Mercy Health Services, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2020 and 2019

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Trustees
Mercy Health Services, Inc. and Subsidiaries
Baltimore, Maryland

We have audited the accompanying consolidated financial statements of Mercy Health Services, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 did not audit the financial statements of Greenleaf Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets constituting 10% of consolidated total assets at June 30, 2020 and 2019. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Greenleaf Insurance Company, Ltd., is based solely on the report of the other auditors. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditor's 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercy Health Services, Inc. and Subsidiaries, as of June 30, 2020 and 2019 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in United States of America.

DHG
DIXON HUGHES GOODMAN LLP

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, during 2020, the System retrospectively adopted Financial Accounting Standards Board Accounting Standards Update (ASU) ASU 2016-18 *Statement of Cash Flows (Topic 230) – Restricted Cash*, which requires the statement of cash flows to display the change in total cash and cash equivalents, including restricted cash and cash. Our opinion is not modified with respect to these matters.

Report on Supplementary Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 48 to 54 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it related to Greenleaf Insurance Company, Ltd., is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 14, 2020

Mercy Health Services, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 266,191**	$ 120,125
Short-term investments	**3,882**	37,306
Current portion of funds held by trustee or authority -- *Note 6*	**13,953**	25,895
Resident prepayment deposits	**713**	565
Patient accounts receivable, net -- *Note 3*	**67,654**	68,828
Other amounts receivable, net	**7,171**	11,756
Current pledges receivable, net -- *Note 4*	**1,756**	2,733
Supplies inventory	**13,292**	8,739
Other current assets	**4,479**	3,614
Total current assets	**379,091**	279,561
Property and equipment, net -- *Note 5*	**557,074**	539,651
Investments and other assets:		
Funds held by trustee or authority, less current portion -- *Note 6*	**10,530**	10,378
Board designated and donor restricted investments -- *Note 7*	**216,876**	197,819
Restricted investments	**95,340**	84,241
Long-term investments	**7,922**	7,528
Long-term pledges receivable, net -- *Note 4*	**2,431**	2,083
Investments in and advances to affiliates -- *Note 8*	**4,445**	4,717
Reinsurance receivable -- *Note 10*	**11,989**	9,925
Other assets -- *Note 9*	**7,793**	7,365
Total assets	**$ 1,293,491**	$ 1,143,268

See notes to the consolidated financial statements.

Mercy Health Services, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2020 and 2019
(in thousands)

(Continued)

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt -- *Note 11*	**$ 9,952**	$ 8,855
Accounts payable and accrued expenses	**132,625**	101,769
Advances from third-party payers	**27,266**	22,021
Medicare advance contract liability	**77,159**	-
Provider relief funds liability	**2,266**	-
Resident prepayment deposits	**713**	565
Construction retainage	**1,514**	682
Total current liabilities	**251,495**	133,892
Long-term debt, less current portion -- *Note 11*	**388,487**	398,651
Provision for outstanding losses -- *Note 10*	**108,949**	87,952
Post-retirement obligation -- *Note 14*	**9,024**	7,573
Interest rate swap liabilities -- *Note 11*	**32,088**	19,781
Other long-term liabilities -- *Note 25*	**13,175**	13,190
Total liabilities	**803,218**	661,039
Net assets:		
Without donor restrictions	**464,356**	456,306
With donor restrictions -- *Notes 17*	**25,917**	25,923
Total net assets	**490,273**	482,229
Total liabilities and net assets	**$ 1,293,491**	$ 1,143,268

See notes to the consolidated financial statements.

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2020 and 2019
(in thousands)

	2020	2019
Revenue:		
Net patient service revenue	**$ 728,071**	$ 734,405
CARES Act provider relief funds	**14,232**	-
Other operating revenue	**28,682**	28,756
Net assets released from restriction used for operations	**3,747**	3,754
Total revenue	**774,732**	766,915
Expenses -- *Note 21:*		
Salaries and benefits	**427,385**	412,336
Medical and surgical supplies	**63,314**	69,002
Pharmacy supplies	**65,443**	60,831
Other expendable supplies	**30,888**	31,868
Professional fees	**19,444**	18,549
Insurance	**31,452**	29,723
Other purchased services	**52,056**	51,493
Interest expense	**15,567**	16,434
Repairs	**18,609**	18,041
Depreciation and amortization	**40,888**	40,904
Total expenses	**765,046**	749,181
Operating income	**9,686**	17,734
Other income (losses):		
Investment income -- *Note 7*	**8,720**	7,607
Net unrealized gains on trading securities -- *Note 7*	**1,614**	4,245
Unrealized loss on interest rate swaps	**(12,307)**	(6,597)
Equity earnings in joint ventures -- *Note 8*	**369**	606
Loss on disposal of assets and other	**(20)**	(866)
Net other (loss) income	**(1,624)**	4,995
Excess of revenue over expenses	**8,062**	22,729
Changes to pension and post retirement plan obligations -- Notes 14 and 15	**(1,097)**	(14)
Net assets released from restrictions for the purchase of property and equipment	**1,085**	8,162
Increase in net assets without donor restrictions	**$ 8,050**	$ 30,877

See notes to the consolidated financial statements.

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2020 and 2019
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2018	$ 425,429	$ 31,418	$ 456,847
Excess of expenses over revenue	22,729	-	22,729
Net assets released from restrictions for the purchase of property and equipment	8,162	(8,162)	-
Restricted gifts, bequests and contributions	-	6,421	6,421
Changes to pension and post retirement plan obligations	(14)	-	(14)
Net assets released from restrictions used for operations	-	(3,754)	(3,754)
Change in net assets	30,877	(5,495)	25,382
Net assets, June 30, 2019	$ 456,306	$ 25,923	$ 482,229
Excess of revenue over expenses	**$ 8,062**	**$ -**	**$ 8,062**
Net assets released from restrictions for the purchase of property and equipment	**1,085**	**(1,085)**	**-**
Restricted gifts, bequests and contributions	**-**	**4,826**	**4,826**
Changes to pension and post retirement plan obligations	**(1,097)**	**-**	**(1,097)**
Net assets released from restrictions used for operations		**(3,747)**	**(3,747)**
Change in net assets	**8,050**	**(6)**	**8,044**
Net assets, June 30, 2020	**$ 464,356**	**$ 25,917**	**$ 490,273**

See notes to the consolidated financial statements.

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(in thousands)

	2020	(as adjusted) 2019
Operating activities:		
Change in net assets	**$ 8,044**	$ 25,382
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**40,888**	40,904
Amortization of debt issuance cost, premiums and discounts	**(183)**	(155)
Loss on interest rate swaps	**12,307**	6,597
Loss on asset disposal	**-**	(3)
Realized and unrealized gain on investments	**(6,620)**	(8,797)
Restricted gifts, bequests, and contributions and restricted investment income	**(4,826)**	(6,421)
(Increase) decrease in:		
Patient accounts receivable, net	**1,174**	(1,840)
Other amounts receivable, net	**2,521**	(12,759)
Inventory	**(4,553)**	494
Other Assets	**(1,272)**	817
Trading portfolio	**45,378**	(24,198)
Increase (decrease) in:		
Accounts payable and accrued expenses	**36,354**	263
Provider relief funds liability	**2,266**	-
Medicare advance payments	**77,159**	-
Provision for outstanding losses	**20,997**	10,129
Post-retirement obligation	**1,323**	435
Other long-term liabilities	**113**	(451)
Net cash and cash equivalents provided by operating activities	**231,070**	30,397
Investing activities:		
Purchase of restricted investments	**(53,288)**	(32,721)
Sale of restricted investments	**42,189**	25,907
Purchases of property and equipment	**(57,481)**	(42,673)
Net cash and cash equivalents used in investing activities	**(68,580)**	(49,487)

See notes to the consolidated financial statements.

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(in thousands)

(Continued)

	2020	(as adjusted) 2019
Financing activities:		
Proceeds from restricted gifts, bequests, contributions and restricted investment income	**$ 5,455**	$ 7,959
Payment of financing costs	**(55)**	(446)
Proceeds from long term debt	**9,090**	21,000
Repayment of long term debt	**(17,918)**	(13,603)
Net cash and cash equivalents (used in) provided by financing activities	**(3,428)**	14,910
Net increase (decrease) in cash, cash equivalents and restricted cash	**159,062**	(4,180)
Cash, cash equivalents and restricted cash at beginning of year	**133,008**	137,188
Cash, cash equivalents and restricted cash at end of year	**$ 292,070**	$ 133,008

See notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization, basis of presentation and principles of consolidation

Mercy Health Services, Inc. (MHS) was formed for the purpose of supporting, benefiting, or carrying out some or all of the purposes of Mercy Medical Center, Inc. (Medical Center or MMC), Stella Maris, Inc. (SMI), the physician practice groups comprising the Physician Enterprise (as further described below) and Mercy Health Foundation (MHF). MHS is the sole member of the Medical Center, SMI, the Physician Enterprise and MHF. MHS prepares its consolidated financial statements on the accrual basis of accounting. The accompanying consolidated financial statements include MMC, SMI, the Physician Enterprise and MHF. All material intercompany balances and transactions have been eliminated.

Mercy Medical Center, Inc.

The Medical Center, a subsidiary of MHS, provides inpatient, outpatient and emergency care services primarily for the citizens of the Baltimore metropolitan area. In addition, the following entities are wholly owned subsidiaries of the Medical Center:

Name of Subsidiary	Tax Status
Mercy Transitional Care Services, Inc. (MTC) *Provider of subacute services*	Tax Exempt
Greenleaf Insurance Company, Ltd. (GIC) *Provider of self-insured general and malpractice coverage to MHS*	Foreign Subsidiary

Stella Maris, Inc.

SMI, a subsidiary of MHS, is the sole member of the Stella Maris Operating Corporation, as well as the Cardinal Sheehan Center, Incorporated (CSC). SMI provides sub-acute, hospice, long-term care, skilled homecare, personal care and adult day care to patients in the central Maryland service area within its 412-bed and 18 emergency certificate of need bed facility. SMI was licensed for 18 additional emergency beds during the period ending June 30, 2019. CSC is engaged in maintaining and providing care and housing of aged and infirmed persons. CSC owns St. Elizabeth Hall, a 200-unit apartment complex for the elderly.

Physician Enterprise

The Physician Enterprise includes Maryland Family Care, Inc. (MFC), St. Paul Place Specialists, Inc. (SPPS) and Maryland Specialty Services, LLC (MSS). MSS is the sole member of Lutherville Hematology and Oncology, LLC and North Calvert Anesthesiology Services, LLC, and is the sole stockholder of Vascular Specialty Services, Inc. These entities provide primary care and specialty services within the Baltimore area. MFC, SPPS and MSS are wholly owned/controlled subsidiaries of MHS.

Mercy Health Foundation, Inc.

MHF, a subsidiary of MHS, was formed to coordinate and strengthen the fundraising function on behalf of MHS.

Income taxes

MHS, MMC, SMI, MFC, SPPS, MHF, and MSS are not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and are, therefore, not subject to federal income tax under current income tax regulations. MHS subsidiaries otherwise exempt from federal and state taxation are

nonetheless subject to taxation at corporate tax rates at both the federal and state level on their unrelated business income.

Current accounting standards define the threshold for recognizing uncertain income tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on its technical merits, and also provide guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. Management believes there is no impact on MHS' accompanying consolidated financial statements related to uncertain income tax positions.

Basis of presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, with no donor-imposed restrictions are recognized in the period received as increases in net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Income and realized net gains (losses) on investments are reported as follows:

- Increases (decreases) in net assets with donor restrictions if the terms of the gift or the MHS' interpretation of relevant state law require that they be added to the principal of a permanent net asset with donor restriction;
- Increases (decreases) in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income;
- Increases (decreases) in net assets without donor in all other cases.

Supplies inventories

Supplies inventories are stated at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received, or in the same period in which conditions are met, are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Restricted investments

Restricted investments represent funds that have been set aside to cover a portion of GIC's estimated outstanding claims, and donor restricted funds from net assets with donor restrictions. At June 30, 2020 and 2019, respectively, restricted investments of $95,340 and $84,241 were set aside to cover estimated outstanding claims and donor restricted funds.

