

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Luminis Health, Inc. and Subsidiaries  
Years Ended June 30, 2022 and 2021  
With Report of Independent Auditors

Ernst & Young LLP



Luminis Health, Inc. and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended June 30, 2022 and 2021

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## Report of Independent Auditors

The Board of Trustees  
Luminis Health, Inc.

### Opinion

We have audited the consolidated financial statements of Luminis Health, Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2022 and 2021, 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.

We did not audit the financial statements of Cottage Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets constituting 3%, of consolidated total assets as of June 30, 2022 and 2021, and total revenues constituting 1% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cottage Insurance Company, Ltd., is based solely on the report of the other auditors.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Supplementary Information

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

*Ernst + Young LLP*

October 14, 2022

Luminis Health, Inc. and Subsidiaries

Consolidated Balance Sheets

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 96,638,000	\$ 276,817,000
Short-term investments	5,279,000	3,447,000
Current portion of assets whose use is limited	15,766,000	16,241,000
Patient receivables, net	160,723,000	144,555,000
Inventories	13,580,000	23,642,000
Prepaid expenses and other current assets	25,496,000	20,310,000
Total current assets	<u>317,482,000</u>	<u>485,012,000</u>
Property and equipment	1,169,694,000	1,129,871,000
Less accumulated depreciation and amortization	<u>(628,218,000)</u>	<u>(583,269,000)</u>
Net property and equipment	<u>541,476,000</u>	<u>546,602,000</u>
Other assets:		
Investments	408,188,000	448,850,000
Investments in joint ventures	12,983,000	13,459,000
Assets whose use is limited, Funds held by trustees	45,371,000	53,033,000
Restricted collateral for interest rate swap contract	10,193,000	25,699,000
Right of use asset	43,997,000	37,528,000
Other assets	68,349,000	70,223,000
Total assets	<u>\$ 1,448,039,000</u>	<u>\$ 1,680,406,000</u>

Luminis Health, Inc. and Subsidiaries  
Consolidated Balance Sheets (continued)

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 57,745,000	\$ 55,696,000
Accrued salaries, wages, and benefits	76,529,000	76,693,000
Other accrued expenses	25,452,000	29,407,000
Current portion of long-term debt	21,699,000	21,638,000
Advances from third-party payors	73,515,000	178,155,000
Lease liability short term	7,846,000	8,187,000
Total current liabilities	262,786,000	369,776,000
Long-term debt, less current portion and unamortized original issue premium	434,739,000	449,175,000
Interest rate swap contracts	51,922,000	90,010,000
Accrued pension liability	2,643,000	2,291,000
Lease liability long term	41,580,000	30,979,000
Other long-term liabilities	50,088,000	54,044,000
Total liabilities	843,758,000	996,275,000
Net assets:		
Net assets without donor restriction	578,649,000	654,877,000
Net assets with donor restriction	21,786,000	26,412,000
Noncontrolling interest	3,846,000	2,842,000
Total net assets	604,281,000	684,131,000
Total liabilities and net assets	<b>\$ 1,448,039,000</b>	<b>\$ 1,680,406,000</b>

*See accompanying notes.*

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Operations

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Operating revenue:		
Net patient service revenue	<b>\$ 1,086,322,000</b>	\$ 1,036,435,000
Other operating revenue	<b>47,404,000</b>	69,455,000
Total operating revenue	<b>1,133,726,000</b>	1,105,890,000
Operating expenses:		
Salaries and wages	<b>547,725,000</b>	508,722,000
Employee benefits	<b>87,225,000</b>	76,396,000
Supplies	<b>195,967,000</b>	189,217,000
Purchased services	<b>302,009,000</b>	247,676,000
Depreciation and amortization	<b>45,164,000</b>	46,884,000
Interest	<b>13,152,000</b>	14,404,000
Total operating expenses	<b>1,191,242,000</b>	1,083,299,000
Operating (loss) income	<b>(57,516,000)</b>	22,591,000
Other income (loss):		
Investment income, net	<b>25,871,000</b>	13,467,000
Loss from joint ventures and other, net	<b>(1,215,000)</b>	(93,000)
Pension expense, net	<b>(2,062,000)</b>	(3,446,000)
Loss on advance refunding of debt	<b>(2,320,000)</b>	—
Change in unrealized (losses) gains on trading securities, net	<b>(67,344,000)</b>	104,506,000
Realized and unrealized gains on interest rate swap contracts, net	<b>31,095,000</b>	20,165,000
Total other (loss) income, net	<b>(15,975,000)</b>	134,599,000
(Deficit) excess of revenues over expenses	<b>\$ (73,491,000)</b>	\$ 157,190,000

*See accompanying notes.*



## Luminis Health, Inc. and Subsidiaries

### Consolidated Statements of Changes in Net Assets

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Noncontrolling Interest</b>	<b>Total Net Assets</b>
Net assets, June 30, 2020	\$460,552,000	\$ 23,861,000	\$ 2,191,000	\$486,604,000
Excess of revenues over expenses	157,190,000	–	–	157,190,000
Pension liability adjustment	35,092,000	–	–	35,092,000
Transfers and other, net	2,043,000	(1,239,000)	651,000	1,455,000
Restricted gifts, bequests, and contributions	–	5,583,000	–	5,583,000
Restricted investment income	–	1,071,000	–	1,071,000
Net assets released from restrictions	–	(2,864,000)	–	(2,864,000)
Changes in net assets	<u>194,325,000</u>	<u>2,551,000</u>	<u>651,000</u>	<u>197,527,000</u>
Net assets, June 30, 2021	654,877,000	26,412,000	2,842,000	684,131,000
Deficit of revenues over expenses	<b>(73,491,000)</b>	–	–	<b>(73,491,000)</b>
Pension liability adjustment	<b>1,165,000</b>	–	–	<b>1,165,000</b>
Transfers and other, net	<b>(3,902,000)</b>	<b>(3,636,000)</b>	<b>1,004,000</b>	<b>(6,534,000)</b>
Restricted gifts, bequests, and contributions	–	<b>4,139,000</b>	–	<b>4,139,000</b>
Restricted investment income	–	<b>(486,000)</b>	–	<b>(486,000)</b>
Net assets released from restrictions	–	<b>(4,643,000)</b>	–	<b>(4,643,000)</b>
Changes in net assets	<u><b>(76,228,000)</b></u>	<u><b>(4,626,000)</b></u>	<u><b>1,004,000</b></u>	<u><b>(79,850,000)</b></u>
Net assets, June 30, 2022	<u><b>\$578,649,000</b></u>	<u><b>\$ 21,786,000</b></u>	<u><b>\$ 3,846,000</b></u>	<u><b>\$604,281,000</b></u>

*See accompanying notes.*

# Luminis Health, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (79,850,000)	\$ 197,527,000
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in unrealized losses (gains) on trading securities, net	67,344,000	(104,506,000)
Realized and unrealized gains on interest rate swap contracts, net	(31,094,000)	(20,165,000)
Loss on defeasance of debt	2,320,000	–
Pension liability adjustment	(1,290,000)	(35,092,000)
Equity in earnings of joint ventures	(672,000)	(578,000)
Restricted contributions and pledges, net	(4,139,000)	(5,583,000)
Depreciation and amortization	45,683,000	46,884,000
Restricted investment income	(674,000)	(1,071,000)
Increase in investments – trading	(28,514,000)	(7,440,000)
Increase in assets whose use is limited, net – trading	(10,034,000)	(10,926,000)
Net change in operating assets and liabilities	(119,244,000)	5,858,000
Net cash (used in) provided by operating activities	<u>(160,164,000)</u>	<u>64,908,000</u>
<b>Investing activities</b>		
Purchases of property and equipment	(40,038,000)	(33,813,000)
Payments on interest rate swaps	(6,994,000)	(6,861,000)
Return of collateral on swap	15,506,000	–
Distributions received from joint ventures	1,148,000	1,143,000
Net cash used in investing activities	<u>(30,378,000)</u>	<u>(39,531,000)</u>
<b>Financing and fundraising activities</b>		
Repayments of long-term debt	(16,120,000)	(18,059,000)
Retirement of long-term debt	(218,654,000)	–
Proceeds from refinancing of long-term debt	221,560,000	–
Borrowings on line of credit	17,000,000	–
Repayments of line of credit	(17,000,000)	–
Payment of deferred financing costs	(655,000)	–
Proceeds from capital lease	2,137,000	–
Restricted contributions received and other	5,132,000	6,746,000
Restricted income received	674,000	1,071,000
Net cash used in financing and fundraising activities	<u>(5,926,000)</u>	<u>(10,242,000)</u>
Net (decrease) increase in cash and cash equivalents	(196,468,000)	15,135,000
Cash, cash equivalents, and restricted cash at beginning of year	320,963,000	305,828,000
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 124,495,000</u>	<u>\$ 320,963,000</u>
Cash and cash equivalents	\$ 96,638,000	\$ 276,817,000
Restricted cash, included in restricted collateral and assets whose use is limited	27,857,000	44,146,000
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 124,495,000</u>	<u>\$ 320,963,000</u>

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
<b>Changes in operating assets and liabilities</b>		
Increase (decrease) in operating assets:		
Patient receivables, net	\$ (16,168,000)	\$ (25,674,000)
Inventories	10,062,000	(1,853,000)
Prepaid expenses and other	(4,914,000)	859,000
Other assets	2,529,000	(6,539,000)
	<u>(8,491,000)</u>	<u>(33,207,000)</u>
Decrease (increase) in operating liabilities:		
Accounts payable	2,052,000	15,255,000
Accrued salaries, wages, and benefits	(164,000)	23,255,000
Other accrued expenses	(3,955,000)	(3,572,000)
Advances from third-party payors	(104,640,000)	(4,542,000)
Other long-term liabilities	(4,046,000)	8,669,000
	<u>(110,753,000)</u>	<u>39,065,000</u>
Net change in operating assets and liabilities	<u>\$ (119,244,000)</u>	<u>\$ 5,858,000</u>

*See accompanying notes.*

# Luminis Health, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

June 30, 2022

### 1. Organization and Basis of Presentation

Luminis Health, Inc. (Luminis Health or the System), formerly known as Anne Arundel Health System, Inc. (AAHS), is a Maryland not-for-profit corporation. Luminis Health has the following wholly owned subsidiaries: Luminis Health Anne Arundel Medical Center, Inc. (the Hospital or LHAAMC), and its subsidiaries; Luminis Health Pathways, Inc. (Pathways), J. Kent McNew Family Medical Center, Inc. (McNew), and Luminis Health Anne Arundel Medical Center Foundation, Inc. (the Foundation); Anne Arundel Medical Center Collaborative Care Network, LLC, Anne Arundel Medical Center Collaborative Care Network, LLC, Luminis Health Clinical Enterprise, Inc. and its subsidiaries; Luminis Health Imaging, Inc. (LHI), Luminis Health Research Institute, Inc. (RI), Physician Enterprise, LLC (PE) and its subsidiaries; Luminis Health Medical Group, LLC, Orthopedic Physicians of Annapolis, LLC, LHMG Physical Therapy, LLC, Luminis Health Care Services, Inc. (LHCS), and Luminis Health Community Clinics, LLC; Luminis Health Ventures, LLC and its subsidiaries; Cottage Insurance Company, Ltd. (Cottage), Luminis Health Real Estate Holding Company, Inc. (the Real Estate Company), and its subsidiaries; Pavilion Park, Inc. (PPI); Annapolis Exchange, LLC; and Blue Building, LLC.

