINESS TRANSACTIONS BETWEEN THE BOARD MEMBERS AND THE ORGANIZATION.

PROCESS FOR DETERMINING COMPENSATION
FORM 990, PART VI, LINES 15A & 15B

THE ORGANIZATION DETERMINES THE EXECUTIVE COMPENSATION PAID TO ITS EXECUTIVES IN THE FOLLOWING MANNER PRESCRIBED IN THE IRS REGULATIONS:

EXECUTIVE COMPENSATION PACKAGES ARE DETERMINED BY A COMMITTEE OF THE BOARD THAT IS COMPOSED ENTIRELY OF BOARD MEMBERS WHO HAVE NO CONFLICT OF INTEREST. THE COMMITTEE ACQUIRES CREDIBLE COMPARABILITY MARKET DATA CONCERNING THE COMPENSATION PACKAGES OF SIMILARLY SITUATED EXECUTIVES.

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

THE COMMITTEE CAREFULLY REVIEWS THAT DATA, THE EXECUTIVE'S PERFORMANCE AND THE PROPOSED COMPENSATION PACKAGES DURING THE DECISION MAKING PROCESS. THE COMMITTEE MEMORIALIZES ITS DELIBERATIONS IN DETAILED MINUTES REVIEWED AND ADOPTED AT THE NEXT-FOLLOWING MEETING.

THE COMMITTEE SEEKS AN OPINION OF COUNSEL THAT IT HAS MET THE REQUIREMENTS OF THE IRS INTERMEDIATE SANCTIONS REGULATIONS. THIS PROCESS IS USED TO DETERMINE THE COMPENSATION PACKAGES FOR ALL MANAGEMENT EMPLOYEES FROM THE VICE PRESIDENT LEVEL AND UP.

HOW DOCUMENTS ARE MADE AVAILABLE TO THE PUBLIC
FORM 990, PART VI, SECTION C, LINE 19

THE ORGANIZATION'S GOVERNING DOCUMENTS ARE MADE PUBLICLY AVAILABLE THROUGH THE STATE OF MARYLAND VIA THE SECRETARY OF STATE'S OFFICE. THE CONFLICT OF INTEREST POLICY IS GENERALLY AVAILABLE ON THE ORGANIZATION'S OR AFFILIATE'S WEBSITE. FINANCIAL STATEMENTS ARE MADE PUBLICLY AVAILABLE ON A QUARTERLY BASIS THROUGH FILINGS ON THE ELECTRONIC MUNICIPAL MARKET ACCESS ("EMMA") SYSTEM.

TAX EXEMPT BOND ISSUE

PART IV, LINE 24A

PURSUANT TO A MASTER LOAN AGREEMENT DATED DECEMBER 1, 2017 (THE "MASTER LOAN AGREEMENT"), AS AMENDED, UMMS AND SEVERAL OF ITS SUBSIDIARIES HAVE ISSUED DEBT THROUGH THE MARYLAND HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY (THE "AUTHORITY"). AS SECURITY FOR THE PERFORMANCE OF THE BOND OBLIGATION UNDER THE MASTER LOAN AGREEMENT, THE AUTHORITY MAINTAINS A

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

SECURITY INTEREST IN THE REVENUE OF THE OBLIGORS. THE 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 MASTER LOAN AGREEMENT INCLUDES UMMS, 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 PRICE 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 MASTER LOAN AGREEMENT OF THE CORPORATION'S \$1,745,628,000 OF OUTSTANDING AUTHORITY BONDS ON JUNE 30, 2018. ALL OF THE BONDS WERE ISSUED IN THE NAME OF UMMS AND ARE REPORTED ON SCHEDULE K OF ITS FORM 990.

HOURS ON RELATED ENTITIES

FORM 990, PART VII, SECTION A, COLUMN (B)

UMMS IS A MULTI-ENTITY HEALTH CARE SYSTEM THAT INCLUDES 13 ACUTE CARE HOSPITALS, 1 ACUTE CARE HOSPITAL OWNED IN A JOINT VENTURE ARRANGEMENT AND VARIOUS SUPPORTING ENTITIES. A NUMBER OF INDIVIDUALS PROVIDE SERVICES TO VARIOUS ENTITIES WITHIN THE SYSTEM. IN GENERAL, THE OFFICERS AND KEY EMPLOYEES OF UMMS AVERAGE IN EXCESS OF 40 HOURS PER WEEK SERVING THE DIFFERENT ENTITIES THAT COMPRISE UMMS.

