

Christiana Care Health System and Affiliates

**Report on Federal Awards in
Accordance with the Uniform Guidance
June 30, 2019
Federal Entity Identification Numbers
52-1479538 and 51-0103684**

Christiana Care Health System and Affiliates

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June 30, 2019

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Part I
Consolidated Financial Statements
and
Schedule of Expenditures of Federal Awards



Report of Independent Auditors

To the Board of Directors of
Christiana Care Health System and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Christiana Care Health System and Affiliates (the "System"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Other Information (Supplemental Consolidating Information)

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplemental schedules is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information (Schedules of Expenditures of Federal Awards)

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2019, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2019. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Baltimore, Maryland
August 22, 2019

Christiana Care Health System and Affiliates
Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 114,487,107	\$ 122,249,094
Short-term investments	188,510,758	184,648,494
Patient accounts receivable, net	309,251,789	287,857,900
Other current assets	<u>65,445,909</u>	<u>61,323,120</u>
Total current assets	677,695,563	656,078,608
Assets limited as to use	30,023,062	31,431,438
Long-term investments	1,726,043,742	1,625,798,728
Property and equipment, net	1,103,104,695	902,459,583
Other assets	<u>33,316,527</u>	<u>27,311,745</u>
Total assets	<u>\$ 3,570,183,589</u>	<u>\$ 3,243,080,102</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 164,735,000	\$ 170,670,000
Accounts payable and accrued expenses	<u>309,198,816</u>	<u>266,805,248</u>
Total current liabilities	473,933,816	437,475,248
Long-term debt, net of current portion	75,717,898	77,887,244
Pension and postretirement benefits	87,038,576	77,463,786
Other liabilities	<u>182,320,612</u>	<u>59,173,780</u>
Total liabilities	<u>819,010,902</u>	<u>652,000,058</u>
Net assets		
Without donor restrictions	2,689,784,650	2,532,204,904
With donor restrictions		
Purpose and time restricted	30,745,682	29,680,442
Perpetual in nature	<u>30,642,355</u>	<u>29,194,698</u>
Total net assets with donor restrictions	<u>61,388,037</u>	<u>58,875,140</u>
Total net assets	<u>2,751,172,687</u>	<u>2,591,080,044</u>
Total liabilities and net assets	<u>\$ 3,570,183,589</u>	<u>\$ 3,243,080,102</u>

The accompanying notes are an integral part of these consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues and other support		
Net patient service revenue	\$ 2,021,886,977	\$ 1,925,829,563
Other revenue	57,510,824	58,214,611
Net assets released from donor restrictions used for operations	<u>3,772,706</u>	<u>3,246,272</u>
Total operating revenues and other support	<u>2,083,170,507</u>	<u>1,987,290,446</u>
Operating expenses		
Salaries and employee benefits	1,248,772,699	1,169,710,886
Supplies and other expenses	616,412,346	607,103,515
Interest expense	3,621,366	3,634,393
Depreciation expense	<u>102,110,732</u>	<u>98,455,342</u>
Total operating expenses	<u>1,970,917,143</u>	<u>1,878,904,136</u>
Operating income	<u>112,253,364</u>	<u>108,386,310</u>
Nonoperating revenues, gains, and losses		
Investment return, net	100,154,884	143,804,089
Other nonoperating (losses), revenues, and gains	<u>(3,413,397)</u>	<u>894,156</u>
Total nonoperating revenues, gains, and losses	<u>96,741,487</u>	<u>144,698,245</u>
Excess of revenues over expenses	<u>\$ 208,994,851</u>	<u>\$ 253,084,555</u>

(continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statement of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Change in net assets without donor restrictions		
Excess of revenues over expenses	\$ 208,994,851	\$ 253,084,555
Net assets released from donor restrictions used for purchase of property and equipment	6,241,247	829,394
Other changes in pension and postretirement liabilities	<u>(57,656,352)</u>	<u>(7,941,398)</u>
Increase in net assets without donor restrictions	<u>157,579,746</u>	<u>245,972,551</u>
Change in net assets with donor restrictions		
Contributions	11,011,834	3,273,536
Investment return, net	1,551,791	3,148,677
Net assets released from donor restrictions	(10,013,953)	(4,075,666)
Change in value of assets	<u>(36,775)</u>	<u>253,357</u>
Increase in net assets with donor restrictions	<u>2,512,897</u>	<u>2,599,904</u>
Increase in net assets	160,092,643	248,572,455
Net assets		
Beginning of year	<u>2,591,080,044</u>	<u>2,342,507,589</u>
End of year	<u>\$ 2,751,172,687</u>	<u>\$ 2,591,080,044</u>

The accompanying notes are an integral part of these consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 160,092,643	\$ 248,572,455
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	102,156,386	98,389,606
Net realized and unrealized (gains) losses on investments	(69,341,157)	(119,159,201)
Restricted contributions and investment income received	(1,798,037)	(3,831,858)
Other changes in pension and postretirement benefits	57,656,352	7,941,398
(Increase) decrease in		
Patient accounts receivable	(21,393,889)	(44,918,695)
Other current assets	(4,122,789)	1,874,883
Other assets	(6,004,782)	1,917,764
Increase (decrease) in		
Accounts payable, accrued salaries, and other accrued expenses	23,982,387	11,805,452
Pension and postretirement benefits	(47,428,304)	(3,909,494)
Other liabilities	7,443,410	14,341,739
Net cash provided by operating activities	<u>201,242,220</u>	<u>213,024,049</u>
Cash flows from investing activities		
Purchase of property and equipment	(170,471,836)	(143,624,215)
Proceeds from sale of investments and assets limited as to use	823,384,551	849,365,597
Purchase of investments and assets limited as to use	<u>(856,545,056)</u>	<u>(877,986,439)</u>
Net cash used in investing activities	<u>(203,632,341)</u>	<u>(172,245,057)</u>
Cash flows from financing activities		
Repayment of long-term debt	(8,150,000)	(7,945,000)
Restricted contributions and investment income received	1,798,037	3,831,858
Securities lending	<u>980,097</u>	<u>120,937</u>
Net cash used in financing activities	<u>(5,371,866)</u>	<u>(3,992,205)</u>
Net (decrease) increase in cash and cash equivalents	(7,761,987)	36,786,787
Cash and cash equivalents		
Beginning of year	<u>122,249,094</u>	<u>85,462,307</u>
End of year	<u>\$ 114,487,107</u>	<u>\$ 122,249,094</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	\$ 2,665,961	\$ 3,777,861
Accrued property and equipment acquisitions	13,227,518	11,680,145
Assets acquired under capital leases	119,056,489	-

The accompanying notes are an integral part of these consolidated financial statements.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

1. Description of the Organization

Christiana Care Health System (the "System") is the parent organization of Christiana Care Health Services, Inc. ("Health Services"), Christiana Care Health Initiatives ("Health Initiatives"), Christiana Care Home Health and Community Services, Inc. ("CCHHCS") and Christiana Care Health Plans, Inc. ("Health Plans").

The System is a not-for-profit Delaware corporation whose primary activity is to accept gifts and bequests and engage in fund raising activities for the benefit of the Christiana Care affiliates.

Health Services, a Delaware not-for-profit corporation, owns and operates: Christiana Hospital, Wilmington Hospital, Eugene duPont Preventive Medicine and Rehabilitation Institute, a free-standing emergency department, a physician network, residency training programs, and numerous ambulatory and physician office locations. Health Services' primary activity is to provide healthcare services to the residents of Delaware and the surrounding counties in Maryland, Pennsylvania, and New Jersey.

On May 1, 2019, Health Services created a wholly owned subsidiary, Christiana Care Insurance Company, Ltd ("Captive"), which is incorporated under the laws of the Cayman Islands. The primary purpose of the Captive is to direct issue primary medical professional liability and primary general liability insurance coverage to Health Services. The Captive also reinsures excess umbrella liability coverage to Health Services. The activities of the Captive are more fully described in Note 13.

Health Initiatives, a nonprofit corporation, provides health services primarily in physician office locations.

CCHHCS is a nonprofit health care agency which provides professional healthcare and other services in the home and community.

Health Plans, a Delaware not-for-profit corporation, offered managed care products for the Medicaid and commercial markets, until its exit from the insurance business in 2005. Although Health Plans continues to maintain its status as a licensed insurance company, it remains an inactive subsidiary.

2. Summary of Significant Accounting Policies

Basis of Presentation

The System's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities, net assets, revenues, and expenses of the System and all wholly owned subsidiaries after the elimination of all significant intercompany transactions and balances.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Use of Estimates

The preparation of 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. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the System's consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The System evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, net realizable value of patient accounts receivables, useful lives of property and equipment, the valuation of certain investments, actuarially determined pension and postretirement benefits, and medical and professional liability and other self-insurance reserves.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less. At June 30, 2019 and 2018, the System had cash balances in financial institutions which exceed federal depository insurance limits and therefore, bears a risk of loss. However, management believes that the credit risk related to these deposits is minimal, as it has not experienced such losses on these funds.

Patient Accounts Receivable

Patient accounts receivable are reported at the amounts that reflect the consideration to which the System expects to be entitled in exchange for providing patient care, as further described in Note 3. Patient accounts receivable consists of amounts owed by various governmental agencies, insurance companies, and patients. The System manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts that the System receives for the treatment of patients covered by governmental programs and third-party payors, as well as directly from patients, are subject to both explicit and implicit price concessions. The System estimates these price concessions using contractual agreements, discount policies, and historical experience. The System writes off amounts that have been deemed uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

Inventories

Inventories primarily consist of medical and surgical supplies and pharmaceuticals. Inventories are valued at the lower of cost (determined by the first-in, first-out method) or market (defined as net realizable value).

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Investments and Assets Limited as to Use

Investments and assets limited as to use are measured at fair value in the balance sheets based on the methodology described in Note 5. Investment income or loss (consisting of realized and unrealized gains and losses on investments, interest, and dividends) are included in the excess of revenues over expenses unless the income or loss is restricted by donors.