Advance from third-party payers

The Medical Center receives advances from third-party payers to provide working capital for services rendered to the beneficiaries of such services. These advances are subject to periodic adjustment, and are principally determined based on the timing difference between the provision of care and the anticipated payment date of the claim for service.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered. MMC charges are based on rates established by the State of Maryland Health Services Cost Review Commission (the Commission); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered (see Note 19). SMI and Physician Enterprise are paid for services based on either negotiated contracts with commercial payers, fee schedules with Medicare and Medicaid or standardized pricing for self-pay patients.

Explicit price concessions represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payers, and are accrued in the period in which the related services are rendered.

Based on historical experience, a significant portion of MHS' uninsured patients will be unable or unwilling to pay for services provided. Thus, MHS estimates an implicit price concession related to uninsured patients in the period the services are provided based upon management's assessment of historical and expected net collections. This estimate considers business and general economic conditions, trends in healthcare coverage and other collection indicators. Throughout the year, management assesses the adequacy of these implicit price concessions based upon its review of patient accounts receivable and collections to date. Other factors, such as account aging and payment cycles, are considered when estimating implicit price concessions. MHS follows established guidelines for placing its self-pay patient accounts with an outside collection agency. After collection efforts are exhausted, the uncollected balances are returned to the appropriate MHS entities for final write-off.

Prior to October 1, 2019, the Medicare program utilized resource utilization groups (RUG) and a prospective payment rate to be paid for each RUG. For residents receiving skilled services, MTC and SMI were reimbursed a different daily amount for each Medicare beneficiary based upon the RUG category into which the resident's condition and required services cause him or her to be classified. For Part-B Medicare beneficiaries receiving rehabilitative services, MTC and SMI was reimbursed based upon a fee schedule. Effective October 1, 2019, MTC and SMI were reimbursed under a new prospective payment system called the patient driven payment model (PDPM), which bases payment on resident characteristics, rather than services provided. PDPM payment depends on the summation of case-mix adjusted components (physical therapy, occupational therapy, speech language pathology, nursing, and nontherapy ancillaries, each with its own case-mix groups and application of a variable per day adjustment schedule. Part-B rehabilitative services are billed and paid based on billable minutes using timed based (or constant attendance) codes.

Charity care

The Medical Center provides medically necessary services without charge or at amounts less than its established rates to patients who qualify for charity care under its financial assistance policy. Because the Medical Center does not pursue collection of those amounts determined to qualify as charity care, they are not reported as net patient service revenue and are not included in patient accounts receivable, these adjustments in price are considered explicit price concessions. (see Note 2).

The criteria for qualifying for charity care applied by the Medical Center includes family income, net assets and the size of the patient's bill relative to the patient's ability to pay. Discounts are provided to patients who are unable to pay based on a sliding scale that is applied for family incomes up to approximately 400% above the U.S. Department of Health and Human Services (HHS) Poverty Guidelines. Free care is provided to patients with family incomes up to approximately 200% above the HHS Poverty Guidelines.

Charity care is provided to patients who qualify under the Medical Center's financial assistance policy at any time. Once the Medical Center determines that the patient qualifies for charity care, the Medical Center makes no further attempt to collect on the amount qualifying for charity care.

Certain other controlled subsidiaries of MHS also provide services without charge or at amounts less than their established rates to patients who qualify for charity care under their respective financial assistance policies.

Impairment of long-lived assets

MHS accounts for impairment or disposal of long-lived assets in accordance with applicable guidance. Such guidance requires that long-lived assets be 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 comparison of the carrying amount of an asset to future net cash 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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no asset impairment existed at June 30, 2020 and 2019.

Property and equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of the donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which is forty years for buildings and the parking center and ranges from three to ten years for machinery and equipment.

The cost of new implemented software is capitalized. Costs include payment to vendors for the purchase and assistance in its installation, payroll costs of employees directly involved in the software installation and interest costs of the software project if financed by debt. Preliminary costs to document system requirements, vendor selection and any costs before software purchases are expensed. Capitalization of costs will generally end when the project is completed and the software is ready to be used. Where implementation of the project is in phases, only those costs incurred that further the development of the project will be capitalized. Costs incurred to maintain the applications are expensed.

Resident prepayment deposits

SMI's private pay residents are required to make a non-interest-bearing prepayment of two months' room and board at the time of admission. St. Elizabeth Hall obtains an interest-bearing security deposit, which is the lesser of one month rent or the resident responsibility. At the time of discharge or acceptance by Medical Assistance or similar government assistance programs, any prepayment remaining after application to the resident's outstanding bill will be refunded. At June 30, 2020 and 2019, resident prepayment deposits approximated $713 and $556, respectively, and have been recorded as a current asset liability within the consolidated balance sheets.

Accounting estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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. Accordingly, actual results could differ from those estimates.

(in thousands)

Cash and cash equivalents

Cash and cash equivalents include certain investments in highly-liquid instruments purchased with a maturity of three months or less, excluding assets whose use is limited. The carrying amount of cash and cash equivalents approximates fair value.

MHS maintains cash and cash equivalent accounts that may, at times, exceed federally insured limits. MHS has not experienced any losses from maintaining these accounts in excess of federally insured limits. Management believes it is not subject to significant risks associated with these accounts.

During 2020, MHS adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which requires that the statement of cash flows display the change during the period in total cash and cash equivalents, including restricted cash and cash equivalents. The ASU also requires an entity to disclose information about the nature of restricted cash. Upon adoption the restricted cash and cash equivalent amounts are included in reconciling the beginning and end-of-period amounts show on the statements of cash flows. This standard has been adopted on a retrospective basis and the accompanying 2019 consolidated statement of cash flows has been updated to reflect the provisions of this standard.

The following summary reflects the adjustments made to the statement of cash flows for the year ended June 30, 2019 as a result of the adoption of ASU 2016-18:

	As Previously Reported	ASU 2016-18 Adjustment	As Adjusted
Net increase in cash and cash equivalents	$ 12,424	$ (16,604)	$ (4,180)
Cash and cash equivalents, beginning	$ 107,701	$ 29,487	$ 137,188
Cash, cash equivalents and restricted cash, ending	$ 120,125	$ 12,883	$ 133,008

Following is a reconciliation of cash, cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows as of June 30:

	2020	2019
Cash and cash equivalents	**$ 266,191**	$ 120,125
Board designated and donor restricted	**18,190**	7,101
Funds held by trustee or authority	**7,688**	5,782
Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	**$ 292,069**	$ 133,008

Restricted cash held in board designated and donor restricted funds have been set aside by the Board of Directors (Board) for future capital improvements or strategic initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes or to satisfy donor restricted purposes. Funds held by trustee or authority will be primarily used to satisfy future debt service requirements (Note 6).

Derivative instruments

Current accounting standards require that an entity recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. MHS has entered into interest rate swap agreements to manage its interest rate risk (see Note 11). The interest rate swaps do not qualify for hedge accounting under current accounting standards; therefore, management accounts for the derivative instruments as speculative derivative instruments with the change in the fair value reflected in the accompanying consolidated statements of operations as a component of other non-operating income. Net settlement payments are reported as a component of interest cost, with the exception of the payments associated with construction activities that are capitalized. Entering into interest rate swap agreements involves varying degrees and elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the consolidated balance sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

Excess of revenue over expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets). Activities that result in gains or losses unrelated to the primary operations of MHS are considered to be nonoperating.

CARES Act Provider Relief Funding

The System has received provider relief funding under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. These relief funds are considered non-exchange transactions subject to terms and conditions specified by the resource provider distributed by the Health Resources Service Administration (HRSA) section of the U.S. Department of Health and Human Services (HHS). These conditions create a restriction that such funds must be used to prevent, prepare or respond to the coronavirus (COVID 19). This conditional grant revenue is recognized as other operating income to the extent terms and conditions/restrictions are met for coronavirus related expenses or lost revenues. The System reports conditional contributions for which restrictions are met in the same reporting period as receipt of such funding as net assets without donor restrictions. Such funds are subject to recoupment.

Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 presentation in the accompanying consolidated financial statements. Such reclassifications did not impact the 2020 consolidated change in net assets without donor restrictions.

New accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which was amended in June 2020 by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities.* The amendments in ASU 2016-02 revised the accounting related to lessee accounting. Under the new guidance, the System will be required to recognize a lease liability and a right-of-use asset for all leases. ASU 2020-05 extended the effective for the System to July 1, 2020. The System adopted this standard effective July 1, 2020 using the modified retrospective transition approach for leases existing at, or entered into after, that date. The primary impact of adoption is a gross-up of right of use assets and lease liability for operating leases.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. This new standard provides optional guidance to ease the potential burden in accounting for effects of reference rate reform on financial reporting. The amendments in this ASU apply only to hedging relationships that reference LIBOR or another reference rate expected to be discontinued due reference rate reform. The amendments in this ASU are elective and were effective upon issuance. There was no impact upon adoption on the consolidated financial

statements but the standard could have an impact in future if reference rate reform impacts the referenced LIBOR rate associated with certain derivatives.

2. Net Patient Service Revenue

As a result of the adoption of ASC 606 during fiscal year 2019, estimated uncollectible amounts from patients are now considered implicit price concessions (as defined in ASC 606) and, therefore, included in net patient service revenue. Such implicit price concessions reflected in net patient service revenue in the accompanying consolidated financial statements for the years ended June 30, 2020 and 2019 were $18,889 and $17,030, respectively. Price concessions continue to be presented as a direct reduction of patient accounts receivable.

Management has determined that MHS has an unconditional right to payment only subject to the passage of time for services provided to date based on just the need to either finalize billing for such services (i.e., charge lag) or to discharge the patient and bill for such services for patients who are still receiving inpatient care in MHS' facilities at the balance sheet date. Accordingly, MHS accrues revenues and the related accounts receivable for services performed but not yet billed at the balance sheet date for in-house patients. Thus, management has determined that MHS does not have any amounts that should be reflected separately as contract assets.

As part of the adoption of ASC 606, MHS elected certain available practical expedients under the standard. First, MHS elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to MHS' expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, MHS does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the respective contracts. Additionally, MHS has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that MHS otherwise would have recognized is one year or less in duration.

Patient service revenue is reported at the amount that reflects the consideration to which MHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others. Generally, MHS bills patients and third-party payers several days after services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by MHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. MHS believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Medical Center or SMI. MHS measures the performance obligation from admission to the facility to the point when the facility is no longer required to provide services to that patient, or resident which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting and MHS does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, MHS has elected to apply the optional exemption provided in current applicable accounting standards and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

(in thousands)

As discussed in Note 19, MMC charges are based on rates established by the Commission, which is subsequently reduced by contractual discounts provided to third-party payers and discounts provided to uninsured patients in accordance with MHS policy. SMI and Physician Enterprise determine the transaction price based on standard charges for goods and services provided, reduced by explicit price concession in the form of contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with internal policy, and implicit price concessions provided to uninsured patients. MHS determines its estimate of implicit price concessions based on historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge compliance of MHS with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon MHS. The results of such governmental review could include fines, penalties and exclusion from participation in the Medicare and Medicaid programs. In addition, the contracts MHS has with commercial payers also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. MHS also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. MHS estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any discounts and price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with mission of MHS, care is provided to patients regardless of their ability to pay. Therefore, MHS has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts MHS expects to collect based on its collection history with those patients.

Net patient service revenue from third-party payers and others (including uninsured patients) for the years ended June 30, 2020 and 2019, are summarized in the following tables:

	2020				
	Medicare	Medicaid	Commercial	Other	Total
Hospital | In-patient	$ 86,061	$ 41,435	$ 70,728	$ 1,839	$ 200,063
Hospital | Out-patient	81,660	37,540	123,293	3,776	246,269
Hospital | Emergency Room	4,852	12,478	6,281	1,845	25,456
Stella | Skilled Nursing	7,595	24,706	1,523	13,673	47,497
Stella | Home Health	8,867	87	1,192	12	10,158
Physician Enterprise | FFS	41,451	19,937	74,175	10,621	146,184
Physician Enterprise | Ancillary	23,181	2,742	26,200	320	52,444
	$ 253,667	$ 138,925	$ 303,393	$ 32,086	$ 728,071

(in thousands)

	2019				
	Medicare	Medicaid	Commercial	Other	Total
Hospital | In-patient	$ 89,721	$ 33,824	$ 72,794	$ 2,020	$ 198,359
Hospital | Out-patient	75,026	58,516	125,933	5,473	264,948
Hospital | Emergency Room	10,362	2,615	5,627	786	19,390
Stella | Skilled Nursing	5,968	24,706	567	14,478	45,719
Stella | Home Health	7,866	88	2,113	10	10,077
Physician Enterprise | FFS	42,571	18,852	77,681	11,128	150,232
Physician Enterprise | Ancillary	18,578	2,772	24,143	187	45,680
	$ 250,092	$ 141,373	$ 308,858	$ 34,082	$ 734,405

Revenue from deductibles and coinsurance are included in the categories presented above based on the primary payer.