LHAAMC is a private, not-for-profit corporation that operates a 397-licensed bed acute care hospital.

On July 1, 2019, Luminis Health and LHDCMC, formerly known as Doctors Community Hospital and subsidiaries executed an affiliation agreement (the Agreement) providing for an affiliation between Luminis Health and LHDCMC and subsidiaries.

LHDCMC is a nonprofit corporation wholly owned that operates an acute care general hospital facility licensed for 200 beds. LHDCMC's wholly owned subsidiaries include; Doctors Community Medical Group, LLC, Doctors Community Healthcare Programs, LLC; Doctors Community Hospital Clinic, LLC, Doctors Community Health Ventures, Inc. (DCHV); and Luminis Health Doctors Community Hospital Foundation, Inc.

As part of the Agreement, Luminis Health committed approximately \$138,000,000 over a five-year period in strategic investments to LHDCMC to expand health care services. As of June 30, 2022, Luminis Health has contributed approximately \$61,900,000 to LHDCMC to meet the capital commitment.

The accompanying consolidated financial statements include non-controlling interest held by third parties in less than wholly owned subsidiaries.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Basis of Presentation (continued)**

##### **COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. In response to the pandemic, the Governor of the State of Maryland proclaimed a state of emergency and catastrophic health emergency on March 5, 2020, and effective March 16, 2020, all Maryland hospitals were ordered by the Maryland Department of Health to cease all elective and non-urgent medical procedures for the duration of the catastrophic health emergency. Effective May 7, 2020, the Maryland Department of Health allowed resumption of elective and non-urgent medical procedures, and effective May 15, 2020, major provisions of the Governor's stay-at-home order were rescinded.

As of June 30, 2022, the System has reactivated all aspects of its health care operations. The success of such reactivation is subject to many factors external to Luminis Health, including potential new government-mandated prohibitions of non-essential health care procedures; the willingness of patients to resume preventive and elective care; availability of personal protection equipment and other supplies and drugs; and changes in clinical care and patient and caregiver safety protocols and processes required by the Centers for Disease Control and Prevention, the Occupational Health and Safety Administration, states' departments of public health and other government bodies.

Despite this, the pandemic had and continues to have an impact on Luminis Health's patient volumes and revenues for most services.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care-related expenses or lost revenues/margins attributable to coronavirus and are not required to be repaid, except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions.

# Luminis Health, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Basis of Presentation (continued)

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of health care providers generally. Due to the evolving nature of the pandemic, the ultimate impact to Luminis Health's operating results, including costs that may be incurred in the future and the level of utilization of services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown.

### 2. Summary of Significant Accounting Policies

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Luminis Health, its wholly owned subsidiaries and controlled affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

#### Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking and savings accounts, money market accounts, and short-term certificates of deposit with original maturities of 90 days or less, excluding those held in short-term investments and those classified as long-term investments. Cash balances are principally uninsured and are subject to normal credit risks. At June 30, 2022 and 2021, and at various times during the year, the System maintained cash-in-bank balances in excess of the \$250,000 federally insured limits.

#### Derivative Instruments

On May 10, 2006, LHAAMC entered into a forward variable-to-fixed interest rate swap agreement with an effective date of November 1, 2008. This contract was entered into in an effort to reduce the risk of variable interest rate debt and has a term through July 1, 2048. Under Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, LHAAMC has recognized its derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. As these derivative instruments are not designated as hedges, the unrealized gain or loss on these contracts has been recognized on the accompanying consolidated statements

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

of operations as realized and unrealized gains on interest rate swap contracts, net. The fair market values of the derivative instruments include a credit valuation adjustment (CVA) as required by ASC 820, *Fair Value Measurement*. When applying the CVA, the valuation of the variable-to-fixed interest rate swap contract was decreased by \$3,424,000 and \$4,145,000 as of June 30, 2022 and 2021, respectively.

In an effort to reduce the amount of restricted cash pledged as collateral with the original counterparty, LHAAMC entered into a new novation agreement with another counterparty on February 10, 2021. Immediately prior to the novation agreement, the System modified the existing swap to bifurcate the remaining swap into a ten-year swap with the remainder into a 2031 through 2048 swap. The terms of the bifurcated swap remain identical to the original swap other than a modification of the London Interbank Offered Rate (LIBOR). The novation agreement resulted in the return of \$64,000,000 of collateral during 2021.

A summary of LHAAMC's derivative instruments and related activity at June 30 and for the years then ended, is as follows:

<b>Description of Derivative Instrument</b>	<b>Fair Value Liability</b>	
	<b>2022</b>	<b>2021</b>
Variable-to-fixed interest rate swap contract (maturity date March 2031)	<b>\$ (30,064,000)</b>	\$ (36,790,000)
Variable-to-fixed interest rate swap contract (maturity date July 2048)	<b>(21,858,000)</b>	(53,220,000)
	<b>\$ (51,922,000)</b>	\$ (90,010,000)

The change in unrealized gains recognized in (deficit) excess of revenues over expenses for the years ended June 30, 2022 and 2021, were \$38,089,000 and \$27,026,000, respectively.

At June 30, 2022 and 2021, the net termination value (i.e., mark-to-market value) of the derivative instruments totaled \$58,192,000 and \$97,003,000, respectively. LHAAMC may be exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreements, the risk of which is reflected in the fair value of the instruments under ASC 820. However, LHAAMC does not anticipate nonperformance by the counterparty.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

During fiscal year 2022 and 2021, LHAAMC paid net payments under its interest rate swap program of \$6,994,000 and \$6,861,000, respectively. These amounts are included within realized and unrealized gains (losses) on interest rate swap contracts, net on the accompanying consolidated statements of operations and within investing activities on the accompanying consolidated statements of cash flows.

Under the derivative contracts, LHAAMC must transfer collateral for the benefit of the counterparty, to the extent that the termination values exceed certain limits. LHAAMC's collateral requirement for the benefit of the counterparty was approximately \$10,193,000 and \$25,699,000 at June 30, 2022 and 2021, respectively. The ongoing mark-to-market values and resulting collateral requirements of LHAAMC's interest rate swap contract are subject to variability based on market factors (primarily changes in interest rates). Collateral requirements under this interest rate swap contract are excluded from unrestricted cash and investments for purposes of determining the System's compliance with its liquidity covenants under its Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) revenue bond agreements and its derivative agreements. Collateral amounts are included in noncurrent assets on the accompanying consolidated balance sheets.

#### **Assets Whose Use is Limited and Investments**

Assets whose use is limited are principally composed of certain funds established to be held and invested by a trustee. These funds are related to the issuance of the LHAAMC's revenue bonds, investments held at Cottage, and certain permanently restricted endowment assets.

The fair values of publicly traded securities and mutual funds are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Alternative investments, some of which are structured so that the System holds limited partnership interests, are valued using net asset value (NAV) as the practical expedient. Valuations of these investments, and therefore the System's holdings, may be determined by the investment manager or general partner and for fund-of-funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Investment income or loss from all unrestricted investments is included on the accompanying consolidated statements of operations as part of other income (loss).



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Investment income or loss on investments of assets with donor restrictions is added to or deducted from the restricted fund balance if the income is restricted. The cost of securities sold is based on the specific-identification method.

All investment balances are principally uninsured and subject to normal credit risk. Investments are classified as either current or noncurrent based on the maturity dates and the availability for current operations. Investments included in noncurrent assets consist of board-designated investment funds of \$408,188,000 and \$448,850,000 as of June 30, 2022 and 2021, respectively. Based on the System's investment policy, such amounts could be liquidated, at the discretion of the board, to satisfy short-term requirements.

Substantially all investments, other than borrowed funds required to be expended for capital projects, are classified as trading securities, with unrealized gains and losses included in excess (deficit) of revenues over expenses. Borrowed funds required to be expended for capital projects are classified as other-than-trading and are included in assets whose use is limited.

#### **Patient Receivables**

Patient receivables include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid, and other insurers. The provision for price concessions is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are then used to make any modifications to the provision for price concessions. There have been no significant changes in the current year to the underlying assumptions used by Luminis to estimate the amount expected to be received. Patient accounts receivable is written off after collection efforts have been followed in accordance with System policies.

#### **Inventories**

Inventories, which primarily consist of medical supplies and drugs, are carried at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method or a similar method that approximates FIFO.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Property and Equipment

Property and equipment are stated at cost; or fair value as of the acquisition date for LHDCMC property and equipment. Included in computers and software are capitalized labor costs of \$16,722,000 and \$16,340,000 as of June 30, 2022 and 2021, respectively. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization on the accompanying consolidated statements of operations. Depreciation expense is \$45,164,000 and \$46,884,000 for the years ended June 30, 2022 and 2021, respectively.