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

INDEPENDENT CONTRACTORS

FORM 990, PART VII, SECTION B, LINE 1

INDEPENDENT CONTRACTORS OF THE FILING ORGANIZATION ARE PAID AND REPORTED BY THE PARENT CORPORATION, UMMS. UMMS ISSUES THE FORMS 1099 FOR THESE VENDOR PAYMENTS, WHILE THE FILING ORGANIZATION REPORTS THE EXPENSES FOR ITS INDEPENDENT CONTRACTORS ON PART VII, SECTION B, LINE 1 ON ITS FORM 990.

RECONCILIATION OF NET ASSETS

FORM 990, PART XI, LINE 9

| | |
|--|--------------|
| CHANGE IN UMMS FOUNDATION | \$ 2,094,001 |
| CHANGE IN KERNAN ENDOWMENT SUPPORT | \$ 2,079,850 |
| CORP DEPRECIATION ALLOCATION | \$ 356,750 |
| FY18 IT ENTERPRISE AND ROAD MAP ALLOCATION | \$ (948,000) |
| ROI - FY18 STRATEGIC PRIORITIES FUNDING | \$ (399,996) |
| CMG EQUITY TRANSFER | \$ (24,700) |
| OTHER | \$ (1,000) |
| ----- | |
| TOTAL ADJUSTMENT TO NET ASSETS | \$ 3,158,905 |

=====
ATTACHMENT 1

990, PART VII- COMPENSATION OF THE FIVE HIGHEST PAID IND. CONTRACTORS

| <u>NAME AND ADDRESS</u> | <u>DESCRIPTION OF SERVICES</u> | <u>COMPENSATION</u> |
|--|--------------------------------|---------------------|
| ARAMARK CORPORATION 27310 NETWORK PLACE CHICAGO, IL 60673-1273 | FOOD SERVICES | 1,925,861. |

| | |
|--|--|
| Name of the organization JAMES LAWRENCE KERNAN HOSPITAL, INC. | Employer identification number 52-0591639 |
|--|--|

ATTACHMENT 1 (CONT'D)

990, PART VII- COMPENSATION OF THE FIVE HIGHEST PAID IND. CONTRACTORS

| <u>NAME AND ADDRESS</u> | <u>DESCRIPTION OF SERVICES</u> | <u>COMPENSATION</u> |
|---|--------------------------------|---------------------|
| MARYLAND INPATIENT CARE SPECIALIST, LLC 7250 PARKWAY DRIVE, SUITE 500 HANOVER, MD 21076 | HOSPITAL SERVICES | 1,754,795. |
| MEDICAL STAFFING NETWORK, INC. P.O. BOX 840292 DALLAS, TX 72584-0292 | STAFFING | 1,138,186. |
| CHESAPEAKE NETCRAFTSMEN, LLC P.O. BOX 69010 BALTIMORE, MD 21264-9010 | IT CONSULTING | 1,056,492. |
| CONTEMPORARY NURSING SOLUTIONS, INC. SUITE 1A, 1000 JEFFERSON ST. LYNCHBURG, VA 24504 | TEMP AGENCY STAFFING | 752,438. |

ATTACHMENT 2

FORM 990, PART IX - OTHER FEES

| <u>DESCRIPTION</u> | (A) <u>TOTAL FEES</u> | (B) <u>PROGRAM SERVICE EXP.</u> | (C) <u>MANAGEMENT AND GENERAL</u> | (D) <u>FUNDRAISING EXPENSES</u> |
|-----------------------|------------------------------|--|--|--|
| CONTRACT SERVICES | 9,895,644. | 8,411,297. | 1,484,347. | |
| PHYSICIAN SERVICES | 8,552,787. | 8,552,787. | | |
| CORPORATE ALLOCATIONS | 7,790,020. | 6,621,517. | 1,168,503. | |
| TEMP LABOR | 5,556,077. | 4,722,666. | 833,411. | |
| OTHER | 128,233. | 108,998. | 19,235. | |
| TOTALS | <u>31,922,761.</u> | <u>28,417,265.</u> | <u>3,505,496.</u> | |