3. Patient Accounts Receivable and Charity Care

Approximately 46% and 45% of gross patient accounts receivable were due from Medicare and Medicaid at June 30, 2020 and 2019, respectively.

The net cost of charity care provided by MHS totaled $17,246 and $15,663 for the years ended June 30, 2020 and 2019, respectively. The cost of charity care was calculated by applying the cost-to-charge ratio to the total amount of charges foregone for each of the controlled subsidiaries of MHS that provide charity care. The cost of charity care was determined net of any patient-related revenue due to sliding scale payments or other patient-specific sources and includes both direct and indirect cost of rendering care. The net cost of charity care is excluded from the uncompensated care fund net receipts (see Note 19). Additionally, MHS and certain of its controlled subsidiaries provide structured repayment plans to patients without collateral.

4. Pledges Receivable, Net

At June 30, 2020 and 2019, pledges receivable were $4,941 and $5,290, respectively, less an allowance for uncollectible pledges of $256 and $261, respectively, and a discount of $497 and $213, respectively.

The expected payment of the pledges receivable less the uncollectible pledges at June 30, 2020 are as follows:

2021	$ 1,756
2022	384
2023	259
2024	105
Thereafter	1,683
	4,187
Less current portion	(1,756)
Long-term portion	$ 2,431

(in thousands)

5. Property and Equipment

Property and equipment, at cost, consists of the following at June 30:

	2020	2019
Buildings and improvements	**$ 640,640**	$ 623,032
Machinery and equipment	**262,019**	250,293
Parking center	**41,234**	41,234
Construction-in-progress	**37,311**	13,083
Land	**18,976**	18,976
	1,000,180	946,618
Accumulated depreciation	**(443,106)**	(406,967)
	$ 557,074	$ 539,651

As of June 30, 2020, SMI has an approximately $3.9 million commitment remaining under a construction contract related to the addition of a four-level transitional care center that is scheduled to open in the fall of 2020. MMC completed a construction project to expand medical / surgical bed capacity at their downtown location during the period ending June 30, 2020 that cost approximately $10.7 million. The construction company agrees to complete the project and defer payments by the Medical Center until federal financing could be obtained through the Federal Emergency Management Agency (FEMA). MMC has applied for financial assistance from FEMA due to the COVID-19 outbreak and is awaiting approval of their submitted application. The costs associated with this project have been capitalized and are included in buildings and improvements as of June 30, 2020. Amounts due to the construction company have been accrued within accounts payable and accrued expenses within the consolidated balance sheet.

6. Funds Held by Trustee or Authority

Funds held by trustee or authority, which consist primarily of cash and government obligations (at fair value), are limited as to use as follows at June 30:

	2020	2019
Debt service fund	**$ 13,953**	$ 25,895
Debt service reserve	**9,202**	9,140
Reserve for replacements and residual receipts	**1,328**	1,238
	24,483	36,273
Less current portion	**13,953**	25,895
Long-term portion	**$ 10,530**	$ 10,378

7. Board Designated and Donor Restricted Investments

Board designated investments are set aside by the board of trustees for costs relating to replacement or improvement of existing assets, or to cover the cost of services rendered as charity care and other programs. All board-designated investments are without donor restrictions, as the board at its discretion may undesignated the use of such funds. Investments with donor restrictions have been limited by donors to a specific purpose.

(in thousands)

Board designated and investments with donor restrictions consist of the following at June 30:

	2020	2019
Equity	**$ 111,014**	$ 117,847
Fixed maturity	**69,097**	59,108
Cash	**18,190**	7,101
Alternatives	**4,545**	1,207
Pooled investments	**14,030**	12,556
	$ 216,876	$ 197,819

The investments above have been allocated, by source, as follows at June 30:

	2020	2019
Board designated	**$ 197,322**	$ 178,890
With donor restrictions subject to passage of time or use	**19,554**	18,929
	$ 216,876	$ 197,819

Investments with perpetual donor restrictions at June 30, 2020 and 2019 of $2,178 are reported as restricted cash and investments.

Earnings on investments are as follows for the years ended June 30:

	2020	2019
Interest and dividends	**$ 3,714**	$ 3,055
Net realized gains	**5,006**	4,552
	8,720	7,607
Unrealized gains on trading securities	**1,614**	4,245
	$ 10,334	$ 11,852

8. Investments In and Advances to Affiliates

Investments in and advances to affiliates include joint venture relationships in which MHS or its subsidiaries have an ownership interest of 50% or less. Investments in which the ownership interest is less than 20% are carried at cost, and investments in which the ownership interest is at least 20% and less than 51% are generally carried on the equity method.

(in thousands)

MHS has investments totaling $4,445 and $4,717 at June 30, 2020 and 2019, respectively, in the following joint ventures:

Joint Venture	Business Purpose	Percentage of Ownership 2020	Percentage of Ownership 2019	Investment 2020	Investment 2019
Premier Purchasing Partners, Inc.	Capital balance in group purchasing organization	**n/a**	n/a	**$ 306**	$ 917
Johns Hopkins Medicare Advantage	Medicare Advantage plan	**1.5%**	1.5%	**4,139**	3,800
Mercy Ridge, Inc.	Continuing care retirement community	**0%**	50.0%	**-**	-
				$ 4,445	$ 4,717

MHS recorded non-operating income of $615 and $606 related to the operations of these investments for the years ended June 30, 2020 and 2019, respectively. MHS receives rebates from Premier Purchasing Partners, Inc., which are netted with associated supplies expense in the accompanying consolidated financial statements.

In June 1997, MMC invested executed a joint venture agreement with the Archbishop of Baltimore to form Mercy Ridge, Inc. (MR) for the purpose of developing a continuing care retirement community located in Timonium, MD. MMC has a 50% ownership in the joint venture. Since the original contribution into the joint venture, MMC has received distributions greater than the original investment. As of June 30, 2020 and 2019, MR has operated at a net deficit. MMC has recorded the equity method in the investment at zero for the period ending June 30, 2020 and 2019 since MMC is not obligated to make additional contributions into MR.

In September 2016, MHS invested in the Maryland Health Advantage Medicare Advantage Plan (the MA Plan) as a minority owner acquiring a six percent ownership stake. The MA Plan is comprised of various Maryland healthcare providers to deliver comprehensive provider, physician, prescription medicine, wellness and other coverage to participating Medicare beneficiaries in Maryland through a health care network. MHS and the Physician Enterprise are also contracted as participating providers in the MA Plan.

MHS recognizes its ownership in the MA Plan using the cost basis of accounting. MHS' current committed capital is $4,139 and the mandatory capital was limited to $3,000. Any additional capital requirements are optional but electing not to contribute will dilute MHS' ownership percentage accordingly. MHS contributed $338 during the period ending June 30, 2020. MHS elects not to contribute during the period ending June 30, 2019. All net revenue from providing services to MA Plan beneficiaries is recognized at expected reimbursable amounts in the accompanying consolidated statements of operations. Members are allocated a portion of profits or losses in accordance with their participation in the MA Plan based on the terms of the membership agreement. The amount of such allocated profits or losses cannot be estimated at the present time. Accordingly, they will be recognized in the period the amount of such allocations become known.

9. Other Assets

Other assets consist of the following at June 30:

	2020	2019
Amortizable assets, net	**$ 2,240**	$ 903
Deferred compensation plan assets (see Note 13)	**3,572**	4,233
Health insurance prepayment	**1,449**	1,449
Other investments	**532**	779
Notes receivable	**-**	1
	$ 7,793	$ 7,365

Amortizable assets of $10,844 and $10,526 for the years ended June 30, 2020 and 2019, respectively, are amortized over the expected useful life of the asset on a straight-line basis. MHS has recorded accumulated amortization of $8,604 and $9,623 for the years ended June 30, 2020 and 2019, respectively. Amortization expense is included with depreciation and amortization on the consolidated statements of operations.

10. Reinsurance Receivable/Recoverable and Provision for Outstanding Losses

GIC management based the provision for losses at June 30, 2020 on a report dated July 2020 prepared by GIC's independent actuaries, Complete Actuarial Solutions Co. of Bethesda, Maryland. In their report, the actuaries estimate outstanding losses at an expected confidence level, on an undiscounted basis, to be $96,960 and $78,027, net of reinsurance as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, GIC's provision for outstanding losses was $108,949 and $87,952, respectively, and the reinsurance receivable for such losses was $11,989 and $9,925, respectively, after factoring in actual losses paid to June 30. The estimates provided by the actuaries are based on the historical data of the program blended together with relevant insurance industry loss development statistics.

In the opinion of GIC management, the provision for outstanding losses relating to losses reported and losses incurred but not reported at the consolidated balance sheet dates is adequate to cover the expected ultimate liability of GIC. However, due to the nature of the insurance risks assumed, these provisions are necessary estimates, and could vary from the amounts ultimately paid.

Consistent with most companies with similar insurance operations, GIC's provision for outstanding losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the consolidated financial statements.

GIC's long-term estimated provision for outstanding losses exceeds GIC's retention limits by $11,989 and $9,925 for the years ended June 30, 2020 and 2019, respectively and are recorded as reinsurance balances recoverable in the accompanying consolidated balance sheets. GIC's current reinsurance receivable is $4,925 and $8,038 for the years ending June 30, 2020 and 2019, respectively and are recorded as other amounts receivable, net in the accompanying consolidated balance sheets. These losses are reinsured as described in Note 18.

In the event that GIC's reinsurers are unable to meet their obligations under the reinsurance agreements, GIC would still be liable to pay all losses under the insurance policies it issues but would only receive reimbursement to the extent the reinsurers could meet their above-mentioned obligations. GIC believes that all amounts included in reinsurance balances receivable and recoverable in the accompanying consolidated balance sheets will be collected in full from the reinsurers.

(in thousands)

11. Long-Term Debt

Long-term debt consists of the following at June 30:

	2020	2019
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2006; interest rate 5.69%; due July 1, 2036	**$ 27,145**	$ 28,075
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2007 B and C (converted); interest rate 1.48%; due July 1, 2024	**15,745**	17,845
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2008 (converted); interest rate 4.85%; refunded March 2020	**-**	12,040
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2011; interest rate ranging from 3.00% to 6.25%; due July 1, 2031	**36,610**	36,825
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2012; interest rate ranging from 4.00% to 5.00%;due July 1, 2031	**49,995**	49,995
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2016A; interest rate ranging from 3.50% to 5.00%; due July 1, 2042	**135,250**	135,250
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2016B; fixed interest rate 1.99%; due July 1, 2037	**35,055**	35,055
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2016C; variable interest rate (1.28% June 30, 2020); due July 1, 2042	**61,515**	63,205
MHHEFA Revenue Bonds, Stella Maris Issue, Series 2018; variable interest rate (0.86% at June 30, 2020); due 2050	**20,175**	21,000
Taxable Term Loan, Mercy Medical Center; interest rate 1.37%; due 2022	**9,090**	-
HUD mortgage loan; interest rate 2.64%; due 2046	**4,392**	4,526
Other	**46**	22
Total long-term debt	**395,018**	403,838
Add:		
Net unamortized discount	**6,955**	7,355
Less:		
Net unamortized debt issuance costs	**(3,534)**	(3,687)
Current portion	**(9,952)**	(8,855)
Long -term portion	**$ 388,487**	$ $398,651

Principal payments on long-term debt are as follows for the years ended June 30:

2021	$ 9,924
2022	10,157
2023	10,635
2024	11,183
2025	11,682
Thereafter	341,437
	$ 395,018

Pursuant to an amended and restated Master Loan Agreement, as supplemented (the Loan Agreement), the Obligated Group members have issued debt through Maryland Health and Higher Educational Facilities Authority (MHHEFA). Currently the Medical Center, MHS and MHF comprise the Obligated Group for Mercy Medical Center issues. Each Obligated Group member is jointly and severally liable for the repayments under the obligations of the Loan Agreement. As security for the performance of the obligations of the Obligated Group members under the Loan Agreement, the Obligated Group members have granted to MHHEFA a security interest

in their receipts, subject to certain permitted encumbrances. In addition, the Medical Center has mortgaged to MHHEFA certain real and personal property of the Medical Center under a mortgage from the Medical Center to MHHEFA, as amended and supplemented. The Loan Agreement contains certain restrictive, financial and nonfinancial covenants. Under the terms of the Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the trustee or MHHEFA to provide for repayment of the obligations of the Obligated Group (see Note 6).