Managed funds represent subscriptions in funds-of-funds and managed equity common funds utilized to diversify the portfolio of the System. As a practical expedient, the System estimates the fair value of managed funds using the reported net asset value (NAV). The System has assessed factors such as the managed funds' compliance with fair value reporting standards, price transparencies and valuation procedures, the ability to redeem at NAV at the measurement date, and existence of redemption restrictions at the measurement dates. The System is required to provide written notice of at least 90 calendar days prior to a calendar quarter-end to redeem managed funds-of-funds. Managed equity common funds are subject to redemption on a monthly basis. Requests accepted in the prior month, subject to terms, are redeemed on the first of the subsequent month. There are no lock-up provisions.

The System classifies investments as trading securities. Investment income or loss generated by trading securities is classified within nonoperating revenues, gains, and losses within the statement of operations and changes in net assets. The System considers the activity of the investment portfolio and the associated cash receipts and cash purchases resulting from purchases and sales of investments classified as trading securities as an investing activity and classifies this activity accordingly within the consolidated statements of cash flows.

Assets limited as to use include designated assets set aside by the System's Board of Directors ("Board"). During 2018, the Board designated \$5 million to support the Center for Translational Cancer Research (CTCR) at the Helen F. Graham Cancer Center, and these assets are classified as assets limited as to use in the June 30, 2019 and June 30, 2018 consolidated balance sheets.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives: Buildings and building improvements 5-40 years, equipment 3-20 years. Leasehold improvements are depreciated using the lesser of the lease term or the useful life of the improvement. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statement of operations and changes in net assets as a nonoperating activity. There were no significant disposals of property and equipment for the years ended June 30, 2019 and 2018. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions at fair value as of the date of the gift, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Leases

Lease agreements, which primarily include the System's rental of office facilities, are evaluated to determine whether they are capital or operating leases in accordance with Accounting Standards Codification 840, Leases ("ASC 840"). If substantially all of the risks and benefits of property ownership have been transferred to the System, as determined by the criteria in ASC 840, the lease then qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of rent payments under the lease agreement or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis over a period consistent with the System's depreciation policy for property and equipment. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The System's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No significant impairment charges were recorded in the years ended June 30, 2019 and June 30, 2018.

Securities Lending

The System engages in securities lending whereby certain securities in its portfolio are loaned to other parties generally for a short period of time. The System receives collateral equal to 100% of the market value of securities borrowed. The System records the fair value of the collateral received as a component of both other current assets and other current liabilities as the System is obligated to return the collateral upon the return of the borrowed securities. Other current assets and liabilities include \$1,131,236 and \$151,139 of collateral investments at June 30, 2019 and 2018, respectively.

Bond Issuance Costs

Bond Issuance costs are recorded as a direct deduction from long-term debt and represent the cost of issuing long-term debt. Such costs are being amortized over the life of the applicable indebtedness using the interest method.

Investments Held in Trust

The System is entitled to beneficial interests in perpetual trusts at various percentages, which are maintained by outside trustees. The System's share of the market value of the trusts is recorded in net assets with donor restrictions and is updated on an annual basis. The change in value of the assets is recorded within net assets with donor restrictions. The periodic income distributions received from the trustees are recorded as increases in either net assets without restrictions or net assets with donor restrictions, based on the donors' intentions.

Compensated Paid Leave

The System records a liability in accounts payable and accrued expenses for amounts due to employees for future paid leave which are attributable to services performed in the current and prior periods.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Net Assets

The System reports its net assets as either net assets without donor restrictions or net assets with donor restrictions. Net assets without donor restrictions include undesignated amounts as well as amounts designated by the Board for a specific purpose. Net assets with donor restrictions are those assets whose use has been limited by donors to a specific purpose or maintained by the System in perpetuity.

Net assets that are perpetual in nature include gifts, trusts, pledges, income, and gains that are required by donor imposed restrictions to be maintained in perpetuity. Investment return derived from net assets that are perpetual in nature may be spent for general or specific purposes in accordance to donor imposed restrictions, based on the amounts appropriated for expenditure annually by Health Services' endowment spending policy.

Net assets that are donor restricted for a purpose include gifts, pledges, income, and gains for which donor imposed restrictions have not yet been met. Such restrictions are purpose restrictions imposed by donors, which are normally released upon the incurrence of expenditures that fulfill those donor specified purposes.

Donor Restricted Contributions

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of operations and changes in net assets as net assets released from donor restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Excess of Revenues Over Expenses

The consolidated statement of operations and changes in net assets includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, 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), and other changes in pension and postretirement liabilities.

Tax Status

The System and its affiliates, except for Health Plans, are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In 1999, Health Plans reorganized, forming a taxable entity under the Internal Revenue Code.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02 on *Leases*, which amends the accounting for leases, requiring lessees to recognize most leases on their balance sheet with a right-of-use asset and corresponding lease liability. The liability will be equal to the present value of future minimum lease payments, and the asset will be based on the liability, subject to adjustment for certain costs. Leases will be classified as either finance or operating leases, which will impact the manner and timing of expense recognition of such leases over the lease term. Leases will be classified based on criteria similar to those applied in current lease accounting. The accounting by lessors remains largely unchanged.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

This standard is effective for the System beginning in fiscal year 2020. The System expects this standard to impact its balance sheet as it will have to recognize a right-of-use asset and corresponding lease liability for each operating lease. The System does not expect the standard to significantly impact its consolidated statement of operations and changes in net assets, its liquidity, or debt covenants.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance requires improved presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors, and other users of the consolidated financial statements. The System adopted this new standard in fiscal year 2019. The primary changes affecting the System include: presentation of two classes of net assets versus the previously required three; liquidity and availability; and disclosure of expenses by both their natural and functional classification in a matrix format. These changes have been reflected within the consolidated financial statements and notes herein.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Previously, net benefit cost was reported as an employee cost within excess of revenues over expenses from operations (or capitalized into assets when appropriate). This standard requires the bifurcation of net benefit cost, as follows: service cost will continue to be reported in employee benefits, while the remaining components of net benefit cost will be reported in nonoperating revenue, gains, and losses. Although this standard is not effective until fiscal year 2020, the System elected to early adopt the new guidance beginning in fiscal year 2019. As a result of implementing this standard, \$1,411,839 was reclassified from salaries and employee benefits within operating expenses to non-operating revenues, gains, and losses on the consolidated statement of operations and changes in net assets for the year ended June 30, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The new guidance shifts the accounting for revenue recognition for most federal and state grants from an exchange model to the contribution accounting model. Thus, grants are referred to as "contributions" and granting agencies are referred to as "donors." Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. The System adopted this new accounting standard in fiscal year 2019. There was no significant impact to the consolidated financial statements.

The System receives grants from various agencies, including Federal and State Governments, for the purpose of furthering its mission. The grants are carried out for research and other activities that benefit the general public and not for the sole purpose of the awarding agencies. The majority of grants are cost reimbursable, meaning that research and grant revenue is recognized when the related costs are incurred. Thus, at any point in time, the System has government grants that are considered conditional under the new standard. These grants are considered conditional due to the need to first spend the awarded funds on qualifying expenses and a right of return exists for unexpended awards. As of June 30, 2019, the System had \$8,741,013 of conditional contributions for which the conditions have not been met.

Christiana Care Health System and Affiliates
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

3. Revenue Recognition and Accounts Receivable

In May 2014, the FASB issued several ASUs which established Topic 606, *Revenue from Contracts with Customers*. This standard supersedes existing revenue recognition guidance and creates a single framework for revenue recognition. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Qualitative and quantitative disclosures are required to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The applicable disclosures are described in this note.

The System adopted the new standard on July 1, 2018, using the full retrospective transition method. Adoption of the standard impacted the System reported results as follows:

	Year Ended June 30, 2018			
	As Reported	Reclassifications	As Adjusted	Adoption Impact
Consolidated Statement of Operations and Changes in Net Assets				
Net patient service revenue	\$ 1,976,324,464	\$ (50,494,901)	\$ 1,925,829,563	\$ (50,494,901)
Provision for bad debts	(50,494,901)	50,494,901	-	50,494,901
Other revenue	58,214,611		58,214,611	
Net assets released from donor restrictions used for operations	3,246,272		3,246,272	
Total operating revenues and other support	\$ 1,987,290,446	\$ -	\$ 1,987,290,446	\$ -
Consolidated Statement of Cash Flows				
Provision for bad debts	50,494,901	(50,494,901)	-	(50,494,901)
Change in patient accounts receivable	(95,413,596)	50,494,901	(44,918,695)	50,494,901

Adoption of the standard had no impact on the System's opening net assets.

Net Patient Service Revenue

The System's revenues generally relate to contracts with patients in which The System's performance obligations are to provide health care services to the patients. Net patient service revenue is reported at the amount that reflects the consideration to which The System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including government programs and commercial insurance companies), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from a facility. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred. The System 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 obligation.

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Generally, performance obligations satisfied over time relate to patients in our hospitals or physician practices receiving health care services. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when there are no further services required for the patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided to our patients and customers in a retail setting (for example, pharmaceuticals), and the System does not believe it is required to provide additional goods or services to the patient. Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above 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 the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for the services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the System's policies, and/or implicit price concessions provided to uninsured or underinsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as the System has a large volume of similar contracts with similar classes of patients. Management's judgement to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. The System reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

Agreements with third-party payors typically provide for payments at amounts less than established charges. For services provided under Medicare, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare outpatient services are paid at a prospectively determined rate. Medicare physician services are paid based upon established fee schedules. Additionally, Medicare provides reimbursement for direct graduate medical education, certain allied health professional training, and organ procurement on the basis of cost. This cost, and data influencing add-on payments for uncompensated care and indirect medical education, is determined based upon information contained in the annual Medicare cost report submission. The System is reimbursed for these cost related items and the applicable add-ons included in the Medicare cost report at a tentative rate. Final settlements are determined after audits of the cost report data by the fiscal intermediary. For services provided under Medicaid, inpatient acute services are paid prospectively based upon two primary case rates, with adjustment for outliers. Medicaid outpatient services are paid at a prospectively determined rate. Payment arrangements with commercial insurance carriers include prospectively determined rates per discharge and discounts from established charges.