**SCHEDULE R
(Form 990)**

Related Organizations and Unrelated Partnerships

OMB No. 1545-0047

2017

**Open to Public
Inspection**

▶ **Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.**

▶ **Attach to Form 990.**

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Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Identification of Disregarded Entities. Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|--|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) SHIPLEY'S PHYSICAL THERAPY CENTER, LLC 52-2061788 2200 KERNAN DRIVE BALTIMORE, MD 21207 | HEALTHCARE | MD | 504,000. | 0. | UM REHAB |
| (2) UM REHAB INSTITUTE OF SOUTHERN MARYLAND 2200 KERNAN DRIVE BALTIMORE, MD 20207 | HEALTHCARE | MD | 0. | 0. | UM REHAB |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|---|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) BALTIMORE WASHINGTON EMERGENCY PHYS INC 52-1756326 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | 501(C)(3) | 12A | UMBWHS | | X |
| (2) BALTIMORE WASHINGTON HEALTHCARE SERVICES 52-1830243 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | 501(C)(3) | 12A | BWHS | | X |
| (3) BALTIMORE WASHINGTON MEDICAL CENTER INC 52-0689917 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | 501(C)(3) | 03 | UMBWMS | | X |
| (4) UM BALTIMORE WASHINGTON MEDICAL SYSTEM, 52-1830242 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | 501(C)(3) | 12A | UMMSC | | X |
| (5) NORTH ARUNDEL DEVELOPMENT CORPORATION 52-1318404 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | REAL ESTATE | MD | 501(C)(2) | | NCC | | X |
| (6) NORTH COUNTY CORPORATION 52-1591355 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | REAL ESTATE | MD | 501(C)(2) | | UMBWMS | | X |
| (7) CHESTER RIVER HEALTH FOUNDATION INC 52-1338861 100 BROWN STREET CHESTERTOWN, MD 21620 | FUNDRAISING | MD | 501(C)(3) | 08 | UMSRH | | X |

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Schedule R (Form 990) 2017

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Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Identification of Disregarded Entities. Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) | | | | | |
| (2) | | | | | |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|---|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) UNIV OF MD SHORE REGIONAL HEALTH, INC 100 BROWN STREET CHESTERTOWN, MD 21620 52-2046500 | HEALTHCARE | MD | 501(C)(3) | 12A | UMMSC | | X |
| (2) CHESTER RIVER HOSPITAL CENTER 100 BROWN STREET CHESTERTOWN, MD 21620 52-0679694 | HEALTHCARE | MD | 501(C)(3) | 03 | UMSRH | | X |
| (3) CHESTER RIVER MANOR INC 200 MORGNEC ROAD CHESTERTOWN, MD 21620 52-6070333 | HEALTHCARE | MD | 501(C)(3) | 10 | UMSRH | | X |
| (4) MARYLAND GENERAL CLINICAL PRACTICE GROUP 827 LINDEN AVENUE BALTIMORE, MD 21201 52-1566211 | HEALTHCARE | MD | 501(C)(3) | 12B | UMMTH | | X |
| (5) UNIVERSITY OF MARYLAND MIDTOWN HEALTH, I 827 LINDEN AVENUE BALTIMORE, MD 21201 52-1175337 | HEALTHCARE | MD | 501(C)(3) | 12B | UMMSC | | X |
| (6) MARYLAND GENERAL HOSPITAL INC 827 LINDEN AVENUE BALTIMORE, MD 21201 52-0591667 | HEALTHCARE | MD | 501(C)(3) | 03 | UMMTH | | X |
| (7) CARE HEALTH SERVICES INC 219 SOUTH WASHINGTON STREET EASTON, MD 21601 52-1510269 | HEALTHCARE | MD | 501(C)(3) | 10 | SHS | | X |

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Schedule R (Form 990) 2017

**SCHEDULE R
(Form 990)**

Related Organizations and Unrelated Partnerships

OMB No. 1545-0047

2017

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Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Identification of Disregarded Entities. Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) | | | | | |
| (2) | | | | | |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|--|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) MEMORIAL HOSPITAL FOUNDATION INC 219 SOUTH WASHINGTON STREET EASTON, MD 21601 52-1282080 | FUNDRAISING | MD | 501(C)(3) | 12A | SHS | | X |
| (2) SHORE HEALTH SYSTEM INC 219 SOUTH WASHINGTON STREET EASTON, MD 21601 52-0610538 | HEALTHCARE | MD | 501(C)(3) | 03 | UMSRH | | X |
| (3) UNIVERSITY OF MARYLAND COMMUNITY MEDICAL 22 SOUTH GREENE STREET BALTIMORE, MD 21201 52-1874111 | HEALTHCARE | MD | 501(C)(3) | 03 | UMMSC | | X |
| (4) UMMS FOUNDATION, INC. 22 SOUTH GREENE STREET BALTIMORE, MD 21201 52-2238893 | FUNDRAISING | MD | 501(C)(3) | 12A | UMMSC | | X |
| (5) UNIVERSITY OF MD MEDICAL SYSTEM CORP 22 SOUTH GREENE STREET BALTIMORE, MD 21201 52-1362793 | HEALTHCARE | MD | 501(C)(3) | 03 | N/A | | X |
| (6) UNIVERSITY OF MARYLAND CHARLES REGIONAL PO BOX 1070 LA PLATA, MD 20646 52-2155576 | HEALTHCARE | MD | 501(C)(3) | 12C | UMMSC | | X |
| (7) CIVISTA MEDICAL CENTER, INC. PO BOX 1070 LA PLATA, MD 20646 52-0445374 | HEALTHCARE | MD | 501(C)(3) | 03 | UMCRH | | X |