Under the provisions of the Series 2018 Bonds agreement, SMI is the obligated party and has granted to MHHEFA a security interest in all of its real property and the assignment of its leases. In addition, payments on the Series 2018 Bonds are secured by an irrevocable letter of credit provided by a commercial bank.

SMI is required to maintain certain deposits with a trustee and satisfy certain measures of financial performance as long as the Series 2018 Bonds are outstanding. As of June 30, 2020, management believes SMI was in compliance with the financial covenant requirements of the bond indenture.

Mercy Medical Center issue, series 2006 bonds

In August 2006, MHHEFA authorized the issuance, sale and delivery of the $35,000 Mercy Medical Center Series 2006 Revenue Bonds. The proceeds were loaned by MHHEFA to MMC in order to finance the construction of a new parking garage as well as the financing of certain routine capital expenditures.

Principal repayment of these bonds began on July 1, 2009 and is paid annually through July 1, 2036. Interest is paid semiannually on January 1 and July 1. Interest accrues at a fixed rate of 5.69%. The bonds are currently callable at par (100%).

Mercy Medical Center issue, series 2007B and C (converted)

In October 2007, MHHEFA authorized the issuance, sale and delivery of its $100,000 Revenue Bonds, Mercy Medical Center Issue, Series 2007B and C, the proceeds of which were loaned by MHHEFA to MMC to finance the construction of a replacement hospital facility. On April 1, 2010, $18,080 of the $50,000 Series 2007B and $11,920 of the $50,000 Series 2007C Bonds were converted to Bank Qualified Revenue Bonds with a fixed interest rate, terminating July 1, 2024. Principal repayment of the converted bonds began July 1, 2012 and is scheduled to be paid annually through July 1, 2024. Interest accrues at a fixed rate of 1.48%. The monthly interest payments on the Series 2007B and C Bonds are made directly to the bank.

The portion of the Series 2007B and C bonds that were not converted to Bank Qualified Bonds were refinanced with other MHHEFA Revenue bonds.

Mercy Medical Center issue, series 2008 (converted)

In July 2008, MHHEFA authorized the issuance, sale and delivery of its $35,325 Revenue Bonds, Mercy Medical Center Issue, Series 2008, the proceeds of which were loaned by MHHEFA to MMC in order to refund the MMC Series 2003 Bonds. On December 16, 2009, $30,000 of the Series 2008 Bonds was converted to Bank Qualified Revenue Bonds with a fixed interest rate period of approximately twelve years. Principal repayment of the converted bonds began July 1, 2011 and was to be paid annually through July 1, 2022. Interest accrued at a fixed rate of 3.99%. On March 26, 2020, the bonds were fully refunded.

The monthly interest payments on the Series 2008 Bonds were made directly to the bank. Principal repayment of the Series 2008 Bonds began on July 1, 2009, and the portion of those bonds that were not converted to Bank Qualified Bonds were fully paid on July 1, 2011.

Mercy Medical Center issue, series 2011 bonds

In February 2011, MHHEFA authorized the issuance, sale and delivery of its $40,770 Revenue Bonds, Mercy Medical Center Issue, Series 2011. The proceeds were loaned by MHHEFA to MMC to refund $35,110 aggregate principal amount of the MMC Issue, Series 2007 B and C Bonds. The bonds were issued net of an original issue

discount of $881, which is being amortized over the life of the bonds using the straight-line method. The bonds require a debt service reserve fund. The balance of the debt service reserve fund at June 30, 2020 and 2019 was $4,173 and $4,127, respectively (see Note 6).

Principal repayment of the MMC Issue, Series 2011 Bonds began July 1, 2012 and is scheduled to be paid annually through July 1, 2031. Interest accrues at a rate varying from 3.00% to 6.25%. The interest is payable semi-annually on January 1 and July 1.

Mercy Medical Center issue, series 2012 bonds

In April 2012, MHHEFA authorized the issuance, sale and delivery of its $49,995 Revenue Bonds, Mercy Medical Center Issue, Series 2012. The proceeds were loaned by MHHEFA to MMC to refund the $49,480 aggregate principal amount of the Mercy Medical Center Issue, Series 2001 Bonds. The bonds include an original issue premium of $1,742, which is being amortized over the life of the bonds using the straight-line method. The bonds require a debt service reserve fund. The balance of the debt service reserve fund at June 30, 2020 and 2019 was $5,030 and $5,012, respectively (see Note 6).

Principal repayment of the MMC Issue, Series 2012 begins July 1, 2023 and is scheduled to be paid annually through July 1, 2031. Interest accrues at a rate varying from 4.0% to 5.0%. The interest is paid semi-annually on January 1 and July 1.

Mercy Medical Center issue, series 2016A

In March 2016, MHHEFA authorized the issuance, sale and delivery of its $135,250 Revenue Bonds, Mercy Medical Center Issue, Series 2016A. The proceeds were loaned by MHHEFA to MMC to advance refund $145,880 aggregate principal amount and $11,452 aggregate interest due until July 1, 2017 of the MMC Issue, Series 2007A Bonds. As of June 30, 2016, the 2007A bonds were defeased and on July 1, 2017 the Series 2007A Bonds were fully refunded.

Principal repayment of the Series 2016A begins on July 1, 2032 and is scheduled to be paid annually through July 1, 2042. Interest accrues at a fixed rate ranging from 3.5% to 5.0%. The Series 2016A bonds were issued net of an original issue premium of $9,327, which is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Mercy Medical Center issue, series 2016B

In May 2016, MHHEFA authorized the issuance, sale and delivery of its $35,055 Revenue Bonds, Mercy Medical Center, Series 2016B. The proceeds were loaned by MHHEFA to MMC to refund the $34,890 Series 2011B bonds then outstanding. The Series 2016B bonds were issued as non-bank qualified revenue bonds and directly purchased by a commercial bank. On June 12, 2020, the direct bank purchase was extended to June 25, 2025, at which time the Series 2016B bonds will be subject to a mandatory purchase at their par value by MMC unless the bank and MMC agree to an extension. Originally, the Series 2016B bonds bore interest at a variable rate equal to 70% of one-month LIBOR plus 0.70%. Effective January 1, 2018, as a result of the Tax Cuts and Jobs Act, and by function of the debt agreements for tax law changes, the effective interest rate changed to a variable rate equal to 85% of one-month LIBOR plus 0.85%. In December 2018, the bank agreed to modify the interest rate to 80% of one-month LIBOR plus 0.70%. Interest is paid monthly. On May 1, 2020, the bank agreed to modify the interest rate to a fixed 1.99%.

Annual principal repayment of Series 2016B bonds will begin on July 1, 2032 and the final payment will be on July 1, 2037.

Mercy Medical Center issue series 2016C

In May 2016, MHHEFA authorized the issuance, sale and delivery of its $65,450 Revenue Bonds, Mercy Medical Center, Series 2016C. The proceeds were loaned by MHHEFA to MMC to refund the $65,290 Series 2013 and Series 2013B bonds then outstanding. The Series 2016C bonds were issued as a non-bank qualified revenue

bonds and directly purchased by a commercial bank. The direct bank purchase terminates on May 19, 2023, at which time the Series 2016C bonds will be subject to a mandatory purchase at their par value by MMC unless the bank and MMC agree to an extension. Originally, the Series 2016C bonds bore interest at a variable rate equal to 70% of one-month LIBOR plus 0.83%. Effective January 1, 2018, as a result of the Tax Cuts and Jobs Act, and by function of the debt agreements for tax law changes, the effective interest rate changed to a variable rate equal to 85% of one-month LIBOR plus 1.01%. In December 2018, the bank agreed to modify the interest rate to 70% of one-month LIBOR plus 1.15%. Interest is paid monthly.

Annual principal repayment of Series 2016C bonds began on July 1, 2016 and the final payment will be on July 1, 2042.

Stella Maris issue, series 2018 bonds

In December 2018, the Series 2018 Bonds were issued to refund Series 1997 and to partially finance the construction of a Transitional Care Center in Stella Maris. Principal repayment of these bonds began on July 1, 2019 and is scheduled to be paid annually through July 1, 2050. All Series 2018 Bonds are subject to redemption prior to maturity. Interest accrues at a variable rate based on SIFMA. Interest on the bonds is payable monthly. An annual letter of credit fee, equal to 0.73% of the letter of credit amount, is payable quarterly by SMI. The letter of credit expires December 19, 2028.

Mercy Medical Center Taxable Loan

On March 26, 2020 Mercy Medical Center issued a taxable loan though a commercial bank to fully refund the outstanding principal of the Series 2008 (converted). Interest accrues at a fixed rate of 1.37% and is paid monthly to the bank.

Principal repayment of these bonds begins on July 1, 2020, to be paid annually through July 1, 2022.

HUD mortgage loan

The mortgage loan from the U.S. Department of Housing and Urban Development (HUD) was used by CSC to construct St. Elizabeth Hall. This original note was refinanced during the year ended June 30, 2013. The current note reflects an interest rate of 2.64% per annum with monthly installments of $20, including interest, with the final payment due January 1, 2046 and requires mortgage insurance of 0.45% of the average annual outstanding principal balance. The note also requires a debt service savings and property replacement reserve fund.

The liability of CSC under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

Lines of credit

In March 2020, Medical Center increased from $20,000 to $50,000 an operating line of credit with a commercial bank. At June 30, 2020 and 2019, the operating line of credit had $0 outstanding. As of June 30, 2020 and 2019, the interest rate on the outstanding line of credit draw was 1.93% and 4.15%, respectively, and is based on one-month LIBOR plus 1.75%. This line of credit agreement is scheduled to remain in effect until all obligations, including other debt held by this bank, are paid in full or terminated by the bank.

An additional committed line of credit from a commercial bank in the amount of $25,000 that was secured in June 2019 is scheduled to terminate in September 2020. At June 30, 2020 and June 30, 2019, this line of credit had $0 outstanding, and the interest rate on the outstanding line of credit draw was 1.93% and 4.15% and based on one-month LIBOR plus 1.75%.

Interest rate swaps

On December 1, 2004, the Medical Center entered into a fixed spread basis swap agreement in order to reduce the cost of capital with respect to the Series 2001 Bonds by removing the tax risk to bond holders and transferring the risk to the Medical Center. The fixed spread basis swap matures on December 1, 2024 and the exchanges of

cash flows with the counter party began March 1, 2005. The notional amount of the swap is $50,000. Pursuant to the swap agreement, the Medical Center pays the counter party a variable rate equal to the USD-SIFMA Municipal Swap Index and receives interest at a variable rate equal to the sum of 67% of USD-LIBOR-BBA and 0.60%.

At June 30, 2020 and 2019, the fair value of the interest rate swap was $1,160 and $1,434, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets. An unrealized gain (loss) on interest rate swap totaling $(274) and $227 is reflected in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2020 and 2019, respectively.

Simultaneously, with the issuance of the Series 2006 bonds, MMC entered into an interest rate swap agreement, which was amended in November 2014, with a counter party with a notional amount of $35,000 to convert the fixed rate structure to a variable rate. Under this amended agreement, MMC will receive a fixed interest rate of 5.69% and pay to the counter party the USD-SIFMA Municipal Swap Index plus 0.80%. On July 31, 2018, the interest rate swap agreement was extended from November 19, 2019 to April 1, 2023. Additionally, under this amended agreement, MMC will continue to receive a fixed interest rate of 5.69% and now pay to the counter party the USD-SIFMA Municipal Swap Index plus 0.836%. The interest rate swap does not qualify for hedge accounting under generally accepted accounting principles.

The value of this contract is based on two components: (i) the accrued but unpaid periodic cash flows and (ii) the termination value as defined in the agreement. By definition, the termination value is equal to the bond amount multiplied by the difference between highest price in the marketplace and the bonds base price (100%) and the call price would be the highest price in the marketplace on the valuation date. This is due to the fact that MHS would be economically inclined to call the bonds at par versus paying any termination payment on the swap and the bonds are carried on MHS' books at par. With MHS prepared to call the bonds at par, the market price should immediately converge on the call price. Additionally, MHS has the right to optionally terminate the contract. The counter party does not have the right to optionally terminate the agreement. The counter party can only terminate the agreement prior to its stated maturity if an event of default or an additional termination event exists.