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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. Cost report settlements under reimbursement agreements with Medicare that result in retroactive adjustments due to audits, reviews or investigations are considered variable and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. The 2019 and 2018 net patient service revenue increased \$1,926,176 and \$1,346,964, respectively, because of tentative settlements, final settlements, and final appeals for years that are no longer subject to audits, reviews, and investigations, as well as other changes in estimates. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured and underinsured patients. The transaction price for both uninsured patients as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit 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 results of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported in operating expenses in the statements of operations and changes in net assets and was not significant for the years ended June 30, 2019 and 2018.

The composition of net patient service revenues by payor for the years ended June 30, 2019 and June 30, 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 651,749,148	\$ 622,988,846
Medicaid	283,866,390	266,394,544
Commercial insurance	997,208,665	948,084,910
Self-pay and other	89,062,774	88,361,263
Total	<u>\$ 2,021,886,977</u>	<u>\$ 1,925,829,563</u>

Revenue from patients' deductibles and coinsurance is included in the preceding categories based on the primary payor and is transferred to self-pay after consideration is received from the primary payor. Self-pay and other, which includes auto insurance, worker's compensation, pending Medicaid, and other commercial insurance payers, are grouped together because they share similar historical collection patterns.

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

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Other Revenue

Other revenue consists primarily of research and grant revenue, retail pharmacy revenue, revenue from services agreements, rental revenue, and cafeteria revenue. For the majority of its grants, the System has determined that there is not exchange back to the granting agency. Therefore, the System accounts for these grants under the contribution model of accounting in ASC Topic 958, *Not-for-Profit Entities*, which is outside the scope of ASC 606, and revenue is recognized as expenses for these grants are incurred. The System's retail pharmacies offer a full inventory of standard, specialty, and over-the-counter medications, and retail pharmacy revenue is recognized as prescriptions are filled. Revenue from service agreements with third parties is recognized when performance obligations under the terms of the respective contract are satisfied. The System recognizes rental income on a straight-line basis over the lease term in accordance with ASC Topic 840, *Leases*. The System's cafeterias offer food and beverage products to our visitors and employees, and revenue is recognized when the goods are exchanged. The composition of other revenue for the years ended June 30, 2019 and June 30, 2018 are as follows:

	2019		2018	
Research and grant revenue	\$ 18,671,742	32.5%	\$ 20,004,000	34.4%
Retail pharmacy revenue	15,266,062	26.5%	14,556,629	25.0%
Service agreements	13,398,523	23.3%	13,057,880	22.4%
Rental revenue	3,463,528	6.0%	3,772,248	6.5%
Cafeteria revenue	3,951,059	6.9%	3,760,543	6.5%
Other	2,759,910	4.8%	3,063,311	5.2%
Other Revenue	\$ 57,510,824	100.0%	\$ 58,214,611	100.0%

4. Charity Care and Community Benefit

In accordance with the System's mission to improve the health of Delaware and the surrounding counties of Maryland, Pennsylvania, and New Jersey, the System provides care to patients regardless of their ability to pay. The System provides care to these patients, who meet certain criteria under the System's charity care policy, without charge or at amounts less than its established rates. Criteria for charity care considers the patient's family income, net worth, and other factors. Because the System does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue.

Direct and indirect costs for charity care services amounted to \$15.7 million and \$22.6 million in 2019 and 2018, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients.

The System also offers discounts for uninsured patients who do not qualify for the charity care program and provides flexible, long-term payment plans for patients. In addition, the System also provides services to beneficiaries of public programs and various other community health services intended to improve the health of communities in which it operates.

The System uses the following four categories to identify the resources utilized for the care of persons who are underserved and for providing community benefit programs to the needy:

- Traditional charity care, which includes the cost of services provided to persons who cannot afford health care because of inadequate resources and who are uninsured.

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- Unpaid cost of Medicare, which represents the unpaid cost of services provided to persons through the government program for individuals age 65 and older as well as those that qualify for federal disability benefits.
- Unpaid cost of Medicaid, which represents the unpaid cost of services provided to persons covered by the government program for medically indigent patients.
- Community benefit programs consist of the unreimbursed costs of certain programs and services for the general community, mainly for indigent patients but also for people with chronic health risks. Examples of these programs include health promotion and education, free clinics and screenings, and other community services.

5. Investments, Assets Limited as to Use, and Investment Income

The composition of investments and assets limited as to use at June 30, 2019 and 2018 is set forth in the following table. Investments and assets limited as to use are stated at fair value.

	2019	2018
Short-term investments	<u>\$ 188,510,758</u>	<u>\$ 184,648,494</u>
Assets limited as to use		
Internally designated by Board of Directors		
Infant mortality	13,461,771	14,537,698
Harrington VIP/VICP fund	11,231,384	11,648,345
Translational Cancer Research	<u>5,329,907</u>	<u>5,245,395</u>
Total assets limited as to use	<u>30,023,062</u>	<u>31,431,438</u>
Long-term investments		
Without donor restrictions	1,672,857,093	1,573,025,924
Purpose restricted	23,373,295	23,859,157
Perpetual in nature	<u>29,813,354</u>	<u>28,913,647</u>
Total long-term investments	<u>1,726,043,742</u>	<u>1,625,798,728</u>
Total investments and assets limited as to use	<u>\$ 1,944,577,562</u>	<u>\$ 1,841,878,660</u>

Within the consolidated statement of operations and changes in net assets, investment return without donor restrictions for June 30, 2019 and 2018 is comprised of the following:

	2019	2018
Interest and dividend income	\$ 31,914,919	\$ 27,641,415
Net realized gains	47,403,745	27,025,850
Net unrealized gains	<u>20,836,220</u>	<u>89,136,824</u>
	<u>\$ 100,154,884</u>	<u>\$ 143,804,089</u>

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Similarly, investment return with donor restrictions for June 30, 2019 and 2018 is comprised of the following:

	2019	2018
Interest and dividend income	\$ 413,825	\$ 405,507
Net realized gains	853,354	574,680
Net unrealized gains	284,612	2,168,490
	<u>\$ 1,551,791</u>	<u>\$ 3,148,677</u>

Investment return is shown net of the related expenses on the consolidated statement of operations and changes in net assets.

The System adheres to applicable accounting guidance for fair value measurements and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The System applies the following fair value hierarchy:

- Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include money market funds, debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. Governments and agency securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 Observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Level 2 assets include equity and debt securities with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- 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 include investments held in trust by others 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.

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

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2019 and 2018 there were no transfers between Levels 1, 2, and 3.

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The following table presents the financial instruments carried at fair value as of June 30, 2019 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	\$ 278,622,223	\$ -	\$ -	\$ 278,622,223
U.S. Government and agency securities	96,118,979	-	-	96,118,979
Corporate and other debt securities	-	466,556,509	-	466,556,509
Equity securities	633,909,952	185,579,875	-	819,489,827
Investment held by others	-	-	8,460,320	8,460,320
Total investments and assets limited as to use	<u>1,008,651,154</u>	<u>652,136,384</u>	<u>8,460,320</u>	<u>1,669,247,858</u>
Total assets at fair value	<u>\$ 1,008,651,154</u>	<u>\$ 652,136,384</u>	<u>\$ 8,460,320</u>	<u>1,669,247,858</u>
Other investments measured at net asset value				<u>275,329,704</u>
Total assets at fair value				<u>\$ 1,944,577,562</u>

The following table illustrates the change in Level 3 assets:

	Investments Held by Others
Fair value at June 30, 2018	\$ 8,497,095
Change in value of assets	<u>(36,775)</u>
Fair value at June 30, 2019	<u>\$ 8,460,320</u>

The following table presents the financial instruments carried at fair value as of June 30, 2018 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	\$ 238,659,429	\$ -	\$ -	\$ 238,659,429
U.S. Government and agency securities	115,276,954	-	-	115,276,954
Corporate and other debt securities	-	436,582,422	-	436,582,422
Equity securities	606,428,857	175,752,414	-	782,181,271
Investment held by others	-	-	8,497,095	8,497,095
Total investments and assets limited as to use	<u>960,365,240</u>	<u>612,334,836</u>	<u>8,497,095</u>	<u>1,581,197,171</u>
Total assets at fair value	<u>\$ 960,365,240</u>	<u>\$ 612,334,836</u>	<u>\$ 8,497,095</u>	<u>1,581,197,171</u>
Other investments measured at net asset value				<u>260,681,489</u>
Total assets at fair value				<u>\$ 1,841,878,660</u>

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The following table illustrates the change in Level 3 assets:

	Investments Held by Others
Fair value at June 30, 2017	\$ 7,821,873
Contribution	421,865
Change in value of assets	<u>253,357</u>
Fair value at June 30, 2018	<u>\$ 8,497,095</u>

6. Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
Land and land improvements	\$ 69,965,646	\$ 69,016,752
Buildings and building improvements	1,376,928,252	1,191,682,198
Equipment	<u>744,599,836</u>	<u>694,366,931</u>
	2,191,493,734	1,955,065,881
Accumulated depreciation	<u>(1,290,720,941)</u>	<u>(1,188,833,258)</u>
	900,772,793	766,232,623
Construction-in-progress	<u>202,331,902</u>	<u>136,226,960</u>
	<u>\$ 1,103,104,695</u>	<u>\$ 902,459,583</u>

Depreciation expense amounted to \$102,110,732 and \$98,455,342 in 2019 and 2018, respectively. In 2019 and 2018, the System incurred total interest costs of \$6,152,000 and \$5,678,414, respectively, of which \$3,841,863 in 2019 and \$2,091,376 in 2018 has been capitalized. At June 30, 2019 construction contracts of \$265,284,827 exist primarily for various expansion and other facility improvements. The remaining commitment on these contracts was \$104,093,354.

Capital Leases

On March 1, 2019, the System entered into a lease agreement with an unrelated party for the lease of an office facility in Wilmington, Delaware. The lease term is 21 years, and the lease has been recorded as a capital lease. The System also leases an office facility in New Castle, Delaware, which was classified as a capital lease and is included in the table below. The total leased property of \$125,284,638 and \$7,473,779 is reflected in property and equipment as of June 30, 2019 and 2018, respectively. Accumulated depreciation on the leased assets was \$1,889,786 as of June 30, 2019. Depreciation expense on these leased assets is included within depreciation expense in the consolidated statements of operations and changes in net assets.