The following is a summary of property and equipment:

	<b>Estimated Useful Lives</b>	<b>June 30</b>	
		<b>2022</b>	<b>2021</b>
Land		\$ 22,823,000	\$ 22,823,000
Land improvements	20 years	24,054,000	23,854,000
Buildings and improvements	20–40 years	620,324,000	614,286,000
Fixed equipment	5–20 years	32,206,000	30,833,000
Leasehold improvements	5–10 years	62,462,000	62,591,000
Movable equipment	7–10 years	254,007,000	237,988,000
Computers and software	3–5 years	135,157,000	128,752,000
Construction-in-progress	–	18,661,000	8,744,000
		<b>\$ 1,169,694,000</b>	<b>\$ 1,129,871,000</b>

Construction-in-progress consists of direct costs associated with hospital department renovations, certain leasehold improvements, and smaller capital projects. As these projects are completed, the related assets are transferred out of construction-in-progress and into the appropriate asset category and are depreciated over the applicable useful lives. Repairs and maintenance are expensed as incurred.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Investments in Joint Ventures**

Luminis Health accounts for its investments in joint ventures using the equity method of accounting. During 2011, the Real Estate Company and another party formed West County, LLC, a joint venture that owns and operates a medical office building that opened in December 2012. The Real Estate Company has a 50% interest in this joint venture, with each owner's investment being \$6,491,000 and \$6,789,000 as of June 30, 2022 and 2021, respectively. The investment in West County is not consolidated into the financial statements of Luminis Health, because Luminis Health does not control the investee.

DCHV has an equity method joint venture investment in Magnolia Gardens LLC of \$5,364,000 and \$5,550,000 as of June 30, 2022 and 2021, respectively. This investment is consistent with the mission and strategic plan of LHDCMC. The investment in Magnolia Gardens LLC represents a 51% interest and is not consolidated with the financial statements of Luminis Health because DCHV does not control the investee.

Luminis Health has several other unconsolidated joint ventures for imaging, dialysis services, ambulatory surgery centers, and hospice services totaling approximately \$1,128,000 and \$1,120,000 as of June 30, 2022 and 2021, respectively.

##### **Net Assets**

Net resources that are not restricted by donors are included in net assets without donor restrictions. Gifts of long-lived operating assets, such as property, plant, or equipment, are reported as net assets without donor restrictions and excluded from income. Resources restricted by donors for a specified time or purpose are reported as net assets with donor restrictions.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to other operating revenues on the consolidated statement of changes in net assets. Resources restricted by donors for additions to property, plant, and equipment are initially reported as net assets with donor restrictions and are transferred to net assets without donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as net assets with donor restrictions.

Investment income related to net assets with donor restrictions is classified as net assets without donor restrictions based on the intent of the donor.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. This includes regulatory discounts allowed to Blue Cross, Medicare, Medicaid, and other third-party payors and charity care. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately 4.9 days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for services provided to patients typically specify payments at amounts less than standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Luminis Health's net patient service revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements and are recognized as explicit price concessions. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect. Subsequent changes in the estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses, which is included in purchased services on the consolidated statements of operations.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

The System has elected the practical expedient utilizing the portfolio approach, as allowed under the Financial Accounting Standards Board (FASB) ASC 606-10-32-18, *Revenue from Contracts with Customers*, 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 third-party payor pays for that service will be one year or less.

#### **Maryland Health Services Cost Review Commission**

LHAAMC and LHDCMC's rate structure for all hospital-based services is subject to review and approval by the HSCRC. Under the HSCRC rate-setting system, the Hospital's inpatient and outpatient charges are the same for all patients, regardless of payor, including Medicare and Medicaid. Beginning in fiscal year 2014, LHAAMC and LHDCMC entered into an agreement with the HSCRC to participate in the Global Budget Revenue (GBR) program. The GBR model is a revenue constraint and quality improvement system to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in health care costs and improve health care delivery processes and outcomes. Under the GBR, total revenue is capped at a predetermined fixed amount. The annual approved revenue is calculated using a permanent base revenue with positive or negative adjustments for inflation, assessments, performance in quality-based programs, infrastructure requirements, and population. Revenue may also be adjusted annually for market share levels and shifts of regulated services to unregulated settings.

Starting in January 2019, Maryland's hospitals began operating under a new ten-year contract with the federal government titled Medicare Performance Adjustment (MPA). The MPA is designed to test whether the improvements hospitals have made under the previous modernized waiver can be expanded to all health care providers. The GBR methodology will remain in place for hospital rate setting under the MPA. In addition, programs aimed to measure and reduce total health care spending for attributed Medicare patients, including pre- and post-acute care by all providers, are being introduced during this contract period.

The Commission's rate-setting methodology compares Global Budget Revenue to actual revenue. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Except as noted above, LHAAMC and LHDCMC's policy is to recognize revenue based on actual charges for services to patients in the year in which the services are performed. LHAAMC and LHDCMC's revenues may be subject to adjustment as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until a subsequent period than when the services were rendered.

The following table sets forth the detail of net patient service revenue:

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Gross patient service revenue	<b>\$ 1,419,534,000</b>	\$ 1,330,212,000
Revenue deductions:		
Charity care	<b>(14,873,000)</b>	(11,708,000)
Contractual and other allowances	<b>(318,339,000)</b>	(282,069,000)
Net patient service revenue	<b><u>\$ 1,086,322,000</u></b>	<u>\$ 1,036,435,000</u>

During 2022 and 2021, approximately 30% and 37%, respectively, of net patient service revenue was received under the Medicare program, 25% and 24% from Blue Cross, 35% and 33% from contracts with other third parties, 6% and 3% from Medicaid, and 4% and 3% from other sources, including self-pay.

The System's revenues also may be subject to adjustment as a result of examination by government agencies or contractors and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration 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 agreements with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

audits, reviews, and investigations. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections; business and economic conditions; trends in federal, state, and private employer health care coverage; and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of the System's revenues and patient receivable as a primary source of information in estimating the collectability of patient receivable.

Luminis Health employs physicians in several hospital-based specialties (including, but not limited to, obstetrics, intensive care, and hospitalists). Net physician revenue is recognized when the services are provided and recorded at the estimated net realizable amount based on the contractual arrangements with third-party payors and the expected payments from the third-party payors and the patients. The difference between the billed charges and the estimated net realizable amounts are recorded as a reduction in physician revenue when the services are provided. The System recognized net physician revenue of \$176,656,000 and \$162,841,000 for the years ended June 30, 2022 and 2021, respectively, which is included in net patient service revenue. At June 30, 2022 and 2021, \$14,997,000 and \$22,126,000, respectively, of net physician accounts receivable are included in patient receivables on the accompanying consolidated balance sheets.

#### **Charity Care**

Luminis Health provides charity care to patients who meet certain criteria established under its charity care guidelines. The amounts reported as charity care represent the costs of rendering such services and are calculated by applying a ratio of operating expenses over gross patient charges to the charity care provided at established rates. Because members of Luminis Health do not pursue the collection of amounts determined to qualify as charity care, these amounts are deducted from gross revenues on the accompanying consolidated statements of operations. The total benefits associated with providing this care, at cost, are \$14,873,000 and \$11,708,000 for the years ended June 30, 2022 and 2021, respectively.

#### **Other Operating Revenue**

Other operating revenue is composed of grant revenue, cafeteria revenue, net assets released from restrictions for operating purposes, and other miscellaneous items.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, including the Provider Relief Fund under the CARES Act discussed previously. Payments received from the Provider Relief Fund shall reimburse the recipient for health care-related expenses or lost revenues attributable to the COVID-19 pandemic and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The System has received and recognized approximately \$7,056,000 and \$36,524,000 in stimulus funding for the years ended June 30, 2022 and 2021, respectively that has been recorded within other revenue in the accompanying consolidated statements of operations. The System recognized these amounts based on its evaluation of the terms and conditions prescribed by the U.S. Department of Health and Human Services. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be impacted. The System believes that it meets all the requirements for recognition.

In addition, the System has received and recognized approximately \$6,100,000 of funds from Federal Emergency Management Agency (FEMA) for the year ended June 30, 2022 that has been recorded in other revenue in the accompanying consolidated statements of operations.

#### **Advances From Third-Party Payors**

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers.

On April 10, 2020, the System received \$151,767,000 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. This program provides hospitals with working capital advances that begin to become payable 120 days from the date of receipt of the funds, starting in April 2021 through an automatic reduction of claims receipts from CMS. The funds will be repaid by October 2022. These funds, which represent contract liabilities as defined in ASC 606, have been recorded within advances from third-party payors on the accompanying consolidated balance sheets. The balance due to Medicare was \$34,916,000 and \$135,178,000 as of June 30, 2022 and 2021, respectively. The remaining amount of advances from third-party payors are in the ordinary course of business and due to various payors on demand.



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Donations and Bequests

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value on the date the gift is received. The gifts are reported as donor-restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, the asset is reclassified to without donor restrictions on the accompanying consolidated statements of changes in net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Contributions that are unrestricted are reflected as other operating revenue on the accompanying consolidated statements of operations.

Scheduled payments for pledges receivable for the years ending June 30 are as follows:

2023	\$ 611,000
2024	451,000
2025	407,000
2026	379,000
2027 and thereafter	1,157,000
Less:	
Impact of discounting pledges receivable to net present value	(375,000)
Allowance for uncollectible pledges	(649,000)
Net pledges receivable	<u>\$ 1,981,000</u>

Pledges receivable are discounted using rates between 1.2% and 2.5% and are included in prepaids and other current assets and other assets.

##### (Deficit) Excess of Revenues Over Expenses

The accompanying consolidated statements of operations include (deficit) excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from (deficit) excess of revenues over expenses, consistent with industry practice, include contributions received and used for additions of long-lived assets, transfers and other activity, and certain changes in pension liabilities.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Other Assets

Other assets consists of the following:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Investment in Premier	<b>\$ 11,972,000</b>	\$ 11,680,000
LHAAMC pension assets	<b>16,160,000</b>	14,428,000
Deferred compensation plans	<b>13,595,000</b>	14,732,000
Insurance recoverable	<b>18,434,000</b>	20,250,000
Other	<b>8,188,000</b>	9,133,000
	<b>\$ 68,349,000</b>	<b>\$ 70,223,000</b>

LHAAMC has participated and owned equity in the Premier Limited Partnership (Premier), which has served as a group purchasing organization for many years. This participation provides purchasing contract rates and rebates the System would not be able to obtain on its own. LHAAMC accounted for its investment in Premier using the equity method of accounting.