During October 2007, MMC entered into a fixed payer swap with a notional amount of $65,000, which was amended in July 2014. Pursuant to the amended swap agreement, MMC pays the counter party a fixed rate of 3.459% and receives a variable rate equal to 70% of USD-LIBOR-BBA. The interest rate swap agreement terminates on July 1, 2042. At June 30, 2020 and 2019, the fair value of the interest rate swap was $(33,249) and $(21,215), respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets. An unrealized gain/(loss) on interest rate swap totaling $(12,033) and $(6,824) is reflected in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2020 and 2019, respectively.

12. Fair Value of Financial Instruments

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

Cash and cash equivalents, patient accounts receivable, other amounts receivable, accounts payable and accrued expenses due to third-party payers and construction retainage: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Short-term investments, funds held by trustee or authority and board designated and donor restricted investments: Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Pooled separate accounts: NAV units, as determined by the custodian, are used to estimate fair value since quoted prices in active markets for identical assets are not available. These prices are determined

using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the business, value, or financial position of MHS based on the fair value information of financial assets and liabilities presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset or liability, including estimates of the timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset or liability. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset or liability. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

MHS uses techniques consistent with the market 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. Fair values of equity securities and fixed maturity securities have been determined by MHS from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes. Cash equivalents comprise short-term fixed maturity securities and carrying amounts approximate fair values, which have been determined from public quotations, when available. Money markets and certificates of deposit comprise short-term fixed maturity securities. The carrying amounts approximate fair values, which have been determined from public quotations, when available.

MHS holds alternative investments that are not traded on national exchanges or over-the-counter markets. MHS is provided information on net asset value per share as a practical expedient for these investments calculated by the funds of funds' managers (who are investment advisors registered with the Securities and Exchange Commission) based on information provided by the managers of underlying funds.

(in thousands)

Fair value of the interest rate swaps represents, or are derived from, mid-market values. Mid-market prices and inputs may not be observable, and instead valuations may be derived from proprietary or other pricing models based on certain assumptions regarding past, present and future market conditions. Some inputs may be theoretical, not empirical, and require subjective assumptions and judgments. Valuations may be based on assumptions as to the volatility of the underlying security, basket or index, interest rates, exchange rates, dividend yields, correlations between these or other factors, the impact of these factors upon the value of the security (including any embedded options), as well as issuer funding rates and credit spreads (actual or approximated) or additional relevant factors.

The following table presents the fair value hierarchy for financial instruments reported by MHS measured at fair value on a recurring basis as of June 30, 2020.

Assets	Level 1	Level 2	Level 3	Total Fair Value
Board designated and donor restricted investments:				
Cash and cash equivalents	$ 18,190	$ -	$ -	$ 18,190
Equity securities:				
Mutual funds:				
International emerging markets	27,818	-	-	27,818
Domestic mutual fund-equity income	9,391	-	-	9,391
Common stocks:				
Consumer discretionary	7,517	-	-	7,517
Consumer staples	6,758	-	-	6,758
Energy	1,056	-	-	1,056
Financials	9,839	-	-	9,839
Real estate	3,354	-	-	3,354
Health care	10,233	-	-	10,233
Industrials	9,244	-	-	9,244
Information technology	17,428	-	-	17,428
Materials	1,956	-	-	1,956
Miscellaneous	1,399	-	-	1,399
Foreign stocks/American deposit receipt	-	5,021	-	5,021
Fixed maturity:				
U.S. government and agencies:				
U.S. treasury bonds	8,503	-	-	8,503
Government agency bonds	-	9,719	-	9,719
Corporate bonds:				
Asset backed securities	-	-	-	-
Financial	-	5,280	-	5,280
Industrial	-	12,092	-	12,092
Other	-	1,683	-	1,683
Equity funds	-	7,474	-	7,474
Mutual bond funds	23,521	-	-	23,521
Municipal bonds	-	825	-	825
Alternatives	-	-	4,545	4,545
Total assets in the fair value hierarchy	$ 156,207	$ 42,094	$ 4,545	202,846
Investments measured at NAV [(a)]				14,030
Total board designated and donor restricted investments				$ 216,876
Restricted investments:				
Exchange traded funds	15,708	-	-	15,708
Bond Funds	-	2,704	-	2,704
U.S. treasury securities	20,745	-	-	20,745
Corporate bonds	-	27,455	-	27,455
Mortgage backed securities	-	4,429	-	4,429

(in thousands)

(continued)

Assets	Level 1	Level 2	Level 3	Total Fair Value
Asset backed securities	$ -	$ 24,299	$ -	$ 24,299
Total restricted cash and investments	$ 36,453	$ 58,887	$ -	$ 95,340
Short-term investments:				
U.S. Treasury notes	3,666	-	-	3,666
Certificate of deposit	-	216	-	216
Total short-term investments	$ 3,666	$ 216	$ -	$ 3,882
Long-term investments:				
Exchange traded funds	$ 6,478	$ -	$ -	$ 6,478
U.S. treasury securities	1,444	-	-	1,444
Total restricted cash and investments	$ 7,922	$ -	$ -	$ 7,922
Funds held by trustee (current):				
Cash and Cash equivalents	$ 6,359	$ -	$ -	$ 6,359
Fixed maturity:				
Government agency notes	7,594	-	-	7,594
Total funds held by trustee (current)	13,953	-	-	13,953
Funds held by trustee (non-current):				
Cash and Cash equivalents	-	1,329	-	1,329
U.S. government and agencies	-	9,201	-	9,201
Funds held by trustee (non-current)	-	10,530	-	10,530
Total assets in the fair value hierarchy	$ 218,201	$ 111,727	$ 4,545	334,473
Investments measured at NAV [(a)]				14,030
Total investments at fair value				$ 348,503
Liabilities:				
Interest rate swaps	$ -	$ 32,088	$ -	$ 32,088
Total liabilities at fair value	$ -	$ 32,088	$ -	$ 32,088

[(a)] *In accordance with current accounting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.*

(in thousands)

The following table presents the fair value hierarchy for financial instruments reported by MHS measured at fair value on a recurring basis as of June 30, 2019.

Assets	Level 1	Level 2	Level 3	Total Fair Value
Board designated and donor restricted investments:				
Cash and cash equivalents:	$ 7,101	$ -	$ -	$ 7,101
Equity securities:				
Mutual funds:				
International emerging markets	30,933	-	-	30,933
Domestic mutual fund-equity income	11,675	-	-	11,675
Common stocks:				
Consumer discretionary	7,547	-	-	7,547
Consumer staples	5,967	-	-	5,967
Energy	2,547	-	-	2,547
Financials	12,057	-	-	12,057
Real estate	2,885	-	-	2,885
Health care	9,152	-	-	9,152
Industrials	10,351	-	-	10,351
Information technology	17,366	-	-	17,366
Materials	1,900	-	-	1,900
Miscellaneous	990	-	-	990
Foreign stocks/American deposit receipt	-	4,477	-	4,477
Fixed maturity:				
U.S. government and agencies:				
U.S. treasury bonds	6,431	-	-	6,431
Government agency bonds	669	-	-	669
Corporate bonds:				
Asset backed securities	-	1,693	-	1,693
Financial	-	2,846	-	2,846
Industrial	-	7,246	-	7,246
Other	-	91	-	91
International (other global corp bonds)	-	2,012	-	2,012
Strip	-	585	-	585
Agency backed	-	1,557	-	1,557
Agency pooled	-	5,436	-	5,436
Equity funds	-	8,598	-	8,598
Mutual bond funds	21,659	-	-	21,659
Municipal bonds	-	285	-	285
Alternatives	-	-	1,207	1,207
Total assets in the fair value hierarchy	$ 149,230	$ 34,826	$ 1,207	185,263
Investments measured at NAV [(a)]				12,556
Total board designated and donor restricted investments				$ 197,819
Restricted cash and investments:				
Mutual funds	$ 13,983	$ -	$ -	$ 13,983
Corporate funds	25,656	13,678	-	39,334
Municipal bonds	-	4,465	-	4,465
Government and agencies	20,579	2,439	-	23,018
Asset backed securities	-	3,441	-	3,441
Total restricted cash and investments	$ 60,218	$ 24,023	$ -	$ 84,241

(in thousands)

(continued)

Assets	Level 1	Level 2	Level 3	Total Fair Value
Short-term investments:				
Money markets	$ -	$ 29,306	$ -	$ 29,306
U.S. Treasury notes	7,170	-	-	7,170
Certificate of deposit	-	830	-	830
Total cash, cash equivalents and short-term investments	$ 7,170	$ 30,136	$ -	$ 37,306
Long-term investments:				
Equity securities:				
Mutual funds	$ 1,530	$ -	$ -	$ 1,530
Fixed maturity:				
U.S. treasury notes	2,276	-	-	2,276
U.S. government and agencies:				
Government agency mortgage backed securities	-	820	-	820
Government agency pools	-	5	-	5
Corporate Bonds:				
Financial	-	831	-	831
Industrial	-	1,452	-	1,452
International (other global corp bonds)	-	70	-	70
Municipal bonds	-	544	-	544
Total long-term investments	$ 3,806	$ 3,722	$ -	$ 7,528
Funds held by trustee (current):				
Cash and cash equivalents	$ 4,544	$ -	$ -	$ 4,544
Fixed maturity:				
Government agency notes	-	21,351	-	21,351
Total funds held by trustee (current)	$ 4,544	$ 21,351	$ -	$ 25,895
Funds held by trustee (non-current):				
Cash and cash equivalents	1,238	-	-	1,238
U.S. government and agencies	-	9,140	-	9,140
Funds held by trustee (non-current)	$ 1,238	$ 9,140	$ -	$ 10,378
Total assets in the fair value hierarchy	$ 226,206	$ 123,198	$ 1,207	350,611
Investments measured at NAV [(a)]				12,556
Total investments at fair value				$ 363,167
Liabilities:				
Interest rate swaps	$ -	$ 19,781	$ -	$ 19,781
Total liabilities at fair value	$ -	$ 19,781	$ -	$ 19,781

[(a)] *In accordance with current accounting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.*

(in thousands)

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of June 30, 2020 and 2019.

	Fair Value at June 30, 2020	Fair Value at June 30, 2019	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Multi-Strategy Fund [1]	**$ 6,883**	$ 6,997	None	None	65 days
Greenspring Opportunities IV, LP [2]	**3,433**	3,057	3,000	None	None
Other	**3,714**	2,505	-	-	-
	$ 14,030	$ 12,556			

[1] The multi-strategy fund is event-driven with a focus on opportunities to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their exit values. The fund also invests in a long/short equities portfolio of securities that can be readily valued and trade at a discount or premium to the fair value of the underlying assets. The fund permits semiannual redemption subject to 65 days advance written notice.

[2] The fund's objective is to seek long-term capital appreciation by investing primarily by making, holding, and disposing of privately negotiated equity and equity-related investments principally in a diversified group of operating companies.

The following table is a rollforward of the consolidated statements of financial position amounts for financial instruments classified by MHS within level 3 of the valuation hierarchy defined above:

	Investments
Fair value June 30, 2018	$ 1,826
Unrealized gains, net	40
Purchases	104
Redemptions	(763)
Fair value June 30, 2019	1,207
Unrealized gain, net	1,016
Purchases	2,345
Redemptions	(23)
Fair value June 30, 2020	$ 4,545

13. Defined Contribution and Profit-Sharing Plans

MHS had a qualified 401(k) plan covering substantially all employees of the Medical Center and SMI who have completed at least one year of service and are at least twenty-one years of age. MHS made an annual contribution on behalf of all eligible employees based on either the employee's contributions to the 401(k) plan or their annual compensation. MHS had matched, on a dollar for dollar basis (based on age and years of service thresholds) the amount contributed by the employee, not to exceed 6% of the employee's salary. MHS' contributions to the 401(k) plan for all participants employed prior to April 1, 1997 for Medical Center employees or July 1, 1997 for SMI employees, vested at a rate of 25% annually and completely vested on April 1, 2001 for Medical Center employees and July 1, 2001 for SMI employees. MHS' contributions for all participants employed on or after April 1, 1997 for Medical Center employees or July 1, 1997 for SMI employees vested after four years of service, with no vesting prior to four years of service. Effective January 1, 2018, Mercy made the following changes to the 401(k) plan: The age and service requirement used to calculate Mercy's match will be made at the beginning of each calendar quarter (as opposed to January 1). Additionally, the vesting schedule was changed to a 3-year cliff as described below. There is no age limit for participation in the plans which occurred retroactive to January 1, 2016.