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Schedule R (Form 990) 2017

**SCHEDULE R
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Related Organizations and Unrelated Partnerships

OMB No. 1545-0047

2017

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Department of the Treasury
Internal Revenue Service

Name of the organization

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Employer identification number

52-0591639

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| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) | | | | | |
| (2) | | | | | |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|--|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) CHARLES REGIONAL MEDICAL CENTER FOUNDATI PO BOX 1070 LA PLATA, MD 20646 52-1414564 | FUNDRAISING | MD | 501(C)(3) | 12A | UMCRH | | X |
| (2) CHARLES REGIONAL MEDICAL CENTER AUXILIAR PO BOX 1070 LA PLATA, MD 20646 52-1131193 | FUNDRAISING | MD | 501(C)(3) | 12A | UMCRH | | X |
| (3) UNIV OF MD ST. JOSEPH FOUNDATION, INC 7601 OSLER DRIVE TOWSON, MD 21204 52-1681044 | FUNDRAISING | MD | 501(C)(3) | 12A | UMSJHS | | X |
| (4) UMSJ HEALTH SYSTEM, LLC 7601 OSLER DRIVE TOWSON, MD 21204 46-2097818 | HEALTHCARE | MD | 501(C)(3) | 03 | UMMSC | | X |
| (5) HARFORD MEMORIAL HOSPITAL, INC. 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 52-0591484 | HEALTHCARE | MD | 501(C)(3) | 03 | UMUCHS | | X |
| (6) UM UPPER CHESAPEAKE HEALTH SYSTEM, INC. 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 52-1398513 | HEALTHCARE | MD | 501(C)(3) | 12C; III-FI | UMMSC | | X |
| (7) UPPER CHESAPEAKE HEALTH FOUNDATION, INC. 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 52-1398507 | FUNDRAISING | MD | 501(C)(3) | 12A | UMUCHS | | X |

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Related Organizations and Unrelated Partnerships

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Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Identification of Disregarded Entities. Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) | | | | | |
| (2) | | | | | |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|--|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) UPPER CHESAPEAKE MEDICAL CENTER, INC. 52-1253920 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | HEALTHCARE | MD | 501(C)(3) | 03 | UMUCHS | | X |
| (2) UPPER CHESAPEAKE MEDICAL SERVICES, INC. 52-1501734 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | HEALTHCARE | MD | 501(C)(3) | 10 | UMUCHS | | X |
| (3) UPPER CHESAPEAKE PROPERTIES, INC. 52-1907237 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | REAL ESTATE | MD | 501(C)(2) | | UMUCHS | | X |
| (4) UPPER CHES RESIDENTIAL HOSPICE HOUSE, IN 26-0737028 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | HOSPICE | MD | 501(C)(3) | 07 | UMUCHS | | X |
| (5) UPPER CHESAPEAKE/ST. JOSEPH HOME CARE, I 52-1229742 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | HOME CARE | MD | 501(C)(3) | 10 | UMUCHS | | X |
| (6) DIMENSIONS HEALTH CORPORATION 52-1289729 3001 HOSPITAL DRIVE CHEVERLY, MD 20785 | HEALTHCARE | MD | 501(C)(3) | 03 | UMMSC | | X |
| (7) DIMENSIONS HEALTHCARE ASSOCIATES 52-1902711 3001 HOSPITAL DRIVE CHEVERLY, MD 20785 | HEALTHCARE | MD | 501(C)(3) | 12A | UMCAPRH | | X |

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Department of the Treasury
Internal Revenue Service

Name of the organization

JAMES LAWRENCE KERNAN HOSPITAL, INC.