The System received 309,580 Class B units that were earned in seven separate tranches over an 85-month period ending October 31, 2020.

##### Income Tax Status

Luminis Health, LHAAMC, the Foundation, Pathways, McNew, LHI, PE, and RI have received determination letters from the Internal Revenue Service (IRS) stating that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). The Real Estate Company has received a determination letter from the IRS stating that it is exempt from federal income taxes under Section 501(c)(2) of the Code. LHDCMC and the Doctors Community Hospital Foundation are exempt from federal income tax under Section 501(c)(3) of the Code as public charities. These entities are entitled to rely on this determination as long as there are no substantial changes in their character, purposes, or methods of operation. Management has concluded that there have been no such changes, and therefore the status of the various entities as public charities exempt from federal income taxation remain in effect.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

The state in which the various entities operate also provides a general exemption from state income taxation for organizations that are exempt from federal income taxation. However, these entities are subject to federal and state income taxation at corporate tax rates on unrelated business income.

Exemption from other state and local taxes, such as real and personal property taxes is separately determined. The various entities had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which unrelated business income was recognized, a tax return was filed in order to report any unrelated business income as well as any taxes due.

LHCS, PPI and DCHV are subject to federal and state income taxes. These income taxes are immaterial to the accompanying consolidated financial statements.

Certain limited liability companies within the consolidated group are not subject to income taxes. Taxable income or loss is passed through to and reportable by the members individually.

Under the Cayman Islands Tax Concessions Law (Revised), the Governor-in-Cabinet issued an undertaking regarding Cottage on November 29, 2005, exempting it from all local income, profit, or capital gains taxes. The undertaking has been issued for a period of 20 years and, at the present time, no such taxes are levied in the Cayman Islands. Accordingly, no provision for taxes is made in these consolidated financial statements.

Doctor's Regional Cancer Center (a controlled subsidiary of LHDCMC) is a Maryland limited liability company that has not elected to be taxed as a corporation under current Treasury regulations and is owned by more than one member. DRCC is subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986 (IRC), as amended. Under these rules DRCC is not subject to federal or state income tax, but must file annual information returns indicating their gross and taxable income to determine the tax results to their members.

Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by the System. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Service. Management has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken. Luminis Health has recognized no interest or penalties related to uncertain tax positions. Luminis Health is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### **Use of Estimates**

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

#### **New Accounting Standards**

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. This guidance Luminis Health adopted this standard for the year ended June 30, 2022. This did not have a material impact on the System for 2022.

The FASB has amended certain guidance related to various disclosures in ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. ASU 2018-14 is effective for fiscal years ending after December 15, 2021. Luminis Health adopted this standard for the year ended June 30, 2022. This did not have a material impact on the System for 2022.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. Luminis Health adopted this standard for the year ended June 30, 2022. This did not have a material impact on the System for 2022.

#### **New Accounting Standards Not Yet Adopted**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022, and a modified retrospective approach is required, with a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. Management is currently evaluating the impact of adopting this new accounting guidance.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **3. Regulatory Environment**

##### **Medicare and Medicaid**

The Medicare and Medicaid reimbursement programs represent a substantial portion of Luminis Health's revenues. Luminis Health's operations are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation. Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on Luminis Health.

In 1983, Congress approved a Medicare prospective payment plan for most inpatient services as part of the Social Security Amendment Act of 1983. Hospitals in Maryland were granted a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. The waiver would remain in effect as long as the Maryland rate of increase in payments per admission remained below the national average rate of increase.

In January 2014, the Centers for Medicare and Medicaid Services approved a modernized waiver that includes both inpatient and outpatient revenue. The new waiver will be in place as long as Maryland hospitals achieve significant quality improvements and limit the per capita growth for all payors for Maryland residents.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments

Investments, including assets whose use is limited, are stated at fair value. Borrowed funds that are required to be expended on specified capital projects under MHHEFA revenue bond agreements are classified as available for sale. All other investments and assets whose use is limited are classified as trading securities.

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Assets whose use is limited:		
Endowment assets:		
Cash and cash equivalents	\$ 1,898,000	\$ 2,206,000
Equity mutual funds	10,347,000	13,139,000
Fixed income mutual funds	5,154,000	5,079,000
	<b>17,399,000</b>	<b>20,424,000</b>
Amounts held by trustee:		
Cash and cash equivalents	10,810,000	12,538,000
U.S. Government obligations	–	7,000
	<b>10,810,000</b>	<b>12,545,000</b>
Amounts held by Cottage:		
Cash and cash equivalents	4,956,000	3,703,000
Exchange traded funds	7,187,000	7,953,000
Equity mutual funds	7,862,000	14,636,000
Fixed income mutual funds	12,923,000	10,013,000
	<b>32,928,000</b>	<b>36,305,000</b>
Total assets whose use is limited	<b>61,137,000</b>	<b>69,274,000</b>
Less current portion	<b>15,766,000</b>	<b>16,241,000</b>
	<b>\$ 45,371,000</b>	<b>\$ 53,033,000</b>

Amounts held by the trustee are broken down as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Lease escrow	\$ 1,463,000	\$ –
Bond indenture	9,347,000	12,545,000
	<b>\$ 10,810,000</b>	<b>\$ 12,545,000</b>

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Investments (continued)**

Other investments:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	<b>\$ 22,317,000</b>	\$ 24,277,000
Equity mutual funds	<b>206,920,000</b>	230,711,000
Fixed income mutual funds	<b>114,781,000</b>	129,989,000
Alternative investments	<b>69,449,000</b>	67,320,000
	<b>413,467,000</b>	452,297,000
Less short-term investments	<b>5,279,000</b>	3,447,000
Investments	<b>\$ 408,188,000</b>	\$ 448,850,000

The components of investment income, net are as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Interest and dividend income, net	<b>\$ 6,003,000</b>	\$ 767,000
Realized (losses) gains, net	<b>19,868,000</b>	12,700,000
	<b>\$ 25,871,000</b>	\$ 13,467,000

Environmental, social and governance (ESG) issues can impact investment risk and returns and therefore should be integrated into our investment decision processes. We integrate ESG consideration into our investment process and take steps to manage them appropriate to the asset class and the materiality of the investment. We review ESG integration of our external managers both on selection and as part of the regular review process. We monitor our portfolios for material ESG issues and take steps to manage them appropriate to each asset class.



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **5. Fair Value Measurements**

ASC 820 defines fair value and establishes a framework for measuring fair value in accordance with U.S. GAAP. ASC 820 establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 – Defined as observable inputs, such as quoted prices in active markets
- Level 2 – Defined as inputs other than quoted prices in active markets that are either directly or indirectly observable
- Level 3 – Defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while Luminis Health believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ASC 820 requires that the fair value of derivative contracts include adjustments related to the credit risks of both parties associated with the derivative transactions. The fair value of Luminis Health's derivative contracts reflected in the accompanying consolidated financial statements includes adjustments related to the credit risks of the parties to the transactions.

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Fair Value Measurements (continued)**

The following tables present the fair value hierarchy for Luminis Health's financial assets and liabilities measured at fair value on a recurring basis.

	<b>June 30, 2022</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Trading securities and assets whose use is limited:				
Cash and cash equivalents	\$ 39,975,000	\$ 39,975,000	\$ —	\$ —
Equity securities	232,317,000	224,455,000	7,862,000	—
Fixed income securities	132,858,000	119,935,000	12,923,000	—
Total	<u>405,150,000</u>	<u>384,365,000</u>	<u>20,785,000</u>	<u>—</u>
Pledges receivable	1,981,000	—	—	1,981,000
Collateral for interest rate swap:				
Cash and cash equivalents	10,193,000	10,193,000	—	—
Total assets at fair value	<u>417,324,000</u>	<u>\$ 394,558,000</u>	<u>\$ 20,785,000</u>	<u>\$ 1,981,000</u>
Assets at NAV	69,449,000			
Total assets	<u>\$ 486,773,000</u>			
<b>Liabilities</b>				
Derivative instruments	\$ (51,922,000)	\$ —	\$ (51,922,000)	\$ —
Total liabilities at fair value	<u>\$ (51,922,000)</u>	<u>\$ —</u>	<u>\$ (51,922,000)</u>	<u>\$ —</u>

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	June 30, 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Trading securities and assets whose use is limited:				
Cash and cash equivalents	\$ 42,739,000	\$ 42,739,000	\$ -	\$ -
Equity securities	260,811,000	250,798,000	10,013,000	-
Fixed income securities	149,362,000	134,726,000	14,636,000	-
U.S. Government obligation securities	7,000	7,000	-	-
Total	452,919,000	428,270,000	24,649,000	
Pledges receivable	2,974,000	-	-	2,974,000
Collateral for interest rate swap:				
Cash and cash equivalents	25,699,000	25,699,000	-	-
Less investments included in other assets	4,200,000	4,200,000	-	-
Total assets at fair value	477,392,000	\$ 449,769,000	\$ 24,649,000	\$ 2,974,000
Assets at NAV	67,320,000			
Total assets	\$ 544,712,000			
<b>Liabilities</b>				
Derivative instruments	\$ (90,010,000)	\$ -	\$ (90,010,000)	\$ -
Total liabilities at fair value	\$ (90,010,000)	\$ -	\$ (90,010,000)	\$ -

Luminis Health's Level 1 securities primarily consist of U.S. Treasury securities, equity and fixed income securities (including mutual funds), and cash. Luminis Health determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Value Measurements (continued)

Luminis Health's Level 2 securities primarily consist of cash and cash equivalents. Luminis Health determines the estimated fair value for these Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curve volatilities, default rates), and inputs that are derived principally from or corroborated by other observable market data.

Luminis Health's Level 2 securities also consist of derivative instruments, which are reported using valuation models commonly used for derivatives. Valuation models require a variety of inputs, including contractual terms, market-fixed prices, inputs from forward price yield curves, notional quantities, measures of volatility, and correlations of such inputs.