(in thousands)

Effective January 1, 2019, the plan was frozen and all contributions for MHS subsequent to this date are being directed to the 403(b) Plan. MHS has a qualified 403(b) plan covering substantially all employees of Mercy Medical Center and SMI. Eligibility for the employer match will begin after the completion of one year of service. MHS makes a quarterly contribution on behalf of all eligible employees based on the employee's contributions into the 403(b). MHS will match, up to 50% of an employee's contribution not to exceed 6% of the employee's salary. The MHS match increases based on age and years of services threshold up to 100% of the amount contributed by the employee not to exceed 6% of the employee's salary. MHS' contributions into the 403(b) for all participants are vested after three years of service, with no vesting prior to three years of service.

Contributions under these plans totaled approximately $5,881 and $5,790 for the years ended June 30, 2020 and 2019, respectively.

The Medical Center has a nonqualified deferred compensation plan for certain executives and physicians. The deferred compensation plan provides for severance and supplemental retirement benefits as defined in the plan. Compensation expense related to the deferred compensation plan was $1,925 and $1,800 for the years ended June 30, 2020 and 2019, respectively. Total deferred compensation obligations of $3,572 and $4,233 are included in other long-term liabilities in the accompanying consolidated balance sheets at June 30, 2020 and 2019, respectively (see Note 25).

The fair values of deferred compensation plan assets as of June 30, 2020 by asset category are as follows (see Notes 9 and 12):

Assets	Level 1	Level 2	Total Fair Value
Equity:			
Mutual funds:			
International large cap core	**$ 25**	**$ -**	**$ 25**
Emerging markets	**6**	**-**	**6**
Domestic mutual fund-equity income	**1,704**	**-**	**1,704**
Fixed maturity:			
Bond fund	**-**	**1,837**	**1,837**
Total assets fair value	**$ 1,735**	**$ 1,837**	**$ 3,572**

The fair values of deferred compensation plan assets as of June 30, 2019 by asset category are as follows (see Notes 9 and 12):

Assets	Level 1	Level 2	Total Fair Value
Equity:			
Mutual funds:			
International large cap core	$ 149	$ -	$ 149
Emerging markets	53	-	53
Domestic mutual fund-equity income	3,012	-	3,012
Fixed maturity:			
Bond fund	-	1,019	1,019
Total assets fair value	$ 3,214	$ 1,019	$ 4,233

There were no significant transfers between level 1 and level 2 fair value investments for the years ended June 30, 2020 and 2019.

(in thousands)

14. Post-Retirement Benefit Plan

MMC has an unfunded contributory health and medical post-retirement benefit plan available to all eligible employees who meet certain age and length of service requirements as defined by the plan. The plan provides for health and medical benefits including primary care physician and specialist visits, hospitalization and emergency care, prescription drugs, vision care and Medicare supplemental coverage.

During 2020, the MMC implemented ASU 2017-07, *Compensation-Retirement Benefits (Subtopic 715); Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require the service cost component of net benefit cost be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net post-retirement benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal operating income. The impact of adoption was not material to the consolidated financial statements. Due to the immaterial nature of current period post-retirement benefit costs, management has continued to record interest costs with service costs within operating income within salaries and benefits within the consolidated statements of operations. Remaining post-retirement benefit costs are recorded within changes to post retirement plan obligations within the consolidated statements of changes in net assets.

The following table sets forth the components of the MHS obligation at June 30:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 7,923**	$ 7,477
Service cost	**54**	55
Interest cost	**278**	297
Actuarial gain and assumption changes	**1,378**	401
Employer portion of benefits paid	**(299)**	(307)
Benefit obligation at end of year	**9,334**	7,923
Change in plan assets:		
Employer contribution	**299**	308
Plan participants' contribution	**-**	-
Benefits paid	**(299)**	(308)
Fair value of plan assets at end of year	**-**	-
Unfunded status	**(9,334)**	(7,923)
Accrued post-retirement benefit cost	**(9,334)**	(7,923)
Less current portion included in accounts payable and accrued expenses	**(310)**	(350)
Total accrued post-retirement benefit cost, long-term portion	**$ (9,024)**	$ (7,573)

(in thousands)

Net periodic post-retirement benefit cost included the following for the years ended June 30:

	2020	2019
Service cost - benefits attributed to service during the period	**$ 54**	$ 55
Interest cost on accumulated post-retirement benefit obligation	**278**	297
Net post-retirement benefit cost	**$ 332**	$ 352

Amounts not yet recognized as a component of net periodic pension cost include net actuarial loss of $1,742 and $363 as of June 30, 2020 and 2019, respectively.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation (APBO) for the plan was 2.54% and 3.50% for the years ended June 30, 2020 and 2019, respectively. For measurement purposes, the health care cost trend rates used in determining the APBO for the plan were 4.7% and 5.4% in 2020 and 2019. Increasing the health care cost trend rates by 1% would increase the APBO by $1,233 and aggregate service and interest cost by $59 at June 30, 2020.

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

	Benefit Payments
2021	$ 311
2022	$ 333
2023	$ 354
2024	$ 370
2025	$ 389
Next 5 years	$ 2,074

15. Retirement Annuity Plan

MMC had a pension plan that was terminated on April 1, 1997 and established a retirement annuity plan under which certain participants of the terminated plan were entitled to annuity payments. Participants in the plan include (a) the retirees and beneficiaries entitled to benefits from the terminated plan on April 1, 1997 and (b) other participants with benefits worth more than $4 that elected an annuity. All benefits are vested and based on the frozen accrued benefits at April 1, 1997.

MMC was also required to adopt ASU 2017-07 during 2020. There is no service cost associated with the pension plan since it has been frozen. Due to the immaterial nature of current period pension costs, management has continued to record interest costs within operating income within salaries and benefits within the consolidated statements of operations. Remaining post-retirement benefit costs are recorded within changes to post retirement plan obligations within the consolidated statements of changes in net assets.

(in thousands)

The measurement dates for fiscal years 2020 and 2019 were June 30, 2020 and June 30, 2019, respectively. The following table sets forth the funded status of the retirement annuity plan and amounts recognized in accompanying consolidated financial statements:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 5,086**	$ 5,675
Interest cost	**157**	214
Actuarial gain	**(14)**	(101)
Benefits paid	**(632)**	(702)
Benefit obligation at end of year	**4,597**	5,086
Change in plan assets:		
Fair value of plan assets at beginning of year	**648**	341
Actuarial return on plan assets	**(1)**	9
Employer contribution	**700**	1,000
Benefits paid	**(632)**	(702)
Fair value of plan assets at end of year	**715**	648
Unfunded status/accrued benefit cost (Note 25)	**$ (3,882)**	$ (4,438)
Net periodic pension cost:		
Interest cost	**$ 157**	$ 214
Expected return on plan assets	**(42)**	(23)
Amortization net (gain) loss	**158**	176
Net periodic pension cost	**$ 273**	$ 367

Amounts not yet recognized as a component of net periodic pension cost include net actuarial loss of $2,143 and $2,227 as of June 30, 2020 and 2019, respectively.

The discount rate to estimate the benefit obligation as of June 30, 2020 and 2019 was 2.5% and 3.50%, respectively. The expected rate of return on plan assets was 6.5% for 2020 and 2019.

MHS' expected rate of return is evaluated annually and is based on the current interest rate environment, rate of inflation, allocation of the plan assets among various investment options and other market conditions.

The weighted-average asset allocations in the plan as of June 30, 2020 and 2019, by asset category were as follows:

	2020	2019
Asset Category:		
Fixed income securities	**0%**	0%
Cash and cash equivalents	**100%**	100%
Total	**100%**	100%

(in thousands)

The fair values of plan assets on a recurring basis as of June 30, 2020 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents:				
Cash	**$ 715**	**$ -**	**$ -**	**$ 715**
Total assets fair value	**$ 715**	**$ -**	**$ -**	**$ 715**

The fair values of plan assets on a recurring basis as of June 30, 2019 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents:				
Cash	$ 1	$ -	$ -	$ 1
Money market funds	647	-	-	647
Total assets fair value	$ 648	$ -	$ -	$ 648

There were no significant transfers between levels for the years ended June 30, 2020 and 2019.

The following benefit payments are expected to be paid:

	Benefit Payments
2021	$ 601
2022	$ 562
2023	$ 521
2024	$ 479
2025	$ 437
Next 5 years	$ 1,592

16. Supplemental Cash Flow Information

Cash payments for interest, net of amounts capitalized and interest rate swap payments, were $15,209 in 2020 and $16,640 in 2019. Capitalized interest related to construction activities includes interest payments to creditors on bonds, net payments/receipts to counterparties on interest rate swap arrangements, and income received on trustee-held funds.

(in thousands)

17. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following health care services and endowment funds at June 30:

	2020	2019
Capital improvements	**$ 6,191**	$ 8,101
Departmental expenses	**7,468**	6,832
Pastoral care	**4,516**	4,516
Research programs	**1,626**	1,371
Indigent care	**893**	991
SMI hospice endowment	**1,055**	1,055
Weinberg endowment	**1,000**	1,000
Dr. Goodman endowment	**123**	123
Education programs	**602**	688
Other	**2,443**	1,246
	$ 25,917	$ 25,923

18. Commitments and Contingent Liabilities

Litigation

MHS has outstanding litigation involving claims brought against it in the normal course of business. Litigation in the normal course of business, as well as responses to claims and investigations described below, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings and government investigations are difficult to predict and in certain cases the likelihood of outcome is unknown. Like most healthcare organizations, MHS receives inquiries, request for information regarding clinical procedures, licensing, billing or medical record documentation matters from various State and Federal agencies. MHS responds to such requests and provides any detailed information requested. Attorneys for MHS are representing MHS in all of the above matters. Management is currently unable to estimate, with reasonable certainty, the possible loss, or range of loss, if any, for such lawsuits and investigations. MHS is also subject to asserted and unasserted claims (in addition to litigation) encountered in the ordinary course of business. As a result of the current level of governmental and public concerns with health care fraud and abuse, management recognizes that additional investigative activity could occur in the future. In the opinion of management and after consultation with legal counsel, management believes it has established adequate accrued reserves related to all known matters. The outcome of certain litigation, as well as any potential investigative, regulatory or prosecutorial activity that may occur in the future is unknown. Accordingly, any associated potential future losses resulting from such matters could have a material adverse effect on the future financial position, results of operations and liquidity of MHS.

Self-insurance programs

As discussed in Notes 1 and 10, GIC provides general and professional liability coverage to MHS and its subsidiaries. GIC's policies provide primary and certain excess liability coverage. GIC retains the risk related to the primary policy and reinsures the whole of the excess policies. While insurance policy limits vary by year, management believes the amounts are appropriate.

(in thousands)

GIC's primary coverage limits for the periods ending June 30 are:

	2020	2019
Healthcare Professional Liability (HPL) and Managed Care Organization Liability (MCO)	**$9,000 per related loss event** **$42,000 aggregate**	$7,000 per related loss event $30,000 aggregate
Commercial General Liability (CGL)	**$9,000 per occurrence** **$42,000 aggregate**	$7,000 per occurrence $30,000 aggregate

GIC's primary coverage for HPL is $9,000 per loss event. GIC provides excess coverage for HPL and MCO in the aggregate amount of $75,000 in excess of $9,000 and $7,000 for related loss events and in excess of $42,000 and $30,000 for fiscal years 2020 and 2019, respectively. GIC provides excess coverage for CGL in the aggregate amount of $75,000 in excess of $9,000 and $7,000 per occurrence and in excess of $42,000 and $30,000 aggregate for fiscal years 2020 and 2019, respectively. All excess coverage is reinsured by commercial insurance companies.

In management's opinion, the assets of GIC are sufficient to meet its obligations as of June 30, 2020. If the financial condition of GIC were to materially deteriorate in the future, and GIC were unable to pay its claim obligations, the responsibility to pay those claims would return to MHS.

MHS and certain of its subsidiaries are self-insured against employee medical claims. Plan expenses include claims incurred and provisions for unreported claims. However, the program has an annual aggregate stop loss provision per employee.