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Future minimum lease payments under capital leases are as follows:

2020	\$	3,786,247
2021		8,582,726
2022		8,613,507
2023		8,644,928
2024		8,677,633
Thereafter		134,945,391
Less: Amount representing interest	\$	46,870,112
Present value of minimum lease payments	\$	126,380,320

The amount necessary to reduce minimum lease payments to present value is calculated at the System's incremental borrowing rate at lease inception. The System reflects a noncurrent lease liability in the consolidated balance sheet of \$120,920,674 and \$6,228,149 in 2019 and 2018, respectively.

7. Other Current Assets and Other Assets

Other Current Assets at June 30, 2019 and 2018 consist of the following:

	2019	2018
Inventories	\$ 32,314,006	\$ 27,443,400
Prepaid expenses	17,930,356	17,382,579
Other	15,201,547	16,497,141
	<u>\$ 65,445,909</u>	<u>\$ 61,323,120</u>

Other Assets at June 30, 2019 and 2018 consist of the following:

	2019	2018
Goodwill	\$ 1,015,805	\$ 1,015,805
Other receivables	15,941,437	15,804,982
Other	16,359,285	10,490,958
	<u>\$ 33,316,527</u>	<u>\$ 27,311,745</u>

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8. Net Assets with Donor Restrictions

Net assets with donor restrictions and funds limited by donors to a specific purpose or maintained by the System in perpetuity.

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Health care services	\$ 3,410,069	\$ 3,397,932
Purchases of buildings and equipment	11,966,932	10,851,152
Education, research and other operational needs	15,368,681	15,431,358
	<u>\$ 30,745,682</u>	<u>\$ 29,680,442</u>

Net assets with donor restrictions that are perpetual in nature consist of the following at June 30, 2019 and 2018:

	2019	2018
Investments held in perpetuity	\$ 22,182,035	\$ 20,697,603
Investments held in trust by others	8,460,320	8,497,095
	<u>\$ 30,642,355</u>	<u>\$ 29,194,698</u>

9. Endowments

The Systems' endowment consists of twenty-three individual donor restricted endowment funds and three board-designated endowment funds for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. In accordance with the Systems' spending policy, annual distributions are 5% of the fiscal year-end value of the endowment pool calculated on a 36-month trailing average of the market value.

The System has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets that are perpetual in nature, (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as net assets that are perpetual in nature is classified as net assets that are purpose restricted until those amounts are appropriated for expenditure on an annual basis by the Board of the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted	\$ -	\$ 38,142,788	\$ 38,142,788
Board designated	30,023,062	-	30,023,062
Total endowment funds	<u>\$ 30,023,062</u>	<u>\$ 38,142,788</u>	<u>\$ 68,165,850</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Donor restricted	\$ -	\$ 37,890,697	\$ 37,890,697
Board designated	31,431,438	-	31,431,438
Total endowment funds	<u>\$ 31,431,438</u>	<u>\$ 37,890,697</u>	<u>\$ 69,322,135</u>

Changes in endowment net assets for the year ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at June 30, 2018	\$ 31,431,438	\$ 37,890,697	\$ 69,322,135
Investment return, net	293,770	1,551,791	1,845,561
Contributions		1,157,673	1,157,673
Appropriation of endowment assets for expenditure	(1,702,146)	(2,457,373)	(4,159,519)
Endowment net assets at June 30, 2019	<u>\$ 30,023,062</u>	<u>\$ 38,142,788</u>	<u>\$ 68,165,850</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at June 30, 2017	\$ 67,490,424	\$ 36,101,862	\$ 103,592,286
Investment return, net	4,028,872	3,148,677	7,177,549
Contributions	-	532,644	532,644
Removal of board designation	(39,129,436)	-	(39,129,436)
Appropriation of endowment assets for expenditure	(958,422)	(1,892,486)	(2,850,908)
Endowment net assets at June 30, 2018	<u>\$ 31,431,438</u>	<u>\$ 37,890,697</u>	<u>\$ 69,322,135</u>

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Description of amounts classified as net assets with donor restrictions (endowments only):

	2019	2018
Endowment funds restricted for specific purpose		
Restricted for health care services	\$ 3,219,851	\$ 3,206,507
Restricted for building and maintenance	6,140,868	7,223,183
Restricted for program support	6,600,034	6,763,404
 Endowment funds held in perpetuity		
Restricted for salary support	\$ 11,574,173	\$ 11,227,414
Restricted for program support	<u>10,607,862</u>	<u>9,470,189</u>
Total endowment funds classified as net assets with donor restrictions	<u>\$ 38,142,788</u>	<u>\$ 37,890,697</u>

Endowment Funds With Deficits

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor restricted endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. There were no deficits of this nature reported in net assets with donor restrictions as of June 30, 2019 and June 30, 2018.

Strategies Employed for Achieving Investment Objectives

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

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10. Debt

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	Interest Rates	Final Maturity	2019	2018
Series 2010 Revenue Bonds				
2010A	4.00% to 5.00%	2040	\$ 57,640,000	\$ 57,640,000
2010B	variable	2040	67,300,000	69,925,000
2010C	variable	2040	22,430,000	23,305,000
2010D	2.44%	2020	4,285,000	6,350,000
2010E	3.01%	2025	16,560,000	16,660,000
Series 2008 Revenue Bonds				
2008A	variable	2038	50,020,000	51,735,000
2008B	variable	2038	22,770,000	23,540,000
			<u>241,005,000</u>	<u>249,155,000</u>
Unamortized premium			731,169	794,962
Debt issuance costs			(1,283,271)	(1,392,718)
Current maturities			(8,360,000)	(8,150,000)
Long-term variable rate debt classified as current			<u>(156,375,000)</u>	<u>(162,520,000)</u>
			<u>\$ 75,717,898</u>	<u>\$ 77,887,244</u>

In 2010, Health Services issued \$73,000,000 aggregate principal amount of Series 2010A fixed rate revenue bonds, \$75,000,000 aggregate principal amount of Series 2010B variable rate revenue bonds, \$25,000,000 aggregate principal amount of Series 2010C variable rate revenue bonds, \$10,335,000 aggregate principal amount of Series 2010D fixed rate revenue bonds, and \$16,860,000 aggregate principal amount of Series 2010E fixed rate revenue bonds through the Delaware Health Facilities Authority (DHFA). The proceeds were used to fund various capital projects and capital expenditures.

The 2010B Bonds and 2010C Bonds bear interest at a variable rate as determined by a remarketing agent, reset on a weekly and monthly basis, respectively. At the time of the bond issuance, interest was assumed at a rate of 2.71% annually for both the 2010B Bonds and the 2010C Bonds. During 2019 and 2018, respectively, interest rates ranged from 0.90% to 2.28% and 0.76% to 1.85% for the 2010B bonds and from 1.32% to 1.85% and 0.85% to 1.72% for the 2010C Bonds.

In 2008, Health Services issued \$55,000,000 aggregate principal of Series 2008A variable rate revenue bonds and \$25,000,000 aggregate principal of Series 2008B variable rate revenue bonds through the DHFA. The proceeds were used for the repayment of a short term loan and to acquire land. The Series 2008A Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a daily basis. The Series 2008B Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a weekly basis. At the time of the bond issuance, interest was assumed at a rate of 3.50% annually for both the 2008A Bonds and the 2008B bonds. During 2019 and 2018, respectively, the rates for the Series 2008 Bonds ranged from 0.57% to 2.37% and 0.58% to 1.93%.

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Health Services is obligated to purchase any Series 2010B Bonds, Series 2010C Bonds, and Series 2008 Bonds not remarketed. The Series 2010B Bonds, Series 2010C Bonds, and Series 2008 Bonds are classified as a current liability on the June 30, 2019 and June 30, 2018 balance sheets. In the event the Series 2010B Bonds, Series 2010C Bonds, and Series 2008 Bonds are not remarketed, Health Services would use available cash and investments to meet the obligations. Assuming the remarketing of the Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds scheduled maturities are as follows:

2020	\$ 8,360,000
2021	8,580,000
2022	8,805,000
2023	9,050,000
2024	9,300,000
Thereafter	<u>196,910,000</u>
	<u>\$241,005,000</u>

11. Interest Rate Swap Agreement

In conjunction with the issuance of the Series 2008 Bonds, Health Services entered into an interest rate swap agreement for a notional amount of \$25,000,000 with a financial institution to reduce Health Services' overall interest expense. Under the interest rate swap agreement, Health Services receives payments from the financial institution in the amount of 67% of one month LIBOR. In exchange, Health Services will pay the financial institution a fixed rate. The fair value of the interest rate swap represented a liability of \$2,289,752 and \$1,012,012 at June 30, 2019 and 2018, respectively, recorded within other liabilities. The change in the fair value of the interest rate swap is recorded as a component of other nonoperating revenues, gains, and losses within the consolidated statements of operations and changes in net assets. The change in the fair value of the interest rate swap was \$1,277,740 and \$1,052,929 as of June 30, 2019 and 2018, respectively.

12. Employee Benefit Plans

Pension Plan

Health Services sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 13, 2006. Employees hired after that date are participants in a defined contribution plan. Contributions to the pension plan are based on the minimum amount required by the Employee Retirement Income Security Act of 1974.

Retirement benefits are paid based principally on years of service and salary. Pension plan assets consist primarily of corporate bonds, notes, U.S. government obligations, and common stocks. As purchases and sales of pension plan assets take place, cash may sit overnight in money market funds.