LHAAMC's alternative investments consist of the following: a fund focused in North American midstream, listed and energy infrastructure and renewables markets, with a focus on income-oriented securities (30 day liquidity) venture capital fund-of-funds taking a globally diversified approach targeting multiple venture capital investment types, stages, sectors and geographies, a private equity fund-of-funds focused exclusively on the lower middle-market segment in the U.S. and consisting of both fund commitments and co-investments, a private equity fund with a focus on long-term fundamental value creation by investing in businesses that can grow profitably over time and sustain value through volatile conditions and strategic healthcare venture fund investing in healthcare information technology and services and medical devices and diagnostics. The private equity and venture capital funds totaling approximately \$35,000,000 at June 30, 2022 are subject to lock-up of greater than one year. Unfunded commitments as of June 30, 2022 are approximately \$8,100,000.

Alternative investments are measured using NAV as the practical expedient. Certain alternative investments require written notification over a certain period prior to redemption.

Luminis Health also has pledges receivable, which are measured at fair value on a nonrecurring basis and are discounted to the net present value upon receipt using an appropriate risk-free discount rate based on the term of the receivable. Since these inputs are not observable, pledges receivable would be considered Level 3 fair value measurements upon their initial recording. Pledges receivable are recorded net of an allowance for uncollectible pledges. The following table

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Value Measurements (continued)

provides a reconciliation of the beginning and ending balances of pledges receivable that used significant unobservable inputs.

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Balance at July 1	<b>\$ 2,974,000</b>	\$ 4,137,000
New pledges	<b>469,000</b>	342,000
Collections of pledges	<b>(970,000)</b>	(1,451,000)
Write-off of pledges	<b>(244,000)</b>	(5,000)
Change in reserves	<b>(248,000)</b>	(49,000)
Balance at June 30	<b><u>\$ 1,981,000</u></b>	<u>\$ 2,974,000</u>

The carrying amounts of cash and cash equivalents, patient receivables, prepaid expenses and other current assets, accounts payable, accrued salaries, wages and benefits, other accrued expenses, and advances from third-party payors approximate fair value, given the short-term nature of these financial instruments or their methods of valuation. The following methods and assumptions were used by Luminis Health in estimating the fair value of other financial instruments.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	Interest Rate	Maturity Dates	June 30	
			2022	2021
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (MHHEFA) – Series 2022A	Variable	2040-2043	\$ 60,220,000	\$ –
Series 2022B	2.52%	2024-2035	49,100,000	–
Series 2022C	2.27%	2026-2040	108,895,000	–
Series 2017	2.0%–5.0%	2018–2043	52,595,000	54,690,000
Series 2014	2.0%–5.0%	2015–2040	8,475,000	111,463,000
Series 2012	2.0%–5.0%	2013–2035	3,150,000	54,137,000
Series 2009B	Variable	2041–2044	–	60,000,000
Series 2017B Bond	2.18%	2024	15,020,000	19,645,000
Series 2016A	2.57%	2030	31,141,000	31,560,000
Series 2017A	5.00%	2031-2038	64,165,000	64,165,000
Kent Island bank term loan	Variable	2021	4,831,000	5,217,000
Real estate loan	Variable	2028	48,565,000	52,231,000
			<b>446,157,000</b>	<b>453,108,000</b>
Less current portion of long-term debt			<b>21,699,000</b>	21,638,000
Less deferred debt issue costs			<b>1,369,000</b>	3,249,000
Unamortized original issue premium, net			<b>11,650,000</b>	20,954,000
Long-term debt			<b>\$ 434,739,000</b>	<b>\$ 449,175,000</b>

These debt instruments are secured by the receipts of the Luminis Health obligated group and substantially all of the property and equipment of the consolidated group.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt and Line of Credit (continued)

Principal payments due under all debt instruments as of June 30, 2022, are as follows:

2023	\$ 21,699,000
2024	17,857,000
2025	18,827,000
2026	19,602,000
2027	20,407,000
Thereafter	347,765,000
	<u>\$ 446,157,000</u>

#### Series 2022 Bonds

In February 2022, Luminis Health entered into a loan agreement with MHHEFA supported by three financing agreements with commercial lenders. The proceeds of these direct placement bonds were utilized to refund certain prior Revenue Bonds as follows:

- a) 2022A Variable Rate Tax-Exempt Bonds refunded \$60,000,000 2009B Series Revenue Bonds and extended the committed period of this issuance to 2032. Interest, at BSBY plus a credit spread, is payable monthly and principal is due annually on July 1.
- b) 2022B Fixed Rate Taxable issuance, which refunded \$49,100,000 of the 2012 Series Revenue Bonds. Interest is payable monthly at a stated rate of 2.52% and principal is due annually on July 1. On the call date, July 1, 2022, the issuance was converted to tax-exempt rate at 1.99%.
- c) 2022C Fixed Rate Taxable issuance, which refunded \$108,895,000 of the 2014 Series Revenue Bonds. Interest is payable semi-annually at a stated rate of 2.27% and principal is due annually on July 1. On the call date, July 1, 2024, the issuance is expected to be converted to tax-exempt rate at 1.79%.

In connection with the issuance of the 2022 Bonds, deferred financing costs and premiums related to the 2009B, 2012 and 2014 Series Bonds were written-off as loss on early extinguishment of bonds in the amount of \$2,320,000.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt and Line of Credit (continued)**

##### **Series 2017 Revenue Bonds**

In November 2017, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of the Series 2017 A&B Revenue Bonds (the “2017 A&B Bonds”). The proceeds of the 2017 A&B Bonds were used to advance refund the Series 2010 Bonds previously issued by MHHEFA. The refunded Series 2010 Bonds were originally issued to finance the expansion of the parking garage for LHAAMC’s acute care pavilion, and costs related to the issuance. The 2017 A&B Bonds provide for annual principal payments each July 1 from 2022 through 2043. Interest is payable semi-annually on each January 1 and July 1. The 2017 A&B Bonds bear interest at rates between 2.00% and 5.00% and were originally issued at a premium of \$4,590,000, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

##### **Series 2014 Revenue Bonds**

In November 2014, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of the Series 2014 Revenue Bonds (the “2014 Bonds”). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously issued by MHHEFA. The refunded Series 2009A Bonds were originally issued to finance a portion of the costs of construction for an eight-story patient care building, two parking garages, and costs related to the issuance. The 2014 Bonds provide for annual principal payments each July 1 from 2022 through 2024. Interest is payable semiannually each January 1 and July 1. The 2014 Bonds bear interest at rates of 4.00% and were originally issued at a premium of \$7,520,000, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The amount outstanding of the Series 2014 Revenue Bonds was reduced to \$8,475,000 through the issuance of the Series 2022C Bonds.



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt and Line of Credit (continued)**

##### **Series 2012 Revenue Bonds**

In October 2012, LHAAMC entered into a loan agreement with MHHEFA for the issuance of the Series 2012 Revenue Bonds (the “2012 Bonds”). The proceeds of the 2012 Bonds were used to refund the Series 2004A Bonds and 1998 Bonds previously issued by the Authority. The refunded bonds were originally issued to finance a new replacement hospital (Series 1998 Bonds) and to finance major renovations to LHAAMC’s Cancer Center and land acquisition (Series 2004A Bonds). The 2012 Bonds provide for annual principal payments each July 1 through 2022. Interest is payable semiannually on each January 1 and July 1. The 2012 Bonds bear interest at rates of 5.00% and were originally issued at a premium of \$6,746,000. The remaining outstanding amount of the 2012 Revenue Bonds was repaid on July 1, 2022.

##### **Series 2009 Revenue Bonds**

In 2009, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of \$60,000,000 of Series 2009B Revenue Bonds (“2009B Bonds”). The proceeds of the 2009B Bonds together with the Series 2009A Bonds were used to finance a portion of the costs of construction of an eight-story patient care building, two new parking garages, and certain costs relating to the issuance. These bonds were fully refunded with the issuance of the Series 2022A bonds.

##### **Series 2016A and 2017B Revenue Bonds**

On June 28, 2016, MHHEFA issued \$73,445,000 principal amount of Revenue Bonds, Doctor’s Community Hospital Series 2016A Bonds (\$31,945,000), and Series 2016B Taxable Bonds (\$41,500,000). The proceeds of these bonds were used to retire the Series 2007A Bonds and Series 2010 Bonds (partial) previously issued by the Authority. On March 23, 2017, the Series 2016B Bonds were converted to Series 2017B Bonds as planned. The 2016A Bonds provide for monthly principal and interest payments through July 1, 2030. The 2017B Bonds provide for monthly principal and interest payments through October 1, 2024. The 2016A Bonds and 2017B Bonds bear interest at a rates of 2.53% and 2.18%, respectively.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt and Line of Credit (continued)**

##### **Series 2017A Revenue Bonds**

On February 8, 2017, MHHEFA issued \$64,165,000 principal amount of Revenue Bonds, Doctor's Community Hospital Series 2017A. The proceeds of these bonds were used to retire the remainder of the Series 2010 Bonds previously issued by the Authority. The 2017A Bonds provide for annual principal payments each July 1 from 2031 through 2038. Interest is payable semiannually on each January 1 and July 1. The 2012 Bonds bear stated interest rates of 5.00% and were issued at a premium of \$4,144,000.

The effective interest for the years ended June 30, 2022 and 2021 is 2.84% and 3.01%, respectively.

The provisions of the Master Loan Agreement with MHHEFA, require Luminis Health and certain subsidiaries to comply with certain covenants on an annual basis, including a debt service coverage requirement. Luminis Health, LHAAMC, LHI and LHDCMC are members of the Luminis Health Obligated Group for all of the above stated revenue bonds issued by MHHEFA.

##### **Bank Line of Credit and Real Estate Loan**

LHAAMC maintains a line of credit with a bank providing available credit of \$50,000,000, which is reviewed annually for renewal. Interest on any borrowings accrues at the one-month LIBOR plus 0.75%. At June 30, 2022 and 2021, LHAAMC had no balance outstanding on the line of credit. In February 2022, LHDCMC entered into a \$17,000,000 line of credit agreement and immediately drew upon this line to accomplish certain purposes related to the 2022 Series Bond issuance. Interest on any borrowing accrues at the SOFR plus 0.80%. At June 30, 2022, LHDCMC had no outstanding balance on this line of credit.