Employer identification number

52-0591639

Part I Identification of Disregarded Entities. Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

| (a) Name, address, and EIN (if applicable) of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| (1) | | | | | |
| (2) | | | | | |
| (3) | | | | | |
| (4) | | | | | |
| (5) | | | | | |
| (6) | | | | | |

Part II Identification of Related Tax-Exempt Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related tax-exempt organizations during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled entity? | |
|--|-------------------------|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| (1) UM CAPITAL REGION HEALTH, INC. 250 W. PRATT ST. STE. 2400 BALTIMORE, MD 21201 82-3596114 | HEALTHCARE | MD | 501(C)(3) | 12C | UMMSC | | X |
| (2) JAMES LAWRENCE KERNAN HOSP ENDOW FD 2200 KERNAN DRIVE BALTIMORE, MD 21207 23-7360743 | FUNDRAISING | MD | 501(C)(3) | 12B | N/A | | X |
| (3) | | | | | | | |
| (4) | | | | | | | |
| (5) | | | | | | | |
| (6) | | | | | | | |
| (7) | | | | | | | |

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Schedule R (Form 990) 2017

Part III Identification of Related Organizations Taxable as a Partnership. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a partnership during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Predominant income (related, unrelated, excluded from tax under sections 512 - 514) | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproportionate allocations? | | (i) Code V - UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? | | (k) Percentage ownership |
|--|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|--------------------------------------|----|--|-------------------------------------|----|-----------------------------|
| | | | | | | | Yes | No | | Yes | No | |
| (1) ARUNDEL PHYSICIANS ASSOCIATES 301 HOSPITAL DRIVE GLEN BURNIE | HEALTHCARE | MD | APA, INC. | | | | | | | | | |
| (2) BALTIMORE WASHINGTON IMAGING, 301 HOSPITAL DRIVE GLEN BURNIE | HEALTHCARE | MD | UMBWMS | | | | | | | | | |
| (3) UNIVERSITYCARE LLC 52-1914892 22 SOUTH GREENE STREET BALTIMO | HEALTHCARE | MD | UMMSC | | | | | | | | | |
| (4) O'DEA MEDICAL ARTS LIMITED PAR 7601 OSLER DRIVE TOWSON, MD 21 | RENTAL | MD | SJMC PROP. | | | | | | | | | |
| (5) ADVANCED IMAGING AT ST. JOSEPH 7601 OSLER DRIVE TOWSON, MD 21 | HEALTHCARE | MD | UMSJMC | | | | | | | | | |
| (6) UNIVERSITY OF MARYLAND CHARLES PO BOX 1070 LAPLATA, MD 20646 | HEALTHCARE | MD | UMCRCP | | | | | | | | | |
| (7) BALTIMORE ASC VENTURES, LLC 82 7620 YORK ROAD TOWSON, MD 2120 | HEALTHCARE | DE | UMSJMC | | | | | | | | | |

Part IV Identification of Related Organizations Taxable as a Corporation or Trust. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a corporation or trust during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Type of entity (C corp, S corp, or trust) | (f) Share of total income | (g) Share of end-of-year assets | (h) Percentage ownership | (i) Section 512(b)(13) controlled entity? | |
|---|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|-----------------------------|--|----|
| | | | | | | | | Yes | No |
| (1) ARUNDEL PHYSICIANS ASSOCIATES, INC. 52-1992649 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | BWHE | C CORP | | | | | X |
| (2) BALTIMORE WASHINGTON HEALTH ENTERPRISES, 52-1936656 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | UMBWMS | C CORP | | | | | X |
| (3) BW PROFESSIONAL SERVICES, INC. 52-1655640 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | HEALTHCARE | MD | BWHE | C CORP | | | | | X |
| (4) NA EXECUTIVE BUILDING CONDO ASSN, INC. 301 HOSPITAL DRIVE GLEN BURNIE, MD 21061 | REAL ESTATE | MD | NADCO | C CORP | | | | | X |
| (5) UM CHARLES REGIONAL CARE PARTNERS 52-2176314 PO BOX 1070 LA PLATA, MD 20646 | HEALTHCARE | MD | UMCRH | C CORP | | | | | X |
| (6) UNIVERSITY MIDTOWN PROF CENTER, A CONDO 52-1891126 827 LINDEN AVENUE BALTIMORE, MD 21201 | REAL ESTATE | MD | UMMH | C CORP | | | | | X |
| (7) UNIVERSITY OF MARYLAND HEALTH ADVANTAGE, 46-1411902 22 SOUTH GREENE STREET BALTIMORE, MD 21201 | INSURANCE | MD | UMMSHP | C CORP | | | | | X |

Part III Identification of Related Organizations Taxable as a Partnership. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a partnership during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Predominant income (related, unrelated, excluded from tax under sections 512 - 514) | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproportionate allocations? | | (i) Code V - UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? | | (k) Percentage ownership |
|---|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|--------------------------------------|----|--|-------------------------------------|----|-----------------------------|
| | | | | | | | Yes | No | | Yes | No | |
| (1) | | | | | | | | | | | | |
| (2) | | | | | | | | | | | | |
| (3) | | | | | | | | | | | | |
| (4) | | | | | | | | | | | | |
| (5) | | | | | | | | | | | | |
| (6) | | | | | | | | | | | | |
| (7) | | | | | | | | | | | | |