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Postretirement Benefits

Health Services provides postretirement health care benefits to eligible employees and their dependents. The following table sets forth the components of the benefit obligations, plan assets, and funding status of the Plans based on actuarial valuations performed as of June 30, 2019 and June 30, 2018:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 848,843,908	\$ 882,968,089	\$ 74,389,592	\$ 76,834,173
Service cost	27,413,130	30,212,493	1,137,562	1,229,544
Interest cost	32,921,889	31,056,222	2,895,182	2,716,401
Actuarial loss (gain)	134,818,205	(34,578,994)	8,594,165	(3,528,723)
Retiree contributions	-	-	405,599	456,101
Benefits paid	(55,075,468)	(60,813,902)	(3,757,956)	(3,317,904)
Benefit obligation at end of year	<u>\$ 988,921,664</u>	<u>\$ 848,843,908</u>	<u>\$ 83,664,144</u>	<u>\$ 74,389,592</u>
Change in Plan assets				
Fair value of Plan assets at beginning of year	\$ 841,891,820	\$ 885,413,440	\$ -	\$ -
Actual return on Plan assets (net of expenses)	123,428,993	(14,207,718)	-	-
Employer contributions	71,200,000	31,500,000	3,352,357	2,861,803
Retiree contributions	-	-	405,599	456,101
Benefits paid	(55,075,468)	(60,813,902)	(3,757,956)	(3,317,904)
Fair value of Plan assets at end of year	<u>\$ 981,445,345</u>	<u>\$ 841,891,820</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status to net amount recognized in the balance sheet				
Amounts recorded as accrued liabilities				
Funded status	<u>\$ (7,476,319)</u>	<u>\$ (6,952,088)</u>	<u>\$ (83,664,144)</u>	<u>\$ (74,389,592)</u>
Current liabilities	-	-	(4,673,319)	(4,020,061)
Noncurrent liabilities	(7,476,319)	(6,952,088)	(78,990,825)	(70,369,531)
Accrued liability	(7,476,319)	(6,952,088)	(83,664,144)	(74,389,592)
Amounts recorded within net assets without donor restrictions				
Net prior service (credit)	-	-	(17,029,745)	(23,026,134)
Actuarial loss	204,131,778	162,353,110	17,115,957	8,720,113
Net amount recognized at year end	<u>\$ 196,655,459</u>	<u>\$ 155,401,022</u>	<u>\$ (83,577,932)</u>	<u>\$ (88,695,613)</u>
Accumulated benefit obligation	<u>\$ 858,378,232</u>	<u>\$ 734,739,342</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Weighted-average assumptions used to determine benefit obligations at June 30				
Discount rate	3.250 %	4.000 %	3.250 %	4.000 %
Rate of compensation increase	3.000 %	3.000 %		

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	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Components of net periodic benefit cost				
Service cost	\$ 27,413,130	\$ 30,212,493	\$ 1,137,562	\$ 1,229,544
Interest cost	32,921,889	31,056,222	2,895,182	2,716,401
Expected return on plan assets	(35,789,650)	(35,862,938)	-	-
Amortization of prior service cost (credit)	-	-	(5,996,389)	(6,030,362)
Recognized actuarial loss	5,400,194	8,558,056	198,321	803,771
Net periodic benefit cost	<u>29,945,563</u>	<u>33,963,833</u>	<u>(1,765,324)</u>	<u>(1,280,646)</u>
Other changes in pension liability recognized in net assets without donor restrictions				
Net actuarial loss (gain)	47,178,862	15,491,662	8,594,165	(3,528,723)
Amortization of (gain)	(5,400,194)	(8,558,056)	(198,321)	(803,771)
Amortization of prior service credit	-	-	5,996,389	6,030,362
Total recognized in net assets without donor restrictions	<u>41,778,668</u>	<u>6,933,606</u>	<u>14,392,233</u>	<u>1,697,868</u>
Total recognized in net benefit cost and net assets without donor restrictions	<u>\$ 71,724,231</u>	<u>\$ 40,897,439</u>	<u>\$ 12,626,909</u>	<u>\$ 417,222</u>

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year				
Discount rate	4.000 %	3.625 %	4.000 %	3.625 %
Expected return on plan assets	4.250 %	4.250 %		
Rate of compensation increase	3.000 %	3.000 %		

Health Services expects to recognize \$15,830,272 of loss amortization, no prior service cost amortization and no amortization of transition asset or obligation as components of net pension cost during the year ending June 30, 2020, and expects to recognize \$1,420,380 of loss amortization, \$(5,996,389) of prior service (credit) amortization and no amortization of transition asset or obligation as components of net postretirement benefit cost during the year ending June 30, 2020. Other components of net periodic pension cost, which are presented in other non-operating losses, revenues, and gains on the consolidated statement of operations and changes in net assets, were (\$370,453) and \$1,241,150 as of June 30, 2019 and 2018, respectively.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

Health Services utilizes published long-term high quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, Health Services considers indices of various durations to reflect the timing of future benefit payments.

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Plan Assets

Pension plan weighted target and actual average asset allocations at June 30, 2019 and 2018 by asset category are as follows:

Asset Category	2019	2018
Fixed income	100 %	100 %
	<u>100 %</u>	<u>100 %</u>

The investment policy incorporates a liability-driven investment approach that focuses on the funded status of the Plan and seeks to match the duration of the assets with that of the liabilities. As such, the investment portfolio allocation is comprised of 100% long duration fixed income securities. The Plan's financial condition is monitored on an ongoing basis by means of an annual funding review, an annual independent actuarial valuation, and quarterly investment portfolio reviews.

The following table represents the Plan's financial instruments as of June 30, 2019, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 5:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 17,415,752	\$ -	\$ -	\$ 17,415,752
U.S. Government and agency securities	176,582,902	26,126,937	-	202,709,839
Corporate and other debt securities	-	761,315,781	-	761,315,781
Equity securities	3,973	-	-	3,973
Total assets at fair value	<u>\$ 194,002,627</u>	<u>\$ 787,442,718</u>	<u>\$ -</u>	<u>\$ 981,445,345</u>

The following table represents the Plan's financial instruments as of June 30, 2018, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 5:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 22,690,992	\$ -	\$ -	\$ 22,690,992
U.S. Government and agency securities	196,010,677	21,575,554	-	217,586,231
Corporate and other debt securities	-	601,610,020	-	601,610,020
Equity securities	4,577	-	-	4,577
Total assets at fair value	<u>\$ 218,706,246</u>	<u>\$ 623,185,574</u>	<u>\$ -</u>	<u>\$ 841,891,820</u>

Contributions

During Fiscal 2019, Health Services contributed \$71,200,000 to the pension plan in advance of the expected September, 2019 required contribution. Health Services expects to contribute approximately \$30,200,000 to the pension plan and \$4,673,318 to the postretirement benefit plan during the fiscal year ending June 30, 2020. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Christiana Care Health System and Affiliates
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Estimated Future Benefit Payments

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

	Pension Benefits	Postretirement Benefits
2020	\$ 59,073,333	\$ 4,673,318
2021	57,357,726	4,610,139
2022	59,820,278	4,763,866
2023	61,178,154	4,845,575
2024	62,671,310	4,935,604
2025 - 2029	333,597,512	25,593,126

The annual rate of increase assumed in the per capita cost of covered health care benefits was 6.75% and 7.50% for the Pre 65 and Post 64 participants, respectively, for June 30, 2019; the rates are assumed to decrease gradually to 5% for the fiscal year 2026 and remain at that level thereafter.

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service and interest cost	\$ 39,695	\$ (37,091)
Effect on postretirement benefit obligation	575,904	(540,531)

Defined Contribution Retirement Plan

Health Services sponsors a defined contribution retirement plan for all employees hired after August 13, 2006. Under the plan, Health Services contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Health Services for the year ended June 30, 2019 and 2018 was \$17,337,669 and \$15,388,540, respectively.

Deferred Compensation Plan

Health Services maintains a Tax-Deferred Annuity Plan for all employees. Under the Plan, Health Services accumulates employee contributions which are transferred to and invested by various trustees. Health Services contributes 50% of the employee contributions up to a maximum of 3% of an employee's salary. Contributions for the years ended June 30, 2019 and 2018 were \$17,765,599 and \$16,494,256, respectively.

CCHCS Pension Plan

CCHCS sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 26, 2007. Employees hired after that date are participants in a defined contribution plan. Generally, benefits under the Plan are based on the employee's compensation and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Employees are on a graduated vesting scale and become fully vested after seven years of service.

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The following tables set forth the components of the benefit obligation, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2019 and June 30, 2018:

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 36,161,599	\$ 37,799,771
Service cost	1,078,610	1,243,781
Interest cost	1,409,254	1,336,136
Actuarial loss (gains)	4,228,711	(2,169,800)
Benefits paid	<u>(2,643,840)</u>	<u>(2,048,289)</u>
Benefit obligation at end of year	<u>\$ 40,234,334</u>	<u>\$ 36,161,599</u>
Change in Plan assets		
Fair value of plan assets at beginning of year	\$ 36,019,431	\$ 37,181,999
Actual return on plan assets (net of expenses)	4,087,311	(314,279)
Employer contributions	2,200,000	1,200,000
Benefits paid	<u>(2,643,840)</u>	<u>(2,048,289)</u>
Fair value of plan assets at end of year	<u>\$ 39,662,902</u>	<u>\$ 36,019,431</u>
Reconciliation of funded status to net amount recognized in the balance sheet		
Amounts recorded as accrued liabilities		
Noncurrent liabilities	<u>\$ (571,432)</u>	<u>\$ (142,168)</u>
Accrued liability	(571,432)	(142,168)
Amounts recorded within net assets without donor restrictions		
Actuarial loss	<u>10,031,729</u>	<u>8,546,278</u>
Net amount recognized at year end	<u>\$ 9,460,297</u>	<u>\$ 8,404,110</u>
Accumulated benefit obligation	<u>\$ 36,208,428</u>	<u>\$ 32,394,660</u>
	Pension Benefits	
	2019	2018
Weighted-average assumptions used to determine benefit obligations at June 30		
Discount rate	3.250%	4.000 %
Rate of compensation increase	3.000%	3.000 %

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	2019	2018
Components of net periodic benefit cost		
Service cost	\$ 1,078,610	\$ 1,243,781
Interest cost	1,409,254	1,336,136
Expected return on plan assets	(1,553,697)	(1,564,035)
Recognized actuarial loss	452,742	641,684
Amortization of prior service (credit)	(243,096)	(243,096)
Net periodic benefit cost	<u>1,143,813</u>	<u>1,414,470</u>
Other changes in pension liability recognized in net assets without donor restrictions		
Net actuarial (gain)	1,275,805	(291,486)
Amortization of (gain)	452,742	(641,684)
Amortization of prior service credit	(243,096)	243,096
Total recognized in net assets without donor restrictions	<u>1,485,451</u>	<u>(690,074)</u>
Total recognized in net benefit cost and net assets without donor restrictions	<u>\$ 2,629,264</u>	<u>\$ 724,396</u>

<u>Pension Benefits</u>	
2019	2018

Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year

Discount rate	4.000%	3.625 %
Expected return on plan assets	4.250%	4.250 %
Rate of compensation increase	3.000%	3.000 %

CCHHCS expects to recognize \$892,081 of loss amortization, \$(170,167) of prior service (credit) amortization and no amortization of transition asset or obligation as components of net pension cost during the year ending June 30, 2020. Other components of net periodic pension cost, which are presented in other non-operating losses, revenues, and gains on the CCHHCS statement of operations and changes in net assets, were \$65,203 and \$170,689 as of June 30, 2019 and 2018, respectively.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

CCHHCS utilizes published long-term high quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, CCHHCS considers indices of various durations to reflect the timing of future benefit payments.