On October 17, 2018, the Real Estate Company secured a real estate loan from the bank through a wholly owned subsidiary and the proceeds were used to pay off the 2008 Term Loan and 2008 Construction Loan previously provided by the bank. The loans being refinanced were originally obtained to finance certain medical office buildings owned by the Real Estate Company. The new loan requires flat monthly principal payments (amortized over 17 years) plus interest at one-month LIBOR plus 1.10% from 2018 through 2028 with a balloon payment due October 5, 2028, of \$25,800,000.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt and Line of Credit (continued)**

##### **Kent Island Term Loan**

In August 2007, KIMA entered into a construction loan agreement with a bank in the amount of \$9,000,000 that would convert to a term loan after the completion of the construction. The proceeds were used to construct a medical office building. The debt was secured by the medical office building.

On May 9, 2017, KIMA refinanced the term loan with a \$6,567,000 promissory note. The promissory note provides for monthly principal and interest payments and has a final maturity of December 2022. The promissory note bears interest at a variable rate, based on the 30-day LIBOR plus 1.20%.

#### **7. Retirement Plans**

##### **Anne Arundel Medical Center Plan**

LHAAMC has a qualified noncontributory, defined benefit pension plan (the Plan) that covers substantially all employees. LHAAMC's policy is to fund pension costs as determined by its actuary. Adopted by the Board of Trustees on June 11, 2009, and effective September 1, 2009, LHAAMC amended the Plan to freeze future benefit accruals, and participants have not earned any additional benefits under the Plan since that date. However, subsequent to September 1, 2009, participants have continued to vest in benefits they have earned through September 1, 2009. The frozen benefit balance for the participants will only accrue interest credits until the participants' benefit commencement dates. FASB ASC 715, *Compensation – Retirement Benefits*, requires LHAAMC to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan on its consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The pension liability adjustment to net assets without donor restrictions represents the change in net unrecognized actuarial losses that have not yet been recognized as part of (deficit) excess of revenues over expenses. These amounts are subsequently recognized as a net periodic benefit cost pursuant to LHAAMC's historical accounting policy for amortizing such amounts.

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended June 30 and the accumulated benefit obligation for LHAAMC is as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Accumulated benefit obligation	<b>\$ 102,284,000</b>	\$ 126,360,000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	<b>\$ 126,360,000</b>	\$ 138,148,000
Service cost	—	—
Interest cost	<b>3,118,000</b>	3,147,000
Actuarial loss	<b>(17,470,000)</b>	(3,989,000)
Benefits paid	<b>(2,602,000)</b>	(2,503,000)
Settlements paid	<b>(7,158,000)</b>	(8,443,000)
Projected benefit obligation at end of year	<b>102,248,000</b>	126,360,000
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>140,788,000</b>	115,397,000
Actual return on plan assets	<b>(15,020,000)</b>	25,828,000
Employer contribution	<b>2,400,000</b>	10,509,000
Benefits paid	<b>(2,602,000)</b>	(2,503,000)
Settlements paid	<b>(7,158,000)</b>	(8,443,000)
Fair value of plan assets at end of year	<b>118,408,000</b>	140,788,000
Net asset recognized in other assets	<b>\$ 16,160,000</b>	\$ 14,428,000
Net amounts recognized on the consolidated balance sheets consist of:		
Prepaid pension costs	<b>\$ 16,160,000</b>	\$ 14,428,000
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:		
Net actuarial loss	<b>\$ 64,444,000</b>	\$ 65,689,000

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

The following table sets forth the weighted average assumptions used to determine the benefit obligations of LHAAMC:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	4.50%	2.55%
Rate of compensation increase	N/A	N/A

The following table sets forth the weighted average assumptions used to determine the net periodic benefit cost of LHAAMC:

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	2.58%	2.38%
Expected return on plan assets	5.50%	6.00%
Rate of compensation increase	N/A	N/A

LHAAMC's net periodic pension benefit cost included the following components:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Service cost	\$ —	\$ —
Interest cost	3,118,000	3,147,000
Expected return on plan assets	(7,250,000)	(7,425,000)
Recognized net actuarial loss	1,856,000	2,260,000
Loss recognized from partial settlement of projected benefit obligation	4,188,000	4,931,000
Net periodic cost	<u>\$ 1,912,000</u>	<u>\$ 2,913,000</u>

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

LHAAMC's defined benefit plan invests in a diversified mix of traditional asset classes. Investments in certain types of U.S. equity securities and fixed-income securities are made to maximize long-term results while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. Risk tolerance of unexpected investment and actuarial outcomes is continually evaluated by understanding the pension plan's liability characteristics. Equity investments are used primarily to increase the overall plan returns. Debt securities provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

LHAAMC's target asset allocation percentages as of June 30, 2022, were as follows: 65% fixed income, 10% international equity, 12% large cap domestic stocks, 3% small cap domestic stocks, and 10% alternative investments and exchange-traded notes.

The following tables present the fair value hierarchy of assets of the defined benefit pension plan of LHAAMC:

	June 30, 2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 1,630,000	\$ —	\$ 1,630,000	\$ —
Mutual funds:				
Equity	17,275,000	17,275,000	—	—
Corporate bonds	76,673,000	76,673,000	—	—
International equity	5,936,000	5,936,000	—	—
Closed-end funds ETF	6,068,000	6,068,000	—	—
Assets measured at fair value	107,582,000	\$ 105,952,000	\$ 1,630,000	\$ —
Assets at NAV	10,826,000			
Total assets	\$ 118,408,000			

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

	<b>June 30, 2021</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 8,875,000	\$ —	\$ 8,875,000	\$ —
Mutual funds:				
Equity	23,528,000	23,528,000	—	—
Corporate bonds	80,640,000	80,640,000	—	—
International equity	9,608,000	9,608,000	—	—
Closed-end funds ETF	6,484,000	6,484,000	—	—
Assets measured at fair value	129,135,000	<u>\$ 120,260,000</u>	<u>\$ 8,875,000</u>	<u>\$ —</u>
Assets at NAV	11,653,000			
Total assets	<u>\$ 140,788,000</u>			

Level 1 securities primarily consist of exchange-traded mutual funds. Level 2 securities primarily consist of money market funds. Methods consistent with those discussed in Note 5 are used to estimate the fair values of these securities.

The overall expected rate of return on assets assumptions was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized considered the target rates of returns for the future, which have historically not changed.

LHAAMC currently does not intend to make voluntary contributions to the defined benefit pension plan in fiscal year 2023.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

The following benefit payments for LHAAMC are expected to be paid:

2023	\$ 6,727,000
2024	6,491,000
2025	6,553,000
2026	7,979,000
2027	6,447,000
2028–2032	33,699,000

In addition to the noncontributory defined benefit pension plan, LHAAMC also offers an employee defined contribution plan. Participation in the plan is voluntary. Substantially all full-time employees of LHAAMC are eligible to participate. Employees may elect to contribute a minimum of 1% of compensation, and a maximum amount as determined by Sections 403(b) and 415 of the Code. Any employee making contributions to the plan is entitled to a LHAAMC contribution that will match the employee contribution at the rate of 50% to 75%, depending on the number of years of service, up to a maximum of 5% of qualified compensation.

In 2022, there were several plan amendments for the 403(b) retirement plan. The Anne Arundel Medical Center Employees' Salary Reduction Thrift Plan was renamed the Luminis Health Retirement Plan. Additional amendments to the 403(b) plan included allowing LHDCMC participants to participate in the plan as well as naming Luminis Health (formerly AAMC) as the employer of record for all participants in the plan.

Matching contributions under this defined contribution 403(b) plan were \$9,928,000 and \$0 in fiscal years 2022 and 2021, respectively.

#### Doctors Community Hospital Plan

LHDCMC froze the defined benefit pension plan that it sponsors (the LHDCMC Plan) in 2011, which covered substantially all employees. The decision to terminate the LHDCMC Plan has not been made by the board of directors. The benefits are based on years of service and employee compensation during years of employment. LHDCMC's funding policy is to make sufficient contributions to the LHDCMC Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). LHDCMC does not expect to contribute to the LHDCMC Plan during 2023 to keep the funding levels at the ERISA requirements. The measurement date of the LHDCMC Plan is June 30.



Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended June 30 and the accumulated benefit obligation for LHDCMC is as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Accumulated benefit obligation	<b>\$ 18,412,000</b>	\$ 21,988,000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	<b>\$ 21,988,000</b>	\$ 23,049,000
Service cost	—	—
Interest cost	<b>476,000</b>	448,000
Settlement loss	<b>(3,000)</b>	(41,000)
Actuarial loss	<b>(2,837,000)</b>	(252,000)
Benefits paid	<b>(152,000)</b>	(137,000)
Settlements paid	<b>(1,060,000)</b>	(1,079,000)
Projected benefit obligation at end of year	<b>18,412,000</b>	21,988,000
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>19,787,000</b>	16,524,000
Actual return on plan assets	<b>(3,054,000)</b>	3,246,000
Employer contribution	<b>248,000</b>	1,233,000
Benefits paid	<b>(152,000)</b>	(137,000)
Settlements paid	<b>(1,060,000)</b>	(1,079,000)
Fair value of plan assets at end of year	<b>15,769,000</b>	19,787,000
Net liability recognized	<b>\$ (2,643,000)</b>	\$ (2,201,000)
Net amounts recognized on the consolidated balance sheets consist of:		
Accrued pension costs	<b>\$ (2,643,000)</b>	\$ (2,201,000)
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:		
Net actuarial loss	<b>\$ 6,549,000</b>	\$ 6,009,000

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

The following table sets forth the weighted average assumptions used to determine the benefit obligations of LHDCMC:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	<b>4.25%</b>	2.30%
Rate of compensation increase	N/A	N/A

The following table sets forth the weighted average assumptions used to determine the net periodic benefit cost:

