

Report of Independent Auditors on Compliance

Board of Trustees of Anne Arundel Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Anne Arundel Health System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report, with an unmodified opinion thereon, dated September 28, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions or conditions of Sections 4.02, 8.01, 8.03, 8.04, 8.08, 8.09 and 8.11 of the Master Loan Agreement dated as of July 23, 1998 between the Maryland Health and Higher Educational Facilities Authority (the Authority) and Anne Arundel Medical Center, Inc., as amended and supplemented by the First Supplemental Loan Agreement dated as of February 5, 2004 among the Authority and Anne Arundel Medical Center, Inc., Anne Arundel Health System, Inc. and Anne Arundel Health Services, Inc. (collectively, the “Obligated Group Members”) and the Second Supplemental Bond Resolution and Supplemental Loan Agreement adopted by the Authority on January 25, 2006, the Third Supplemental Bond Resolution and Supplemental Loan Agreement dated as of April 1, 2008, the Fourth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of January 1, 2009, the Fifth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of February 1, 2009, the Sixth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of February 1, 2010, the Seventh Supplemental Bond Resolution and Supplemental Loan Agreement dated as of May 1, 2011, the Eighth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of June 1, 2011, the Ninth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of November 1, 2012, and the Tenth Supplemental Bond Resolution and Supplemental Loan Agreement dated as of November 1, 2014, each among the Authority, the Obligated Group Members and the Trustee insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company’s noncompliance with the above-referenced terms, covenants, provisions or conditions of the above-referenced agreements, insofar as they relate to accounting matters.



This report is intended solely for the information and use of management and the board of trustees of the System and the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 28, 2017

Anne Arundel Health System, Inc.
Liquidity Covenant - Days Cash on Hand
June 30, 2017
(in thousands)

Per Debt Covenants, greater than 90 days

Unrestricted Cash and Investments:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 71,044 |
| Short-term investments | 4,935 |
| Long-term investments | <u>281,832</u> |

357,811

Less: short-term indebtedness

-

Total Unrestricted Cash and Investments (A)

\$ 357,811

Total Operating Expenses

\$ 690,016 *

Less: depreciation & amortization expense

35,760 *

Less: interest expense

13,722 *

Adjusted operating expenses

640,534

Days in the period

365 days

Adjusted expenses per day (B)

\$ 1,755

Days Cash on Hand (A)/(B)

204 days

* Rolling 12 months

Anne Arundel Health System, Inc.
Debt to Capitalization
For the Period Ending June 30, 2017
(in thousands)

Per Debt Covenants, less than 65%

| | | |
|--|--|-------------------|
| Outstanding Debt Principal (A) | | \$ 392,044 |
| | | <hr/> |
| Outstanding Debt Principal | | 392,044 |
| Unrestricted Net Assets | total unrestricted NA | 420,857 |
| Temporarily Restricted Net Assets | total temp restricted NA | 14,622 |
| Add: | | |
| | Decline in value of derivative transaction | 73,258 |
| | Unrealized losses on investments | - |
| Outstanding Debt Principal and Net Assets (B) | | \$ 900,781 |
| | | <hr/> |
| Debt to Capitalization (A)/(B) | | 43.5% |
| | | <hr/> <hr/> |

Anne Arundel Health System, Inc.
Coverage Ratio
June 30, 2017
(in thousands)

Per Debt Covenants, greater than 1.25

Net Income Available for Debt Service

| | |
|----------------------------------|-------------|
| Excess of revenues over expenses | \$ 59,490 * |
|----------------------------------|-------------|

Add:

| | |
|-------------------------------|----------|
| Depreciation and Amortization | 35,760 * |
|-------------------------------|----------|

| | |
|------------------|----------|
| Interest Expense | 13,722 * |
|------------------|----------|

| | |
|---|------------|
| Mark-to-market adjustments for contracts under SFAS No. 133 | (26,326) * |
|---|------------|

| | |
|--------------------------------|---|
| Loss on extinguishment of debt | - |
|--------------------------------|---|

Less:

| | |
|--|------------|
| Change in unrealized gain on trading securities, net | (29,904) * |
|--|------------|

| | |
|---|------------------|
| Net Income Available for Debt Service (A) | <u>\$ 52,742</u> |
|---|------------------|

Maximum Annual Debt Service (FY 2041)

| | |
|---------------------------------------|------------------|
| Total maximum annual debt service (B) | <u>\$ 21,632</u> |
|---------------------------------------|------------------|

| | |
|---|--------------------|
| Maximum Annual Debt Service Coverage Ratio (A)/(B) | <u><u>2.44</u></u> |
|---|--------------------|

* Rolling 12 months