Part IV Identification of Related Organizations Taxable as a Corporation or Trust. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a corporation or trust during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Type of entity (C corp, S corp, or trust) | (f) Share of total income | (g) Share of end-of-year assets | (h) Percentage ownership | (i) Section 512(b)(13) controlled entity? | |
|---|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|-----------------------------|--|----|
| | | | | | | | | Yes | No |
| (1) UNIVERSITY OF MARYLAND HEALTH PARTNERS, 45-2815803 22 SOUTH GREENE STREET BALTIMORE, MD 21201 | INSURANCE | MD | UMMSHP | C CORP | | | | | X |
| (2) UNIVERSITY OF MARYLAND MEDICAL SYSTEM HE 45-2815722 22 SOUTH GREENE STREET BALTIMORE, MD 21201 | INSURANCE | MD | UM HLTH VENT | C CORP | | | | | X |
| (3) UPPER CHESAPEAKE INSURANCE COMPANY 98-0468438 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | INSURANCE | MD | UMUCHS | LTD | | | | | X |
| (4) UPPER CHESAPEAKE HEALTH VENTURES, INC. 52-2031264 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | HEALTHCARE | MD | UMUCHS | C CORP | | | | | X |
| (5) UPPER CHESAPEAKE MEDICAL CENTER LAND CON 77-0674478 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | REAL ESTATE | MD | UC MED CRT | C CORP | | | | | X |
| (6) UPPER CHESAPEAKE MEDICAL OFFICE BUILDING 52-1946829 520 UPPER CHESAPEAKE DR BEL AIR, MD 21014 | REAL ESTATE | MD | UC HLTH VENT | C CORP | | | | | X |
| (7) SHORE ORTHOPEDICS, INC. 37-1817262 219 S. WASHINGTON STREET EASTON, MD 21601 | HEALTHCARE | MD | SHS | C CORP | | | | | X |

Part III Identification of Related Organizations Taxable as a Partnership. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a partnership during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Predominant income (related, unrelated, excluded from tax under sections 512 - 514) | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproportionate allocations? | | (i) Code V - UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? | | (k) Percentage ownership |
|---|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|--------------------------------------|----|--|-------------------------------------|----|-----------------------------|
| | | | | | | | Yes | No | | Yes | No | |
| (1) | | | | | | | | | | | | |
| (2) | | | | | | | | | | | | |
| (3) | | | | | | | | | | | | |
| (4) | | | | | | | | | | | | |
| (5) | | | | | | | | | | | | |
| (6) | | | | | | | | | | | | |
| (7) | | | | | | | | | | | | |

Part IV Identification of Related Organizations Taxable as a Corporation or Trust. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, because it had one or more related organizations treated as a corporation or trust during the tax year.

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Type of entity (C corp, S corp, or trust) | (f) Share of total income | (g) Share of end-of-year assets | (h) Percentage ownership | (i) Section 512(b)(13) controlled entity? | |
|--|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|-----------------------------|--|----|
| | | | | | | | | Yes | No |
| (1) MADISON MANOR, INC. 52-1269059 5801 42ND AVE HYATTSVILLE, MD 20781 | HEALTHCARE | MD | UMCAPRH | C CORP | | | | | X |
| (2) AFFILIATED ENTERPRISES, INC. 52-1542144 3001 HOSPITAL DRIVE CHEVERLY, MD 20785 | HEALTHCARE | MD | UMCAPRH | C CORP | | | | | X |
| (3) DIMENSIONS ASSURANCE LTD 98-0348082 PO BOX 1363 GENESIS BLDG , GRAND CAYMAN CJ | INSURANCE | CJ | UMMSC | C CORP | | | | | X |
| (4) RIVERSIDE HEALTH OF DELAWARE, INC. 46-3205820 1966 GREENSPRING DRIVE, STE. 600 TIMONIUM, MD 21093 | HEALTHCARE | DE | UMMSHP | C CORP | | | | | X |
| (5) RIVERSIDE HEALTH OF DC, INC. 46-1411713 1966 GREENSPRING DRIVE, STE. 600 TIMONIUM, MD 21093 | HEALTHCARE | DC | UMMSHP | C CORP | | | | | X |
| (6) | | | | | | | | | |
| (7) | | | | | | | | | |

Part V Transactions With Related Organizations. Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