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Plan Assets

Pension plan weighted target and actual average asset allocations at June 30, 2019 and June 30, 2018 by asset category are as follows:

	2019	2018
Asset category		
Equities	0 %	4 %
Fixed income	100 %	96 %
	<u>100 %</u>	<u>100 %</u>

The investment policy incorporates a liability-driven investment approach that focuses on the funded status of the Plan and seeks to match the duration of the assets with that of the liabilities. As such, the investment portfolio allocation is comprised of 100% long duration fixed income securities. The Plan's financial condition is monitored on an ongoing basis by means of an annual funding review, an annual independent actuarial valuation, and quarterly investment portfolio reviews.

The following table represents the Plan's financial instruments as of June 30, 2019, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 5:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 620,901		\$ -	\$ 620,901
U.S. Government and agency securities	9,388,016			9,388,016
Corporate and other debt securities		29,653,985		29,653,985
	<u>\$ 10,008,917</u>	<u>\$ 29,653,985</u>	<u>\$ -</u>	<u>\$ 39,662,902</u>
Equity managed funds measured at net asset value				
Total assets at fair value				<u>\$ 39,662,902</u>

The following table represents the Plan's financial instruments as of June 30, 2018, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 5:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 499,399	\$ -	\$ -	\$ 499,399
U.S. Government and agency securities	7,757,360	-	-	7,757,360
Corporate and other debt securities	-	26,484,029	-	26,484,029
	<u>\$ 8,256,759</u>	<u>\$ 26,484,029</u>	<u>\$ -</u>	<u>\$ 34,740,788</u>
Equity managed funds measured at net asset value				1,278,643
Total assets at fair value				<u>\$ 36,019,431</u>

Contributions

CCHHCS expects to contribute approximately \$1,400,000 to the pension plan during the fiscal year ending June 30, 2020. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Christiana Care Health System and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Estimated Future Benefit Payments

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

2020	\$ 1,980,117
2021	2,061,698
2022	2,090,032
2023	2,226,983
2024	2,406,244
Thereafter	12,958,255

Defined Contribution Retirement Plan

CCHHCS began a defined contribution plan for all employees hired on or after August 26, 2007. Eligible employees in CCHHCS's noncontributory defined benefit pension plan also had the one-time choice to switch to the defined contribution retirement plan effective January 1, 2008. Under the plan, CCHHCS contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by CCHHCS for the year ended June 30, 2019 and 2018 was \$633,015 and \$734,225, respectively.

Deferred Compensation Plan

CCHHCS maintains a Tax-Deferred Annuity Plan (the "Plan") for all employees. Under the Plan, CCHHCS accumulates employee contributions which are transferred to and invested by the trustee. CCHHCS is not required to make additional contributions on behalf of employees and did not make any contributions in 2019 or 2018.

13. Self-Insurance Liabilities

The System maintains self-insurance programs for worker's compensation, medical professional liability, and general liability claims coverage. Risk retention for the primary medical professional and primary general liabilities are maintained through an alternative risk finance program via the Captive, which provides for indemnification to the System resulting from medical malpractice and general liability exposures in Delaware, Maryland, New Jersey, and Pennsylvania. The Captive's policy provides for a self-insured retention of \$3,500,000 per medical incident or occurrence and \$20,000,000 in annual aggregate. In addition, an excess umbrella liability coverage was established through full reinsurance with commercial carriers providing a total of \$60,000,000 in excess coverage.

Actuarially determined undiscounted projections for medical malpractice and worker's compensation claims at June 30, 2019 and 2018 amounted to \$56,658,073 and \$51,209,192, respectively and represent the value of claims that will be settled in the future based on anticipated payout patterns. The current portion of the accruals of \$17,506,000 and \$16,515,268 at June 30, 2019 and 2018, respectively, is recorded as a component of other accrued expenses and current liabilities on the balance sheet. Total expenses incurred for medical malpractice and worker's compensation costs were \$23,093,486 in 2019 and \$28,604,592 in 2018.

Christiana Care Health System and Affiliates

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June 30, 2019 and 2018

14. Commitments and Contingencies

Operating Leases

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with rent expense charged to operations as incurred. The System has various leases for office facilities and equipment under cancelable and noncancelable operating leases, with initial terms in excess of one year. Total related lease expense amounted to \$10,584,933 and \$10,655,168 in 2019 and 2018, respectively.

Future minimum lease payments under noncancelable operating leases are as follows:

2020	\$	8,431,093
2021		6,605,774
2022		5,487,630
2023		4,450,515
2024		1,976,016
Thereafter		563,549

Litigation

Health Services and CCHHCS are defendants in several matters of litigation all in the ordinary course of conducting business. Management believes the ultimate outcome of these matters will not have a material effect on Health Services or CCHHCS's financial position or the results of operations.

Commitments

In fiscal 2017, Health Services entered into a seven-year agreement with a vendor to provide healthcare IT software and solutions. Payments under this commitment will total \$163,674,466. At June 30, 2019, the remaining commitment is \$107,554,426, of which \$25,121,091 will be paid in fiscal 2020.

15. Concentrations of Credit Risk

The Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash, cash equivalents, investments, and accounts receivable.

Included in accounts receivable are amounts related to the services performed for individuals, as well as under various contractual agreements with several third-party payors. Management believes its concentration of credit risk, with respect to accounts receivable, is limited by a large customer base.

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16. Liquidity and Availability

As of June 30, 2019, the System has the following financial assets available for general expenditure within one year of the balance sheet date:

	2019
Cash and cash equivalents	\$ 114,487,107
Short-term investments	188,510,758
Patient accounts receivable, net	309,251,789
Other current assets	12,320,398
Assets limited as to use	30,023,062
Investments	1,672,857,093
	<u>\$ 2,327,450,207</u>

The above assets are available for general expenditure within one year in the normal course of operations. The System defines general expenditure as an operating expense. Other current assets in the table above relate to non-patient accounts receivables that the System expects to collect within one year. Assets limited as to use are comprised of board designated funds, which can be released by the Board and become available for general expenditure. The System has long-term investments that could be made available for general expenditure within the next year, if needed.

The System invests cash in excess of daily requirements in either money market funds, short-term investments, or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due.

As of June 30, 2019, the System was in compliance with financial bond covenants.

17. Functional Expenses

The System provides general health care services to patients within its geographic region. Expenses related to providing these services for the year ended June 30, 2019 consisted of the following:

	Healthcare Services	General and Administrative	Fundraising	Total
Operating Expenses				
Salaries and employee benefits	\$ 1,067,957,793	\$ 180,814,906	\$ -	\$ 1,248,772,699
Supplies and other expenses	499,974,167	113,060,995	3,377,184	616,412,346
Interest Expense	3,252,850	368,516	-	3,621,366
Depreciation	76,507,862	25,602,870	-	102,110,732
Total Operating Expenses	<u>\$ 1,647,692,672</u>	<u>\$ 319,847,287</u>	<u>\$ 3,377,184</u>	<u>\$ 1,970,917,143</u>

Christiana Care Health System and Affiliates

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The consolidated statement of operations and changes in net assets reports certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization and interest and other occupancy costs, are allocated to a function based on a square footage. IT expenses are allocated based on a percentage of services provided to each function.

For the year ended June 30, 2018, functional expenses were \$1,619,291,088 for providing health care services and \$259,613,048 for general and administrative items, totalling \$1,878,904,136.

18. Subsequent Events

The System has performed an evaluation of subsequent events through August 22, 2019, which is the date the consolidated financial statements were issued. There were no events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.

Condensed Consolidating Supplemental Schedules

Christiana Care Health System and Affiliates
Condensed Consolidating Balance Sheet
June 30, 2019

	Christiana Care Health System	Christiana Care Health Services	Christiana Care Health Initiatives	Christiana Care Home Health & Community Services	Christiana Care Health Plans	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 1,837,610	\$ 102,516,275	\$ 1,710,558	\$ 8,395,507	\$ 27,157	\$ -	\$ 114,487,107
Short-term investments	-	188,510,758	-	-	-	-	188,510,758
Patient accounts receivable, net	-	304,981,613	401,392	3,868,784	-	-	309,251,789
Other current assets	1,515,199	77,610,325	277,522	353,169	-	(14,310,306)	65,445,909
Total current assets	3,352,809	673,618,971	2,389,472	12,617,460	27,157	(14,310,306)	677,695,563
Assets limited as to use							
Long-term investments	28,054	1,726,015,688	-	10,909,829	-	(10,909,829)	1,726,043,742
Property and equipment, net	-	1,102,948,508	52,702	103,485	-	-	1,103,104,695
Other assets	7,140,467	33,958,607	336,637	(92)	-	(8,119,092)	33,316,527
Total assets	\$ 10,521,329	\$ 3,566,564,836	\$ 2,778,812	\$ 23,630,682	\$ 27,157	\$ (33,339,227)	\$ 3,570,183,589
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	\$ -	\$ 164,735,000	\$ -	\$ -	\$ -	\$ -	\$ 164,735,000
Accounts payable and accrued expenses	6,527,241	303,775,501	7,735,571	5,461,523	9,287	(14,310,306)	309,198,816
Total current liabilities	6,527,241	468,510,501	7,735,571	5,461,523	9,287	(14,310,306)	473,933,816
Long-term debt, net of current portion	-	75,717,898	-	-	-	-	75,717,898
Pension and postretirement benefits	-	86,467,144	-	571,432	-	-	87,038,576
Other liabilities	2,380	190,616,708	-	2,611,353	-	(10,909,829)	182,320,612
Total liabilities	6,529,621	821,312,250	7,735,571	8,644,308	9,287	(25,220,135)	819,010,902
Net assets							
Without donor restrictions	(4,127,384)	2,683,951,067	(4,956,759)	14,899,856	17,870	-	2,689,784,650
With donor restrictions							
Purpose and time restricted	7,290,092	30,659,164	-	86,518	-	(7,290,092)	30,745,682
Perpetual in nature	829,000	30,642,355	-	-	-	(829,000)	30,642,355
Total net assets with donor restrictions	8,119,092	61,301,519	-	86,518	-	(8,119,092)	61,388,037
Total net assets	3,991,708	2,745,252,586	(4,956,759)	14,986,374	17,870	(8,119,092)	2,751,172,687
Total liabilities and net assets	\$ 10,521,329	\$ 3,566,564,836	\$ 2,778,812	\$ 23,630,682	\$ 27,157	\$ (33,339,227)	\$ 3,570,183,589

The accompanying notes are an integral part of these condensed consolidating financial statements.