MHS and certain of its subsidiaries are self-insured in the State of Maryland for the use and benefit of all employees of MHS. The State of Maryland requires any self-insured employer to provide a workers' compensation surety bond issued by a corporate surety company that meets the State's financial rating under A.M. Best. MHS has had a surety bond in place since 1997 currently written by Fidelity and Deposit Company of Maryland in the amount of $2,200. All past, present, existing and potential liability under this bond shall remain in effect and to the benefit of the State of Maryland.

MHS and certain of its subsidiaries are self-insured against unemployment claims and have surety bonds of $2,047 for the Medical Center and $426 for SMI. The amounts change each October 1 as dictated by the Maryland Department of Licensing and Regulation.

Lease commitments

The Medical Center and MFC have entered into separate long-term leases for commercial space. The leases contain escalation clauses and charges for other costs related to the leased space. Future minimum payments for these leases for each of the years ended June 30 are as follows:

2021	$ 3,598
2022	3,600
2023	3,596
2024	3,420
2025	3,485
Thereafter	55,173
	$ 72,872

MHS and certain of its subsidiaries have other office space leases. Rent expense for the years ended June 30, 2020 and 2019 was $4,017 and $3,887, respectively.

(in thousands)

The Medical Center and MFC have entered into separate long-term operating leases for equipment. The leases contain escalation clauses and charges for other costs related to the leased space. Future minimum payments for these leases for each of the years ended June 30 are as follows:

2021	$ 1,810
2022	1,698
2023	1,227
2024	1,227
2025	733
Thereafter	416
	$ 7,111

MHS and certain of its subsidiaries have other operating leases for equipment. Equipment lease expense for the years ended June 30, 2020 and 2019 was $2,052 and $2,509, respectively.

19. Maryland Health Services Cost Review Commission

The Medical Center's charges are subject to review and approval by the State of Maryland Health Services Cost Review Commission (HSCRC). Management has made the required filings with the Commission and believes the Medical Center to be in compliance with the Commission's requirements. The Commission has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (CMS). This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. On January 1, 2014, Maryland's All-Payer Hospital System Modernization was approved by CMS. This was a new global budget arrangement which set a fixed revenue amount for the upcoming year, without fluctuation due to utilization or case mix. This was a five-year demonstration where Maryland successfully made significant progress toward reducing costs inside and outside of the hospital as well as improving patient care. Beginning January 2019, the new “Total Cost of Care Model” (the “Model”) was approved and builds upon the successes of the All-Payer Model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

The Commission established an uncompensated care fund whereby all hospitals are required to contribute 0.75% of revenues to this fund to help provide for the cost associated with uncompensated care for certain Maryland hospitals above the State average. In December 2008, the Commission modified this mechanism to finance uncompensated care statewide. The policy implemented 100% pooling and all Maryland hospitals have the same percentage of uncompensated care in rates. High uncompensated care hospitals receive funds and low uncompensated care hospitals pay into the fund. The Medical Center had net receipts (payments) of $(459) and $(476) for 2020 and 2019, respectively, related to its participation in the uncompensated care fund mechanism.

The Commission's rate-setting methodology for service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for these centers within the applicable facility. The actual average unit charge for each service center is compared to the approved rate on a monthly basis. The rate variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The timing of the Commission's rate adjustments for the Medical Center could result in an increase or reduction due to the variances and penalties described above in a year subsequent to the year in which such items occur. MHS’ policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

(in thousands)

Under the global budget arrangement established by the HSCRC, the Medical Center is required to modify revenue rates based on regulated patient volume. With the reduction in regulated patient volumes, the Medical Center was not able to increase revenue rates within the guidelines established by the HSCRC to satisfy the global budget for the period ending June 30, 2020 which resulted in an approximate undercharge of $39,362,000. The HSCRC indicated that the estimated undercharge will be offset by received Medical Center PRFs. The Medical Center expects that it will be permitted by the HSCRC to increase subsequent revenue rates to recoup the net estimated undercharge of $21,423,000 during the period ending June 30, 2021.

20. Housing Assistance Payment Contract

The U.S. Federal Housing Administration (FHA) has contracted with CSC under Section 8 of Title II of the Housing and Community Development Act of 1974 to make housing assistance payments to CSC on behalf of certified tenants. For fiscal year 2020 and 2019, the maximum contract commitment was $1,298 and $1,268 per year, respectively. During the years ended June 30, 2020 and 2019, CSC received housing assistance payments of $845 and $803, respectively, which are included in patient service revenue in the accompanying consolidated statements of operations. The contract automatically renews each year on April 1 with an expiration date of March 31, 2033 subject to renewal at that time.

21. Functional Expenses

MHS and its subsidiaries provide general health care services to patients within what they consider their geographic service areas. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the year ended June 30:

	2020			
	Healthcare Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and benefits	**$ 364,304**	**$ 61,547**	**$ 1,534**	**$ 427,385**
Supplies	**153,806**	**5,698**	**141**	**159,645**
Other purchased services	**33,086**	**18,561**	**409**	**52,056**
Insurance	**28,465**	**2,987**	**-**	**31,452**
Professional fees	**18,013**	**1,431**	**-**	**19,444**
Depreciation and amortization	**29,256**	**11,632**	**-**	**40,888**
Interest	**10,168**	**5,399**	**-**	**15,567**
Other	**14,544**	**3,964**	**101**	**18,609**
Total	**$ 651,642**	**$ 111,219**	**$ 2,185**	**$ 765,046**

	2019			
	Healthcare Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and benefits	$ 351,672	$ 59,469	$ 1,195	$ 412,336
Supplies	156,349	5,192	160	161,701
Other purchased services	32,448	18,534	511	51,493
Insurance	27,470	2,253	-	29,723
Professional fees	17,761	788	-	18,549
Depreciation and amortization	28,216	12,688	-	40,904
Interest	10,736	5,698	-	16,434
Other	13,820	4,183	38	18,041
Total	$ 638,472	$ 108,805	$ 1,904	$ 749,181

(in thousands)

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. These expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

22. Liquidity and Availability

As of June 30, 2020, the MHS had working capital of approximately $127,596, and average days (based on normal expenditures) cash on hand of 240.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following at June 30:

	2020	2019
Cash and cash equivalents	**$ 266,191**	$ 120,125
Patient accounts receivable, net	**67,654**	68,828
Other accounts receivables, net	**7,171**	11,756
Short-term investments	**3,882**	37,306
Current portion of funds held by trustee	**13,953**	25,895
Total	**$ 358,851**	$ 263,910

In addition to the assets described above, MHS has other assets whose use is limited for specified purposes, and because they are not available for general expenditure within one year such assets are not reflected in the amounts above. MHS does, however, have certain long-term assets including general investments whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.

23. Certain Risks and Uncertainties

Regulation and reimbursement

MHS provides health care services primarily through an acute care hospital in Baltimore City and a long-term care facility in Baltimore County, Maryland.

MHS 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 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 consolidated financial statements of MHS, 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 MHS' revenues and MHS' 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 MHS. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on MHS.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self-referral laws. Recent federal initiatives have prompted a national review of federally funded health care 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. MHS has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future governmental review and enforcement action exists. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As a result of federal health care reform legislation, substantial changes are underway in the U.S. health care delivery system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. The known impact of all currently applicable federal health care reform legislation has been accounted for in the consolidated financial statements for the year ended June 30, 2020.

Investments

MHS and certain of its subsidiaries have funds on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation.

Certain alternative investments held in the MHS portfolio are exposed to potential risks in excess of the risks associated with the other investments in the MHS portfolio. These include, but are not limited to, the following potential risks:

- limited or no liquidity (including “side pocket” arrangements),
- derivative financial instruments that expose the investment funds to market risk (if the market value of the contract is higher or lower than the contract price at the maturity date) and credit risk (arising from the potential inability of counterparties to perform under the terms of the contracts),
- investment in non-marketable securities that are valued without the benefit of an active secondary market,
- substantially less regulation, and
- no current income production.

24. Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization’s endowment funds. In 2008, the State of Maryland adopted UPMIFA.

The MHS endowments consist of three individual funds established for a variety of purposes. The endowments include both endowment funds with donor restrictions and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(in thousands)

The board of trustees of MHS has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) 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, MHS classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated 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 endowment fund with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, MHS 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 organization 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 organization
7. The investment policies of the organization

MHS has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of funds with donor restrictions that must be held in perpetuity.

To satisfy its long-term rate-of-return objectives, MHS 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). MHS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

At June 30, 2020, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	$ -	$ 2,289	$ 2,289

At June 30, 2019, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	$ -	$ 2,275	$ 2,275

Changes in endowment net assets for the fiscal year ended June 30, 2020, consisted of the following:

(in thousands)

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	**$ -**	**$ 2,275**	**$ 2,275**
Investment return:			
Investment gain	**-**	**96**	**96**
Appropriation of endowment asset for expenditure	**-**	**(82)**	**(82)**
Endowment net assets, end of year	**$ -**	**$ 2,289**	**$ 2,289**

Changes in endowment net assets for the fiscal year ended June 30, 2019, consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 2,173	$ 2,173
Investment return:			
Investment gain	-	144	144
Appropriation of endowment asset for expenditure	-	(42)	(42)
Endowment net assets, end of year	$ -	$ 2,275	$ 2,275

25. Other Long-Term Liabilities

Other long-term liabilities consist of the following at June 30:

	2020	2019
Deferred compensation plan	**$ 3,572**	$ 4,233
Retirement annuity plan	**3,882**	4,438
GIC claims estimated tail	**4,465**	3,636
Other	**1,256**	883
	$ 13,175	$ 13,190

26. COVID-19 Pandemic

In response to the global coronavirus disease (COVID-19) pandemic across the United States, the federal government and a large number of state governments, including Maryland, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including limitations on public gatherings, wearing of masks in public, and restrictions on restaurant and other businesses operating capacity.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the System's service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services. The treatment of this highly contagious disease could also result in a temporary shutdown of areas of the facility or diversion of patients or staffing shortages. Additionally, elective services were being deferred in the later part of FY 2020, which resulted in in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global

health concerns surrounding the COVID-19 pandemic may also affect the System's partners, suppliers, distributors and payors, potentially disrupting or delaying the System's supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the significance of the duration of the COVID-19 pandemic, the impact on operating income, the costs associated with responding to this pandemic, or what federal funds may continue be made available to help recover from this crisis. The System has implemented various cost saving measures to help mitigate any financial impact, including closing elective procedures, redeploying staff to high impact areas, setting up screening centers and soliciting the community for support.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the System expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the System has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the System's financial condition, liquidity and results of operations in the future.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. MHS received approximately $16,498,000 in general and targeted Provider Relief Funds (PRF) in fiscal year 2020 and $77,159,000 in Medicare Advance Payments, that were expected to be recouped by Medicare in fiscal year 2021. The System has recognized these amounts as Medicare advance contract liability in the consolidated balance sheets. On September 30, 2020, the Continuing Appropriations Act (CAA) was signed into law which includes provision to relax the recoupment of Medicare Advance Payments, including delaying recoupment for one year from when the advances were made. It also staggers the percentage of claims processed that will be recouped over a twenty-nine-month period. Management believes the CAA is a non-recognized subsequent event. Therefore, the System has not changed its methodology for presenting the balance of Medicare Advance Payments as a current liability, which was based on the guidance that was available and in effect as of year-end.

The System has recognized other operating revenue of $14,232,000 and $374,615, respectively related to PRF funding for the year ended June 30, 2020, to the extent the conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met, resulting in the simultaneous release of restrictions. The remaining funds of $2,266,000 is reflected as a provider relief funds liability in the accompanying consolidated statement of financial position. Subsequent to year end the system has received approximately $668,000 of additional PRFs. The System has until June 30, 2021 to utilize remaining funds toward expenses attributable to coronavirus but not reimbursed by other sources or to lost revenues per the terms and conditions.