Note: Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule.

| | Yes | No |
|--|-----|----|
| 1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV? | | |
| a Receipt of (i) interest, (ii) annuities, (iii) royalties, or (iv) rent from a controlled entity | | X |
| b Gift, grant, or capital contribution to related organization(s) | | X |
| c Gift, grant, or capital contribution from related organization(s) | X | |
| d Loans or loan guarantees to or for related organization(s) | | X |
| e Loans or loan guarantees by related organization(s) | | X |
| f Dividends from related organization(s) | | X |
| g Sale of assets to related organization(s) | | X |
| h Purchase of assets from related organization(s) | | X |
| i Exchange of assets with related organization(s) | | X |
| j Lease of facilities, equipment, or other assets to related organization(s) | | X |
| k Lease of facilities, equipment, or other assets from related organization(s) | | X |
| l Performance of services or membership or fundraising solicitations for related organization(s) | | X |
| m Performance of services or membership or fundraising solicitations by related organization(s) | | X |
| n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s) | | X |
| o Sharing of paid employees with related organization(s) | | X |
| p Reimbursement paid to related organization(s) for expenses | | X |
| q Reimbursement paid by related organization(s) for expenses | | X |
| r Other transfer of cash or property to related organization(s) | | X |
| s Other transfer of cash or property from related organization(s) | | X |

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds.

| | (a) Name of related organization | (b) Transaction type (a-s) | (c) Amount involved | (d) Method of determining amount involved |
|-----|-------------------------------------|-------------------------------|------------------------|--|
| (1) | | | | |
| (2) | | | | |
| (3) | | | | |
| (4) | | | | |
| (5) | | | | |
| (6) | | | | |

Part VI **Unrelated Organizations Taxable as a Partnership.** Complete if the organization answered "Yes" on Form 990, Part IV, line 37.

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

| (a) Name, address, and EIN of entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Predominant income (related, unrelated, excluded from tax under sections 512-514) | (e) Are all partners section 501(c)(3) organizations? | | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproportionate allocations? | | (i) Code V - UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? | | (k) Percentage ownership |
|---|-------------------------|--|--|---|----|---------------------------------|--|---|----|---|---|----|--------------------------------|
| | | | | Yes | No | | | Yes | No | | Yes | No | |
| (1) | | | | | | | | | | | | | |
| (2) | | | | | | | | | | | | | |
| (3) | | | | | | | | | | | | | |
| (4) | | | | | | | | | | | | | |
| (5) | | | | | | | | | | | | | |
| (6) | | | | | | | | | | | | | |
| (7) | | | | | | | | | | | | | |
| (8) | | | | | | | | | | | | | |
| (9) | | | | | | | | | | | | | |
| (10) | | | | | | | | | | | | | |
| (11) | | | | | | | | | | | | | |
| (12) | | | | | | | | | | | | | |
| (13) | | | | | | | | | | | | | |
| (14) | | | | | | | | | | | | | |
| (15) | | | | | | | | | | | | | |
| (16) | | | | | | | | | | | | | |

Part VII **Supplemental Information**

Provide additional information for responses to questions on Schedule R. See instructions.



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

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Baltimore, Maryland
October 26, 2018

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

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2018 and 2017

(In thousands)

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

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

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

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

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

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

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

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

(i) Recent Acquisitions and Divestitures

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

The transaction is described in more detail below.

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

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

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

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

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Basis of Presentation

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

(c) Cash and Cash Equivalents

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

(d) Investments and Assets Limited as to Use

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

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

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

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

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

(e) Inventories

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

(f) Economic Interests in Financially Interrelated Organizations

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

(g) Property and Equipment

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

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

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

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

(h) Deferred Financing Costs

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

(i) Goodwill and Intangible Assets

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

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

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

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

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

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

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

(j) Contingent Consideration for Business Acquisitions

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

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(k) Impairment of Long-Lived Assets

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

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

(l) Investments in Joint Ventures

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

(m) Self-Insurance

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

(n) Net Assets

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

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

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

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

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

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

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

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

(p) Premium Revenue and Medical Claims Expense

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

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

(q) Charity Care

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

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

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

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

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

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

(r) Nonoperating Income and Expenses, Net

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

(s) Derivative Financial Instruments

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

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

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

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

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

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

(t) Excess of Revenue over Expenses

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

(u) Income Taxes

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

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

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

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

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(v) Donor-Restricted Gifts

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

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

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

(w) Fair Value Measurements

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

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

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

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

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

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

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

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

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

(i) Cash Equivalents

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

(ii) U.S. Government and Agency Securities

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

(iii) Corporate Bonds

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

(iv) Collateralized Corporate Obligations

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

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(v) *Derivative Liabilities*