Christiana Care Health System and Affiliates
Condensed Consolidating Balance Sheet
June 30, 2018

	Christiana Care Health System	Christiana Care Health Services	Christiana Care Health Initiatives	Christiana Care Home Health & Community Services	Christiana Care Health Plans	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 1,695,044	\$ 109,239,932	\$ 739,517	\$ 10,533,312	\$ 41,289	\$ -	\$ 122,249,094
Short-term investments	-	184,648,494	-	-	-	-	184,648,494
Patient accounts receivable, net	-	284,783,184	405,456	2,669,260	-	-	287,857,900
Other current assets	2,941,626	65,797,001	81,940	366,457	-	(7,863,904)	61,323,120
Total current assets	4,636,670	644,468,611	1,226,913	13,569,029	41,289	(7,863,904)	656,078,608
Assets limited as to use	-	31,431,438	-	-	-	-	31,431,438
Long-term investments	301,023	1,625,497,705	-	10,318,078	-	(10,318,078)	1,625,798,728
Property and equipment, net	-	902,263,865	75,804	119,914	-	-	902,459,583
Other assets	3,612,833	29,204,296	529,961	-	-	(6,035,345)	27,311,745
Total assets	\$ 8,550,526	\$ 3,232,865,915	\$ 1,832,678	\$ 24,007,021	\$ 41,289	\$ (24,217,327)	\$ 3,243,080,102
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	\$ -	\$ 170,670,000	\$ -	\$ -	\$ -	\$ -	\$ 170,670,000
Accounts payable and accrued expenses	4,783,876	261,997,500	2,793,816	5,090,856	3,104	(7,863,904)	266,805,248
Total current liabilities	4,783,876	432,667,500	2,793,816	5,090,856	3,104	(7,863,904)	437,475,248
Long-term debt, net of current portion	-	77,887,244	-	-	-	-	77,887,244
Pension and postretirement benefits	-	77,321,618	-	142,168	-	-	77,463,786
Other liabilities	11,180	66,999,759	-	2,480,919	-	(10,318,078)	59,173,780
Total liabilities	4,795,056	654,876,121	2,793,816	7,713,943	3,104	(18,181,982)	652,000,058
Net assets							
Without donor restrictions	(2,279,875)	2,519,198,396	(961,138)	16,209,336	38,185	-	2,532,204,904
With donor restrictions							
Purpose and time restricted	5,845,345	29,596,700	-	83,742	-	(5,845,345)	29,680,442
Perpetual in nature	190,000	29,194,698	-	-	-	(190,000)	29,194,698
Total net assets with donor restrictions	6,035,345	58,791,398	-	83,742	-	(6,035,345)	58,875,140
Total net assets	3,755,470	2,577,989,794	(961,138)	16,293,078	38,185	(6,035,345)	2,591,080,044
Total liabilities and net assets	\$ 8,550,526	\$ 3,232,865,915	\$ 1,832,678	\$ 24,007,021	\$ 41,289	\$ (24,217,327)	\$ 3,243,080,102

The accompanying notes are an integral part of these condensed consolidating financial statements.

Christiana Care Health System and Affiliates
Condensed Consolidating Statement of Operations
Year Ended June 30, 2019

	Christiana Care Health System	Christiana Care Health Services	Christiana Care Health Initiatives	Christiana Care Home Health & Community Services	Christiana Care Health Plans	Eliminations	Total
Operating revenues and other support							
Net patient service revenue	\$ -	\$ 1,973,908,782	\$ 2,265,635	\$ 45,712,560	\$ -	\$ -	\$ 2,021,886,977
Other revenue	436,205	64,352,591	222,521	1,042,897	-	(8,543,390)	57,510,824
Net assets released from donor restrictions used for operations	1,641,896	2,125,515	-	5,295	-	-	3,772,706
Total operating revenues and other support	2,078,101	2,040,386,888	2,488,156	46,760,752	-	(8,543,390)	2,083,170,507
Operating expenses							
Salaries and employee benefits	-	1,207,870,374	1,297,516	39,621,823	-	(17,014)	1,248,772,699
Supplies and other expenses	3,575,726	608,875,670	4,969,835	7,497,175	20,316	(8,526,376)	616,412,346
Interest expense	-	3,621,366	-	-	-	-	3,621,366
Depreciation expense	-	102,060,631	23,102	26,999	-	-	102,110,732
Total operating expenses	3,575,726	1,922,428,041	6,290,453	47,145,997	20,316	(8,543,390)	1,970,917,143
Operating income	(1,497,625)	117,958,847	(3,802,297)	(385,245)	(20,316)	-	112,253,364
Nonoperating revenues, gains, and losses							
Investment return, net	3,535	99,524,924	-	626,425	-	-	100,154,884
Other nonoperating (losses), revenues, and gains	-	(3,154,865)	(193,324)	(65,208)	-	-	(3,413,397)
Total nonoperating revenue, gains, and losses	3,535	96,370,059	(193,324)	561,217	-	-	96,741,487
Excess of revenues over expenses	\$ (1,494,090)	\$ 214,328,906	\$ (3,995,621)	\$ 175,972	\$ (20,316)	\$ -	\$ 208,994,851

The accompanying notes are an integral part of these condensed consolidating financial statements.

Christiana Care Health System and Affiliates
Condensed Consolidating Statement of Operations
Year Ended June 30, 2019

	Christiana Care Health System	Christiana Care Health Services	Christiana Care Health Initiatives	Christiana Care Home Health & Community Services	Christiana Care Health Plans	Eliminations	Total
Operating revenues and other support							
Net patient service revenue	\$ -	\$ 1,878,902,576	\$ 767,716	\$ 46,159,271	\$ -	\$ -	\$ 1,925,829,563
Other revenue	2,365,656	61,696,620	141,663	823,304	-	(6,812,632)	58,214,611
Net assets released from donor restrictions used for operations	-	3,242,083	-	4,189	-	-	3,246,272
Total operating revenues and other support	<u>2,365,656</u>	<u>1,943,841,279</u>	<u>909,379</u>	<u>46,986,764</u>	<u>-</u>	<u>(6,812,632)</u>	<u>1,987,290,446</u>
Operating expenses							
Salaries and employee benefits	-	1,132,391,117	275,606	38,238,911	-	(1,194,748)	1,169,710,886
Supplies and other expenses	3,347,569	600,528,185	1,904,578	6,930,103	10,964	(5,617,884)	607,103,515
Interest expense	-	3,634,393	-	-	-	-	3,634,393
Depreciation expense	-	98,411,493	7,462	36,387	-	-	98,455,342
Total operating expenses	<u>3,347,569</u>	<u>1,834,965,188</u>	<u>2,187,646</u>	<u>45,205,401</u>	<u>10,964</u>	<u>(6,812,632)</u>	<u>1,878,904,136</u>
Operating income	<u>(981,913)</u>	<u>108,876,091</u>	<u>(1,278,267)</u>	<u>1,781,363</u>	<u>(10,964)</u>	<u>-</u>	<u>108,386,310</u>
Nonoperating revenues, gains, and losses							
Investment return, net	15,214	142,653,187	29,007	1,106,681	-	-	143,804,089
Other nonoperating (losses), revenues, and gains	-	889,396	-	4,760	-	-	894,156
Total nonoperating revenue, gains, and losses	<u>15,214</u>	<u>143,542,583</u>	<u>29,007</u>	<u>1,111,441</u>	<u>-</u>	<u>-</u>	<u>144,698,245</u>
Excess of revenues over expenses	<u>\$ (966,699)</u>	<u>\$ 252,418,674</u>	<u>\$ (1,249,260)</u>	<u>\$ 2,892,804</u>	<u>\$ (10,964)</u>	<u>\$ -</u>	<u>\$ 253,084,555</u>

The accompanying notes are an integral part of these condensed consolidating financial statements.

Christiana Care Health System and Affiliates

Notes to Consolidating Supplemental Schedules

Year Ended June 30, 2019

Basis of Presentation

The accompanying supplemental condensed consolidating information includes the condensed consolidating balance sheets and the condensed consolidating statements of operations of the individual entities of Christiana Care Health System and Affiliates (the "System"). The condensed consolidating information is prepared on the accrual basis of accounting. All intercompany accounts and transactions between entities have been eliminated. The condensed consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements. The supplemental condensed consolidating balance sheets are presented in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements.

The supplemental condensed consolidating statements of operations are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of the changes in net assets.

The accompanying notes are an integral part of these condensed consolidating financial statements.