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	<b>2.30%</b>	2.05%
Expected return on plan assets	<b>6.00%</b>	6.00%
Rate of compensation increase	N/A	N/A

LHDCMC's net periodic pension benefit cost included the following components:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Interest cost	<b>\$ 476,000</b>	\$ 448,000
Expected return on plan assets	<b>(1,121,000)</b>	(968,000)
Recognized net actuarial loss	<b>419,000</b>	758,000
Effect of settlement	<b>377,000</b>	295,000
Net periodic cost	<b><u>\$ 151,000</u></b>	<u>\$ 533,000</u>

LHDCMC's target asset allocation percentages as of June 30, 2022, were as follows: 65% fixed income, 5% international equity, 15% large cap domestic stocks, and 15% small cap domestic stocks.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

The following table presents the fair value hierarchy of assets of the defined benefit pension plan of LHDCMC:

	<b>June 30, 2022</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Mutual funds:				
U.S. common stock	\$ 6,332,000	\$ 6,332,000	\$ —	\$ —
Corporate bonds	8,624,000	8,624,000	—	—
International equity	813,000	813,000	—	—
Assets measured at fair value	<u>15,769,000</u>	<u>\$ 15,769,000</u>	<u>\$ —</u>	<u>\$ —</u>
Assets at NAV	—			
Total assets	<u><u>\$ 15,769,000</u></u>			
	<b>June 30, 2021</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Mutual funds:				
U.S. common stock	\$ 6,458,000	\$ 6,458,000	\$ —	\$ —
Corporate bonds	10,920,000	10,920,000	—	—
International equity	1,169,000	1,169,000	—	—
Assets measured at fair value	<u>18,547,000</u>	<u>\$ 18,547,000</u>	<u>\$ —</u>	<u>\$ —</u>
Assets at NAV	1,240,000			
Total assets	<u><u>\$ 19,787,000</u></u>			

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

The following benefit payments for LHDCMC are expected to be paid:

2023	\$ 1,851,000
2024	1,275,000
2025	1,305,000
2026	1,398,000
2027	1,360,000
2028–2032	5,632,000

LHDCMC has a 403(b) defined contribution plan (the contribution plan) covering substantially all its employees. The contribution plan is employee and employer contributory. LHDCMC contributed a match of \$0.50 for every \$1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to \$1,694,000 and \$0 for 2022 and 2021, respectively.

LHDCMC has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying consolidated balance sheets. The associated liability of an equal amount is included in other liabilities on the accompanying consolidated balance sheets. The liability recorded regarding the deferred compensation was \$3,694,000 and \$3,832,000 as of June 30, 2022 and 2021, respectively.

LHDCMC is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by LHDCMC under the insurance contracts are approximately \$9,000,000 as of June 30, 2022 and 2021, are included in other assets on the consolidated balance sheets.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Concentrations of Credit Risk

Certain members of Luminis Health grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Medicare	<b>23%</b>	25%
Medicaid	<b>4</b>	3
Blue Cross	<b>15</b>	21
Commercial, HMO, PPO, and other	<b>39</b>	39
Patients	<b>19</b>	12
	<b>100%</b>	100%

#### 9. Malpractice Insurance Costs and Self-Insured Professional Liability

Until August 1, 1998, LHAAMC and certain subsidiaries maintained insurance coverage for general and professional liability claims on a claims-made basis. The professional liability coverage included a per-case deductible of \$250,000, up to a maximum out-of-pocket amount of \$750,000 annually. Effective August 1, 1998, the group changed its professional liability coverage to a full coverage claims-made policy with no annual deductibles. This policy included tail coverage for claims incurred prior to August 1, 1998, but reported subsequently. Effective August 1, 2002, LHAAMC changed its professional liability coverage back to a claims-made policy with a per-case deductible of \$250,000, up to a maximum out-of-pocket amount of \$750,000 annually. Also, LHAAMC did not purchase tail coverage for claims incurred prior to August 1, 2002, which were not yet reported.

Effective March 1, 2004, LHAAMC changed its professional liability coverage to a self-insurance trust with annual exposure limits of \$2,000,000 per claim and \$11,000,000 in the aggregate. LHAAMC carried an excess liability insurance policy for claims above these limits.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **9. Malpractice Insurance Costs and Self-Insured Professional Liability (continued)**

Effective July 1, 2005, Cottage was formed as a captive insurer to provide professional liability insurance for LHAAMC. Cottage is a wholly owned subsidiary of LHAAMC, which was formed in the Cayman Islands. The primary layer of professional and general liability insurance coverage is self-insured through Cottage and the secondary layer is fully reinsured through several highly rated commercial carriers.

For the period from July 1, 2005 to June 30, 2009, Cottage issued claims-made policies covering LHAAMC professional liability (including employed physicians) and on an occurrence basis, comprehensive general liability risks of LHAAMC and certain affiliates. Policy limits were \$2,000,000 per claim with a \$9,000,000 policy aggregate. Effective July 1, 2005, Cottage assumed existing liabilities from LHAAMC's self-insured trust discussed above on a claims-made basis. Effective July 1, 2009, Cottage issued a claims-made policy providing \$2,000,000 per claim for LHAAMC professional liability coverage and \$1,000,000 per claim for comprehensive general liability coverage, subject to a consolidated annual aggregate limit of \$10,000,000. Effective July 1, 2018, policy limits were increased to \$5,000,000 per claim with a \$25,000,000 policy aggregate.

For the period from July 1, 2005 to June 30, 2008, Cottage also issued an excess umbrella coverage policy (covering LHAAMC professional liability) with limits of \$20,000,000 per claim with a policy aggregate. For claims reported on and subsequent to July 1, 2008, the coverage limit provided is \$30,000,000 per claim with a policy aggregate. These excess limits are in excess of the primary policy, and the umbrella policies are 100% reinsured with highly rated third-party commercial reinsurers.

The provision for estimated professional liability claims, general liability claims, and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. As of June 30, 2022 and 2021, the balance for outstanding claims reserves recorded at Cottage is \$42,785,000 and \$45,278,000, respectively, which is included in other long-term liabilities and reinsurance receivable is \$11,309,000 and \$11,585,000, respectively, which is included in other assets. The remaining tail liability for claims incurred but not reported is \$16,363,000 and \$13,366,000 as of June 30, 2022 and 2021, respectively, are included in other accrued expenses, with \$14,553,000 and \$11,737,000 of the 2022 and 2021 liability, respectively, recorded at LHAAMC. The remainder of the liability is recorded at PE. The group has employed an independent actuary to estimate the ultimate settlement of such claims. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change by material amounts in the short term.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **9. Malpractice Insurance Costs and Self-Insured Professional Liability (continued)**

On March 1, 2022, LHDCMC obtained professional and general liability insurance through Cottage. A provision for remaining tail liability for claims incurred but not reported was recorded of \$2,457,000 at June 30, 2022.

LHDCMC maintained coverage for professional and general liabilities on a claims-made basis from Freestate Healthcare Insurance Company, Ltd. (Freestate), a group captive formed by several Maryland hospitals through February 28, 2022. LHDCMC owned 20% interest in the captive and accounts for it using the cost method. This ownership terminated on February 28, 2022. Premiums were expensed as incurred and are established based on the LHDCMC historical experience supplemented as necessary with industry experience. The total premium is allocated to each of the shareholders based on their experience. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment of credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2022. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals. The captive is responsible for claims up to \$1,000,000 for each and every loss event. Additional coverage has been purchased by the captive for all claims in excess of \$1,000,000 to a limit of \$6,000,000 effective March 1, 2006, \$10,000,000 effective March 1, 2012, and \$15,000,000 effective March 1, 2019. The estimated unpaid loss liability reserved by the captive for LHDCMC was \$7,125,000 and \$8,664,000 at June 30, 2022 and 2021, respectively. These amounts are included in long-term liabilities and the related anticipated insurance recoveries were reported in noncurrent assets on the accompanying consolidated balance sheets. The liability for all claims incurred but not reported for LHDCMC was \$916,000 at June 30, 2021.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Commitments and Contingencies

##### Leases

The following table presents the components of the Luminis Health's right-of-use assets and liabilities related to ASC 842 leases and their classification in Luminis Health's consolidated balance sheets:

Component of Lease Balances	Classification in Consolidated Balance Sheet	June 30	
		2022	2021
<b>Assets</b>			
Operating lease assets	Right-of-use asset long term	\$ 43,997,000	\$ 37,528,000
Total leased assets		<u>\$ 43,997,000</u>	<u>\$ 37,528,000</u>
<b>Liabilities</b>			
Operating lease liabilities:			
Current	Lease liability short term	\$ 7,846,000	\$ 8,187,000
Long term	Lease liability long term	<u>41,580,000</u>	30,979,000
Total operating lease liabilities		<u>\$ 49,426,000</u>	<u>\$ 39,166,000</u>

Luminis Health determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent Luminis Health's right to use the underlying assets for the lease term and the lease liabilities represent Luminis Health's obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Luminis Health uses a risk-free discount rate that is determined using Treasury securities of a comparable term to that of its leases when acting as a lessee.

Luminis Health's operating leases are primarily for real estate and equipment. Real estate leases include leases of medical facilities and office spaces. Equipment leases mainly include lease of copiers and medical equipment. Luminis Health's real estate lease agreements typically have initial terms of 3 to 20 years, and equipment lease agreements typically have initial terms of 3 to 5 years.



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **10. Commitments and Contingencies (continued)**

Real estate leases may include one or more options to renew that can extend the lease term from five to ten years. The exercise of lease renewal options is at Luminis Health's sole discretion. In general, Luminis Health does not consider renewal options to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of Luminis Health's right-of-use assets and lease liabilities. Certain equipment leases also include options to purchase the leased equipment. The useful life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Luminis Health currently does not have any leases whereby there is a transfer of title or a purchase option that is reasonably certain to be exercised; hence, all of Luminis Health's leases are depreciated over the lease term.