Subsequent to June 30, 2020, on September 19, 2020, HHS issued a Post-Payment Notice of Reporting Requirements (PPNRR) which established the reporting criteria for providers which received Provider Relief Fund (PRF) funding under the CARES Act. The PPNRR also provided guidance related to the determination of lost revenues and COVID-19 related expenses under the terms and conditions of the PRF funding received by the System. Due to the nature and extent of the guidance that existed as of June 30, 2020, the issuance of the PPNRR is a substantial change from the initial guidance that the System operated under when attesting to the terms and conditions of the awards and the subsequent guidance HHS had previously issued through its "Frequently Asked Questions" on the PRF website through June 30, 2020. The guidance provided in the PPNRR is advisory in nature, and subject to change, and it is unknown at the report date what impacts this and future guidance will have on PRF funding and revenue recognition. Management has determined that the issuance of this PPNRR guidance is a non-recognized subsequent event that does not provide additional information about

the facts and circumstances that existed as of June 30, 2020. As a non-recognized subsequent event, the System has not changed its methodology for recognizing revenue during the year ended June 30, 2020, which was based on the guidance that was available and in effect as of year-end. As such, amounts recognized as other operating income for the year ended June 30, 2020 are subject to change and those changes could be material. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

27. Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2020 and through October 14, 2020, the date the consolidated financial statements were issued.

Other Financial Information

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2020
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 832	$ 4,180	$ 252,805	$ 7,263	$ 1,111	$ -	$ 266,191
Short-term investments	-	-	-	3,882	-	-	3,882
Current portion of funds held by trustee or authority	-	-	7,594	6,359	-	-	13,953
Resident prepayment deposits	-	-	-	713	-	-	713
Patient accounts receivable, net	-	-	44,333	6,644	16,677	-	67,654
Other amounts receivable, net	573	-	5,874	465	1,155	(896)	7,171
Current pledges receivable, net	-	1,756	-	-	-	-	1,756
Supplies inventory	-	-	13,094	198	-	-	13,292
Other current assets	-	-	4,143	2	334	-	4,479
Total current assets	1,405	5,936	327,843	25,526	19,277	(896)	379,091
Property and equipment, net	-	-	492,693	47,036	17,345		557,074
Investments and other assets:							
Funds held by trustee or authority, less current portion	-	-	9,202	1,328	-	-	10,530
Board designated and donor restricted investments	22,382	20,726	154,194	19,574	-	-	216,876
Restricted investments	-	2,054	93,286	-	-	-	95,340
Interest in net assets of MHF	-	-	14,092	10,029	-	(24,121)	-
Long-term investments	-	-	7,922	-	-	-	7,922
Long-term pledges receivable, net	-	2,431	-	-	-	-	2,431
Investments in and advances to affiliates	15,550	(6,142)	3,139	(2,007)	(3,095)	(3,000)	4,445
Reinsurance receivable	-	-	6,519	5,470	-	-	11,989
Other assets	137	-	5,544	177	1,935	-	7,793
Total assets	$ 39,474	$ 25,005	$ 1,114,434	$ 107,133	$ 35,462	$ (28,017)	$ 1,293,491

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2020
(in thousands)

(Continued)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current maturities of long-term debt	$ 26	$ -	$ 8,280	$ 1,646	$ -	$ -	$ 9,952
Accounts payable and accrued expenses	247	-	105,647	8,073	19,669	(1,011)	132,625
Advances from third-party payers	-	-	27,266	-	-	-	27,266
Medicare advance contract liability	-	-	70,939	-	6,220	-	77,159
Provider relief funds liablity	-	-	136	1,047	1,083	-	2,266
Resident prepayment deposits	-	-	-	713	-	-	713
Construction retainage	-	-	180	1,334	-	-	1,514
Total current liabilities	273	-	212,448	12,813	26,972	(1,011)	251,495
Long-term debt, less current portion	9	-	366,142	22,336	-	-	388,487
Provision for outstanding losses	-	-	103,479	5,470	-	-	108,949
Post-retirement obligation	-	-	9,024	-	-	-	9,024
Interest rate swap liabilities	-	-	32,088	-	-	-	32,088
Other long-term liabilities	-	-	12,095	9	1,071	-	13,175
Total liabilities	282	-	735,276	40,628	28,043	(1,011)	803,218
Net assets:							
Without donor restrictions	39,192	884	364,888	56,476	5,801	(2,885)	464,356
With donor restrictions	-	24,121	14,270	10,029	1,618	(24,121)	25,917
Total net assets	39,192	25,005	379,158	66,505	7,419	(27,006)	490,273
Total liabilities and net assets	$ 39,474	$ 25,005	$ 1,114,434	$ 107,133	$ 35,462	$ (28,017)	$ 1,293,491

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2019
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 832	$ 4,447	$ 105,632	$ 8,353	$ 861	$ -	$ 120,125
Short-term investments	12	-	34,554	2,740	-	-	37,306
Current portion of funds held by trustee or authority	-	-	7,610	18,285	-	-	25,895
Resident prepayment deposits	-	-	-	565	-	-	565
Patient accounts receivables, net	-	-	46,612	6,310	15,906	-	68,828
Other amounts receivables, net	573	-	10,288	728	1,063	(896)	11,756
Current pledges receivable, net	-	2,733	-	-	-	-	2,733
Supplies inventory	-	-	8,656	83		-	8,739
Other current assets	-	-	3,391	(11)	234	-	3,614
Total current assets	1,417	7,180	216,743	37,053	18,064	(896)	279,561
Property and equipment, net	-	-	492,721	29,643	17,287		539,651
Investments and other assets:							
Funds held by trustee or authority, less current portion	-	-	9,140	1,238	-	-	10,378
Board designated and donor restricted investments	14,154	16,748	145,102	21,815	-	-	197,819
Restricted investments	-	2,055	82,186	-	-	-	84,241
Interest in net assets of MHF	-	-	13,027	11,320	-	(24,347)	-
Long-term investments	7,528	-	-	-	-	-	7,528
Long-term pledges receivable, net	-	2,083	-	-	-	-	2,083
Investments in and advances to affiliates	14,880	(2,738)	5,025	(6,768)	(2,682)	(3,000)	4,717
Reinsurance receivable	-	-	5,686	4,239	-	-	9,925
Other assets	138	-	6,539	178	510	-	7,365
Total assets	$ 38,117	$ 25,328	$ 976,169	$ 98,718	$ 33,179	$ (28,243)	$ 1,143,268

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2019
(in thousands)

(Continued)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current maturities of long-term debt	$ 26	$ -	$ 7,885	$ 944	$ -	$ -	$ 8,855
Accounts payable and accrued expenses	191	-	79,009	4,882	18,697	(1,010)	101,769
Advances from third-party payers	-	-	22,021	-	-	-	22,021
Resident prepayment deposits	-	-	-	565	-	-	565
Construction retainage	-	-	167	515	-	-	682
Total current liabilities	217	-	109,082	6,906	18,697	(1,010)	133,892
Long-term debt, less current portion	10	-	374,678	23,963	-	-	398,651
Provision for outstanding losses	-	-	83,713	4,239	-	-	87,952
Post-retirement obligation	-	-	7,573	-	-	-	7,573
Interest rate swap liabilities	-	-	19,781	-	-	-	19,781
Other long-term liabilities	-	-	12,485	5	700	-	13,190
Total liabilities	227	-	607,312	35,113	19,397	(1,010)	661,039
Net assets:							
Without donor restrictions	37,890	885	355,690	52,302	12,426	(2,887)	456,306
With donor restrictions	-	24,443	13,167	11,303	1,356	(24,346)	25,923
Total net assets	37,890	25,328	368,857	63,605	13,782	(27,233)	482,229
Total liabilities and net assets	$ 38,117	$ 25,328	$ 976,169	$ 98,718	$ 33,179	$ (28,243)	$ 1,143,268

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
For the Year Ended June 30, 2020
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Revenues:							
Net patient service revenues	$ -	$ -	$ 471,788	$ 57,655	$ 198,628	$ -	$ 728,071
CARES Act provider relief funds	-	-	10,302	1,100	2,830	-	14,232
Other operating revenues	2,868	1,681	26,086	5,190	9,458	(16,601)	28,682
Net assets released from restrictions used for operations	-	-	2,404	1,160	183	-	3,747
Total revenues	2,868	1,681	510,580	65,105	211,099	(16,601)	774,732
Expenses:							
Salaries and benefits	2,661	1,533	235,315	43,923	151,628	(7,675)	427,385
Medical and surgical supplies	-	-	61,063	854	1,397	-	63,314
Pharmacy supplies	-	-	24,690	984	39,769	-	65,443
Other expendable supplies	-	130	24,939	4,060	1,759	-	30,888
Professional fees	-	-	9,962	3,133	7,747	(1,398)	19,444
Insurance	-	-	23,992	941	6,493	26	31,452
Other purchased services	13	292	50,638	5,163	3,878	(7,928)	52,056
Interest expense	-	-	14,994	573	-	-	15,567
Repairs	-	100	15,520	1,307	1,682	-	18,609
Depreciation and amortization	-	-	35,729	2,600	2,559	-	40,888
Total expenses	2,674	2,055	496,842	63,538	216,912	(16,975)	765,046
Operating income (loss)	194	(374)	13,738	1,567	(5,813)	374	9,686

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
For the Year Ended June 30, 2020
(in thousands)

(Continued)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Other income (expenses)							
Investment income	$ 847	$ 415	$ 6,665	$ 1,208	$ -	$ (415)	$ 8,720
Net unrealized gain on trading securities	(354)	(39)	1,986	(18)	-	39	1,614
Unrealized gain on interest rate swap	-	-	(12,307)	-	-	-	(12,307)
Equity in joint ventures	615	-	(246)	-	-	-	369
Other	-	-	-	(25)	5	-	(20)
Net other income (expenses)	1,108	376	(3,902)	1,165	5	(376)	(1,624)
Excess (deficit) of revenues over expenses	1,302	-	9,836	2,732	(5,808)	-	8,062
Changes to post retirement plan obligations	-	-	(1,097)	-	-	-	(1,097)
Transfer of net assets	-	-	842	-	(842)	-	-
Net assets released from restrictions for the purchase of property and equipment	-	-	(352)	1,412	25	-	1,085
Increase (decrease) in net assets without donor restriction	$ 1,302	$ -	$ 9,229	$ 4,144	$ (6,625)	$ -	$ 8,050

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
For the Year Ended June 30, 2019
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Revenues:							
Net patient service revenues	$ -	$ -	$ 482,697	$ 55,796	$ 195,912	$ -	$ 734,405
Other operating revenues	1,783	1,469	26,998	5,034	8,481	(15,009)	28,756
Net assets released from restrictions used for operations	-	-	2,163	1,312	279	-	3,754
Total revenues	1,783	1,469	511,858	62,142	204,672	(15,009)	766,915
Expenses:							
Salaries and benefits	1,504	1,195	227,794	42,442	146,512	(7,111)	412,336
Medical and surgical supplies	-	-	66,907	750	1,345	-	69,002
Pharmacy supplies	-	-	26,005	1,111	33,715	-	60,831
Other expendable supplies	-	147	25,768	4,110	1,843	-	31,868
Professional fees	-	-	9,386	3,055	7,237	(1,129)	18,549
Insurance	-	-	22,155	927	6,620	21	29,723
Other purchased services	54	294	49,013	4,445	4,682	(6,995)	51,493
Interest expense	-	-	15,867	567	-	-	16,434
Repairs	-	37	15,053	1,406	1,545	-	18,041
Depreciation and amortization	-	-	35,915	2,520	2,469	-	40,904
Total expenses	1,558	1,673	493,863	61,333	205,968	(15,214)	749,181
Operating income (loss)	225	(204)	17,995	809	(1,296)	205	17,734

See independent auditors' report.

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
For the Year Ended June 30, 2019
(in thousands)

(Continued)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Other income (expenses)							
Investment income	$ 451	$ 360	$ 6,089	$ 1,067	$ -	$ (360)	$ 7,607
Net unrealized gain on trading securities	337	(156)	3,867	41	-	156	4,245
Unrealized gain on interest rate swap	-	-	(6,597)	-	-	-	(6,597)
Equity in joint ventures	606	-	-	-	-	-	606
Other	-	-	2	(868)	-	-	(866)
Net other income (expenses)	1,394	204	3,361	240	-	(204)	4,995
Excess (deficit) of revenues over expenses	1,619	-	21,356	1,049	(1,296)	1	22,729
Changes to post retirement plan obligations	-	-	(14)	-	-	-	(14)
Transfer of net assets	-	-	(74)	-	74	-	-
Net assets released from restrictions for the purchase of property and equipment	-	-	1,024	7,082	56	-	8,162
Increase in net assets without donor restriction	$ 1,619	$ -	$ 22,292	$ 8,131	$ (1,166)	$ 1	$ 30,877

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