Schedule of Expenditures of Federal Awards

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program or Grant Name	CFDA	Additional Award Identification	Pass-Through Entity	Award/Pass Through Entity Sponsor Number	Total Expenditures (\$)	Passed to Subrecipients (\$)
Research and Development Cluster						
U.S. Department of Health and Human Services						
Direct Awards						
Cancer Treatment Research	93.395	UG1CA189819 8/1/14 - 7/31/19			1,482,650	-
Total Department of Health and Human Services - Direct Awards					1,482,650	-
Pass Through Awards						
Research Related to Deafness and Communication Disorders	93.173		Temple University	260885-CCHS 12/15/17 - 11/30/19	7,490	-
Research and Training in Complementary and Integrative Health	93.213		NYU School of Medicine The Charlotte Mecklenburg Hospital	17-A0-00-008501 5/15/18 - 4/30/19	4,356	-
Research on Healthcare Costs, Quality and Outcomes	93.226		Authority d/b/a Carolinas Medical Ctr Medical University of South Carolina	3000301409 (A18-0236- S001) 9/30/18 - 8/31/19 MUSC16-105-8C267 3/1/17 - 2/28/19	5,394	-
Tran-NIH Research	93.310		University of Pennsylvania	564930 8/1/16 - 7/31/19	206,081	-
Cancer Cause and Prevention Research	93.393		University of Delaware Thomas Jefferson University	45104 7/3/16 - 6/30/19 080-03800-S31501 7/15/18 - 6/30/2019	170,104	-
Cancer Cause and Prevention Research	93.393			25263-07-336 4/1/18 - 3/31/19	9,263	-
Cancer Detection and Diagnosis Research	93.394		Wistar Institute	25264-07-336 4/1/18 - 3/31/20	22,469	-
Cancer Detection and Diagnosis Research	93.394		Wistar Institute	23541-02-368 3/7/17 - 2/28/20	14,836	-
Cancer Detection and Diagnosis Research	93.394		Wistar Institute	28992-03-359 8/1/16 - 7/31/18	1,235	-
Cancer Treatment Research	93.395		Wistar Institute	28993-03-359 8/1/18 - 7/31/19	5,622	-
Cancer Biology Research	93.396		Wistar Institute	24109-05-199 3/1/18 - 2/28/19	2,701	-
Cancer Biology Research	93.396		Wistar Institute		14,120	-
Cancer Centers Support Grants	93.397		Wistar Institute		23,943	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program or Grant Name	CFDA	Additional Award Identification	Pass-Through Entity	Award/Pass Through Entity Sponsor Number	Total Expenditures (\$)	Passed to Subrecipients (\$)
Cardiovascular Diseases Research	93.837		Columbia University	1(GG012232-01) 5/1/17 - 12/31/18	1,660	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		University of North Carolina - Chapel Hill	5105709/5109558 7/1/16 - 6/30/19	(2,095)	-
Biomedical Research and Research Training	93.859		Alfred I Dupont Hospital for Children	3014896027 5/1/16 - 4/30/17	(149)	-
Biomedical Research and Research Training	93.859		Alfred I Dupont Hospital for Children	3014896041, 3014896047 5/1/18 - 4/30/19	314,635	-
Biomedical Research and Research Training	93.859		University of Delaware	46668 6/1/17 - 9/4/2018	59,313	-
Biomedical Research and Research Training	93.859		University of Delaware	43645 6/1/16 - 5/31/17	131	-
Biomedical Research and Research Training	93.859		University of Delaware	52430 9/5/18 - 6/30/19	495,907	-
Biomedical Research and Research Training	93.859		University of Delaware	49938 5/1/18 - 4/30/19	156,233	-
Sexually Transmitted Diseases (STD) Provider Education Grants	93.865		University of Maryland Alfred I. duPont Hospital to Children of the Nemours Foundation	1100549A 7/1/17 - 6/30/19	3,755	-
Sexually Transmitted Diseases (STD) Provider Education Grants	93.865			3004121007 8/1/17 - 7/31/19	5,895	-
Sexually Transmitted Diseases (STD) Provider Education Grants	93.865		SHARP Healthcare	#R012017Christiana 1/1/18 - 12/31/19	20,808	-
Sexually Transmitted Diseases (STD) Provider Education Grants	93.865		Thomas Jefferson University	080-70000-S22901 6/16/16 - 6/30/18	2,484	-
Sexually Transmitted Diseases (STD) Provider Education Grants	93.865		University of Delaware	44243 9/1/16 - 5/31/19	129,951	-
Total Department of Health and Human Services - Pass Through Awards					1,676,142	-
Total Department of Health and Human Services					3,158,792	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program or Grant Name	CFDA	Additional Award Identification	Pass-Through Entity	Award/Pass Through Entity Sponsor Number	Total Expenditures (\$)	Passed to Subrecipients (\$)
National Science Foundation						
Pass Through Awards						
Education and Human Resources	47.076		Delaware Technical & Community College	170660-0405 7/1/17 - 6/30/19	76,896	-
Total National Science Foundation - Pass Through Awards					76,896	-
Total National Science Foundation					76,896	-
U.S. Department of Defense						
Pass Through Awards						
Military Medical Research and Development	12.420		National Trauma Institute	NTI-CLOTT17-01 9/30/17-9/29/19	71,015	-
Total Department of Defense					71,015	-
Total Research and Development Cluster					3,306,703	-
Other Programs						
Direct Awards						
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA24785 8/1/12 - 7/31/20			466,516	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00176 3/1/97 - 4/30/18			(2,246)	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00176 3/1/97 - 4/30/21			986,759	-
Subtotal 93.918					984,513	-
Total Department of Health and Human Services - Direct Awards					1,451,029	-
Pass Through Awards						
HIV-Related Training and Technical Assistance	93.145		University of Pittsburgh	0050178 (131293-4) 07/01/18 - 06/30/2019	228,727	-
Subtotal 93.145					228,727	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program or Grant Name	CFDA	Additional Award Identification	Pass-Through Entity	Award/Pass Through Entity Sponsor Number	Total Expenditures (\$)	Passed to Subrecipients (\$)
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Brandywine Counseling	1H79TI024454-01 11/1/15-10/31/18	34,281	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Brandywine Counseling	1H79TI024454-01 11/1/18-10/31/21	64,019	-
Subtotal 93.243					<u>98,300</u>	<u>-</u>
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757		Delaware Department of Health and Social Services	19-040 7/1/18 - 6/30/19	30,766	-
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870		Delaware Department of Health and Social Services	18-277 11/1/17 - 10/31/18	134,440	-
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870		Delaware Department of Health and Social Services	19-260 11/1/18 - 10/31/19	343,765	-
Subtotal 93.870					<u>478,205</u>	<u>-</u>
HIV Care Formula Grants	93.917		Delaware Department of Health and Social Services	18-379 04/01/18 - 03/31/19	4,682,008	-
HIV Care Formula Grants	93.917		Delaware Department of Health and Social Services	19-332 04/01/19 - 03/31/20	1,092,722	-
Subtotal 93.917					<u>5,774,730</u>	<u>-</u>
Maternal and Child Health Services Block Grant to the States	93.994		Delaware Department of Health and Social Services	17-200 9/1/16 - 3/31/19	93,267	-
Maternal and Child Health Services Block Grant to the States	93.994		Delaware Department of Health and Social Services	19-372 4/1/19 - 3/31/21	24,431	-
Subtotal 93.994					<u>117,698</u>	<u>-</u>
Total Department of Health and Human Services - Pass Through					<u>6,728,426</u>	<u>-</u>
Total Department of Health and Human Services					<u>8,179,455</u>	<u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Program or Grant Name	CFDA	Additional Award Identification	Pass-Through Entity	Award/Pass Through Entity Sponsor Number	Total Expenditures (\$)	Passed to Subrecipients (\$)
Centers for Disease Control and Prevention						
Pass Through Awards						
Organized Approaches to Increase Colorectal Cancer Screening	93.800		Delaware Department of Health and Social Services	19-092 7/15/18 - 6/30/19	48,279	-
Total Centers for Disease Control and Prevention					48,279	-
U.S. Department of Agriculture						
Pass Through Awards						
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		Delaware Department of Health and Social Services	18-184 11/1/17 - 9/30/18	33,745	-
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		Delaware Department of Health and Social Services	19-265 11/1/18 - 9/30/19	82,802	-
Subtotal 10.557					116,547	-
Total Department of Agriculture					116,547	-
Total Other Programs					\$ 8,344,281	\$ -
Total Federal Award Expenditures					\$ 11,650,984	\$ -

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

1. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of Christiana Care Health System and Affiliates (the “System”) for the year ended June 30, 2019. The information in this schedule is presented on the accrual basis of accounting, which is in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The System applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than 10% de minimus cost rate as described in Section 200.414 of the Uniform Guidance.

Negative amounts on the schedule represent adjustments or credits in the normal course of business to amounts reported as expenditures in prior years. Catalog of Federal Domestic Assistance (“CFDA”) and pass-through award numbers are present where available.

Part II
Reports on Internal Control and Compliance



**Report of Independent Auditors on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Christiana Care Health System and Affiliates

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Christiana Care Health System and Affiliates (the "System"), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Baltimore, Maryland
August 22, 2019



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Directors
Christiana Care Health System and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Christiana Care Health System and Affiliates' (the "System's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2019. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink and is positioned above the printed name and date.

Baltimore, Maryland
October 23, 2019

Part III
Schedule of Findings and Questioned Costs

**Christiana Care Health System and Affiliates
Schedule of Findings and Questioned Costs
June 30, 2019**

Section I - Summary of Auditor's Results

Consolidated Financial Statements

- (i) Type of auditor's report issued: Unmodified
- (ii) Internal control over financial reporting:
 - Material weakness(es) identified? ___ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes X none reported
- (iii) Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

- (iv) Internal control over major programs:
 - Material weakness(es) identified? ___ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes X none reported
- (v) Type of auditor's report issued on compliance for major programs: Unmodified
- (vi) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___yes X no

CFDA Number(s)

Various
93.870

Name of Federal Program or Cluster

Research and Development Cluster
Maternal, Infant and Early Childhood Home Visiting Grant Program

- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- (ix) Auditee qualified as low-risk auditee? X yes ___ no

**Christiana Care Health System and Affiliates
Schedule of Findings and Questioned Costs
June 30, 2019**

Section II - Financial Statement Findings and Responses

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Part IV
Summary Status of Prior Audit Findings

**Christiana Care Health System and Affiliates
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019**

Section II - Financial Statement Findings and Responses

There are no matters from prior years that require an update in this report.

Section III - Federal Award Findings and Questioned Costs

There are no matters from prior years that required an update in this report.