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

(x) **Commitments and Contingencies**

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

(y) **Going Concern**

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

(z) **Use of Estimates**

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

(aa) **New Accounting Pronouncements**

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

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

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

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

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

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

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(2) Investments and Assets Limited as to Use

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

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

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

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

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

| | Investments held for collateral | Debt service and reserve funds | Construction funds | Board designated funds | Self- insurance trust funds | Funds restricted by donors | Economic and beneficial interests | Total |
|---------------------------------------|---------------------------------------|---|-----------------------|------------------------------|-----------------------------------|----------------------------------|--|----------------|
| Cash and cash equivalents \$ | 4,958 | 31,624 | 97,562 | 10,154 | 12,991 | 7,850 | — | 165,139 |
| Corporate bonds | — | — | 633 | 13,334 | 2,883 | 6,483 | — | 23,333 |
| Collateralized corporate obligations | — | — | 220 | 109 | — | 258 | — | 587 |
| U.S. government and agency securities | 117,688 | 22,787 | 283 | 140 | 283 | 331 | — | 141,512 |
| Common stocks, including mutual funds | — | — | 2,479 | 49,225 | — | 23,409 | — | 75,113 |
| Alternative investments | — | — | 6,313 | 36,504 | — | 22,420 | — | 65,237 |
| Assets held by other organizations | — | — | — | — | 164,063 | — | 192,343 | 356,406 |
| Total assets limited as to use | <u>\$ 122,646</u> | <u>54,411</u> | <u>107,490</u> | <u>109,466</u> | <u>180,220</u> | <u>60,751</u> | <u>192,343</u> | <u>827,327</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 stocks, fixed-income corporate obligations, and alternative investments. MMCIP is a funding mechanism for the Corporation's malpractice insurance program. As MMCIP is not an insurance provider, transactions with MMCIP are recorded under the deposit method of accounting. Accordingly, the Corporation accounts for its participation in MMCIP by carrying limited-use assets representing the amount of funds contributed to MMCIP and recording a liability for claims, which is included in other current and other long-term liabilities in the accompanying consolidated balance sheets.

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

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|-------------------|----------------|
| Cash and cash equivalents | \$ 86,172 | 37,160 |
| Corporate bonds | 62,227 | 52,440 |
| Collateralized corporate obligations | 28,614 | 14,573 |
| U.S. government and agency securities | 25,662 | 22,195 |
| Common stocks | 191,994 | 181,117 |
| Alternative investments: | | |
| Hedge funds/private equity | 139,388 | 110,830 |
| Commingled funds | 338,088 | 324,634 |
| | <u>\$ 872,145</u> | <u>742,949</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, 2018, the majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. Approximately \$56,300,000 of the alternative investments were subject to 31–60 day

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

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

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

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

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

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

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

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

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

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

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

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

(3) Property and Equipment

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

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

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

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

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

(4) Investments in Joint Ventures

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

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

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

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

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

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

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

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

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

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

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

(5) Leases

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

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

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

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

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

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

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

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

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

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

(6) Line of Credit

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

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on the line of credit was \$99,300,000 and \$125,000,000, respectively. The calculated interest rates as of June 30, 2018 and 2017 were 5.00% and 1.78%, respectively.

(7) Long-Term Debt and Other Borrowings

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

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

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

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

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Health and Higher Educational Facilities Authority (MHHEFA or the Authority). As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The UMMS Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(8) Interest Rate Risk Management

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

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

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

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

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

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

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

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

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(9) Other Liabilities

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

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

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

(10) Retirement Plans

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

(a) Defined Benefit Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* Fund investments reported at NAV as practical expedient.

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

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

* Fund investments reported at NAV as practical expedient.

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

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

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

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

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

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

(b) Defined Contribution Plans

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

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

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

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

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

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

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

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

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

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

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

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

(11) Temporarily and Permanently Restricted Net Assets

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

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

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

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

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

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

(a) Interpretation of Relevant Law

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

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

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Endowment net assets are as follows (in thousands):

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

(b) Funds with Deficiencies

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

(c) Investment Strategies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(13) State and County Support

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

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

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

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

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

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(14) Functional Expenses

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

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

(15) Insurance

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

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

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

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

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

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

(16) Business and Credit Concentrations

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

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

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

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

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

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

(17) Certain Significant Risks and Uncertainties

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

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

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

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

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

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

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

(18) Maryland Health Services Cost Review Commission

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

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

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

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

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

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(19) Subsequent Events

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