Certain of the Luminis Health's lease agreements for real estate include payments based on actual common area maintenance expenses and other operating expenses. These variable lease payments are recognized in purchased services but are not included in the right-of-use asset or liability balances. Luminis Health's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Luminis Health elected the accounting policy practical expedients by class of underlying asset to: (i) exclude recording leases with an initial term of 12 months or less (short-term leases) as right-of-use assets and liabilities on the consolidated balance sheets; and (ii) combine associated lease and non-lease components into a single lease component. Non-lease components, which are not significant overall, are combined with lease components. Luminis Health has elected these practical expedients for real estate, equipment, and all other asset classes when acting as a lessee.

Luminis Health also elected the practical expedient package not to reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases.

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Commitments and Contingencies (continued)**

The following table presents the components of the Luminis Health's lease expense:

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Operating lease expense	<b>\$ 11,405,000</b>	\$ 11,600,000
Finance lease expense:		
Amortization of leased assets	<b>176,000</b>	27,000
Interest on lease liabilities	<b>24,000</b>	1,000
Total finance lease expense	<b>200,000</b>	28,000
Variable lease expense	<b>60,000</b>	527,000
Short-term lease expense	—	—
Total lease expense	<b>\$ 11,665,000</b>	\$ 12,155,000

The weighted average lease terms and discount rates for operating and finance leases are as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Weighted average remaining lease term (years):		
Operating leases	<b>8.5</b>	8.0
Finance leases	<b>6.7</b>	1.0
Weighted average discount rate:		
Operating leases	<b>3.5%</b>	3.0%
Finance leases	<b>2.6%</b>	1.8%

Cash flow and other information related to leases are included in the following table:

	<b>Year Ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	<b>\$ 20,803,000</b>	\$ 21,854,000
Operating cash outflows from finance leases	<b>23,000</b>	1,000
Financing cash inflows from finance leases	<b>2,137,000</b>	—
Financing cash outflows from finance leases	<b>147,000</b>	27,000

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Commitments and Contingencies (continued)

The following table summarizes the maturity lease obligations as of June 30, 2022:

	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2023	\$ 7,335,000	\$ 511,000	\$ 7,846,000
2024	6,486,000	504,000	6,990,000
2025	4,739,000	518,000	5,257,000
2026	4,661,000	531,000	5,192,000
2027	4,357,000	545,000	4,902,000
Thereafter	20,007,000	944,000	20,951,000
Total lease payments	47,585,000	3,553,000	51,138,000
Less: Imputed interest	1,402,000	310,000	1,712,000
Total lease liabilities	<u>\$ 46,183,000</u>	<u>\$ 3,243,000</u>	<u>\$ 49,426,000</u>

#### Contingencies

Members of Luminis Health have been named as defendants in various legal proceedings arising from the performance of their normal activities. In the opinion of management, after consultation with legal counsel and after consideration of applicable insurance, the amount of Luminis Health's ultimate liability under all current legal proceedings will not have a material adverse effect on its consolidated financial position or results of operations.

Luminis Health's revenues may be subject to adjustment as a result of examination by government agencies or contractors, based upon differing interpretations of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered. Section 302 of the Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare overpayments and underpayments made to providers. Management has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, management will incur additional costs to respond to requests for records and pursue the reversal of payment denials. As of June 30, 2022 and 2021, Luminis Health has

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Commitments and Contingencies (continued)

recorded an estimated reserve regarding the Medicare overpayments. In the opinion of the Luminis Health's management, the ultimate settlement of this matter will not have a material adverse effect on the consolidated financial position of Luminis Health.

During the year ended June 30, 2020, LHDCMC recorded an accrual related to a billing error that was self-reported to the Department of Health and Human Services. LHDCMC is working with the U.S. Government to come to a resolution on this matter. It is possible that other regulatory conditions may be part of the final resolution. Based on consultation with legal counsel, management believes the final resolution will not have a material adverse effect on the June 30, 2022 consolidated financial statements.

#### 11. Functional Expenses

Members of Luminis Health provide general health care services to residents within their service area. Expenses related to providing these services are as follows:

	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Total</b>
<b>Year ended June 30, 2022</b>			
Salaries and wages	\$ 477,259,000	\$ 70,466,000	\$ 547,725,000
Employee benefits	27,332,000	59,893,000	87,225,000
Supplies	183,770,000	12,197,000	195,967,000
Purchased services	151,074,000	150,935,000	302,009,000
Depreciation and amortization	16,275,000	28,889,000	45,164,000
Interest	13,152,000	–	13,152,000
Total operating expenses	<u>\$ 868,862,000</u>	<u>\$ 322,380,000</u>	<u>\$ 1,191,242,000</u>
<b>Year ended June 30, 2021</b>			
Salaries and wages	\$ 436,725,000	\$ 71,997,000	\$ 508,722,000
Employee benefits	65,400,000	10,996,000	76,396,000
Supplies	182,201,000	7,016,000	189,217,000
Purchased services	114,908,000	132,768,000	247,676,000
Depreciation and amortization	19,885,000	26,999,000	46,884,000
Interest	14,404,000	–	14,404,000
Total operating expenses	<u>\$ 833,523,000</u>	<u>\$ 249,776,000</u>	<u>\$ 1,083,299,000</u>

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 12. Net Assets

Net assets with donor restrictions are restricted for use, as follows:

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Hospital capital additions	\$ 6,631,000	\$ 7,057,000
Hospital operating programs	<b>15,155,000</b>	19,355,000
	<b><u>\$ 21,786,000</u></b>	<u>\$ 26,412,000</u>

#### 13. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following as of June 30, 2022:

##### Assets

Current assets:

Cash and cash equivalents	\$ 96,638,000
Short-term investments	5,279,000
Patient receivables, net	160,723,000
Investments*	408,188,000
Total financial assets	<u>\$ 670,828,000</u>

\*While these investments are long-term in nature, they are available for general expenditures within one year of the balance sheet date, if necessary.

Luminis Health's bond covenant requires Luminis Health to maintain unrestricted cash and marketable securities on hand to meet 70 days of normal operating expenses. The Luminis Health obligated group was compliant with all financial covenants as of June 30, 2022 and 2021.

#### 14. Subsequent Events

Luminis Health has evaluated the impact of subsequent events through October 14, 2022, representing the date at which the accompanying consolidated financial statements were issued.

No events have occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

# Supplementary Information

Luminis Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet  
(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Luminis Health Care Enterprises, Inc. and Subsidiaries	Luminis Health Ventures, LLC and Subsidiaries	Eliminations	Consolidated
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ (5,744)	\$ 65,078	\$ 26,402	\$ 5,063	\$ 5,839	\$ —	\$ 96,638
Short-term investments	—	5,662	(383)	—	—	—	5,279
Current portion of assets whose use is limited	—	10,808	—	—	4,958	—	15,766
Patient receivables, net	(616)	95,459	44,709	20,179	992	—	160,723
Inventories	584	7,014	5,535	447	—	—	13,580
Prepaid expenses and other current assets	6,169	10,425	6,124	1,543	1,235	—	25,496
Intercompany receivables/(payables)	(102,658)	23,584	(27,384)	74,673	31,785	—	—
Total current assets	(102,265)	218,030	55,003	101,905	44,809	—	317,482
Property and equipment	58	813,699	147,734	66,249	141,954	—	1,169,694
Less accumulated depreciation and amortization	—	(477,351)	(26,871)	(49,354)	(74,642)	—	(628,218)
Net property and equipment	58	336,348	120,863	16,895	67,312	—	541,476
Other assets:							
Investments	—	387,281	19,062	—	1,845	—	408,188
Investments in joint ventures	—	—	—	781	12,202	—	12,983
Assets whose use is limited	—	17,399	—	—	27,972	—	45,371
Restricted collateral for interest rate swap contract	—	10,193	—	—	—	—	10,193
Right of use asset long term	—	4,759	15,611	14,795	8,832	—	43,997
Investment in subsidiaries	735,824	—	—	—	—	(735,824)	(0)
Other assets	—	28,934	24,932	1,391	13,092	—	68,349
Total assets	\$ 633,617	\$ 1,002,944	\$ 235,471	\$ 135,767	\$ 176,064	\$ (735,824)	\$ 1,448,039

Luminis Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	<b>Luminis Health, Inc.</b>	<b>Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries</b>	<b>Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries</b>	<b>Luminis Health Care Enterprises, Inc. and Subsidiaries</b>	<b>Luminis Health Ventures, LLC and Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable	\$ 2,152	\$ 39,168	\$ 9,558	\$ 5,214	\$ 1,653	\$ —	\$ 57,745
Accrued salaries, wages, and benefits	32,181	23,802	7,296	13,278	(28)	—	76,529
Other accrued expenses	(14)	17,236	5,190	2,504	536	—	25,452
Current portion of long-term debt	—	8,025	5,200	—	8,474	—	21,699
Advances from third-party payors	(806)	43,592	26,446	3,901	382	—	73,515
Lease liability short term	—	2,437	1,483	2,522	1,404	—	7,846
<b>Total current liabilities</b>	<b>33,513</b>	<b>134,260</b>	<b>55,173</b>	<b>27,419</b>	<b>12,421</b>	<b>—</b>	<b>262,786</b>
Long-term liabilities:							
Long-term debt, less current portion and unamortized original issue premium	—	276,471	113,434	—	44,834	—	434,739
Interest rate swap contract	—	51,922	—	—	—	—	51,922
Accrued pension liability	—	—	2,643	—	—	—	2,643
Lease liability long term	—	5,917	15,139	12,758	7,766	—	41,580
Other long-term liabilities	—	—	7,136	167	42,785	—	50,088
<b>Total liabilities</b>	<b>33,513</b>	<b>468,570</b>	<b>193,525</b>	<b>40,344</b>	<b>107,806</b>	<b>—</b>	<b>843,758</b>
Net assets:							
Without donor restrictions	577,394	512,503	40,663	95,423	64,412	(711,746)	578,649
With donor restrictions	22,709	21,871	1,283	—	—	(24,078)	21,785
Noncontrolling interest	—	—	—	—	3,846	—	3,846
<b>Total net assets</b>	<b>600,104</b>	<b>534,374</b>	<b>41,946</b>	<b>95,423</b>	<b>68,258</b>	<b>(735,824)</b>	<b>604,280</b>
<b>Total liabilities and net assets</b>	<b>\$ 633,617</b>	<b>\$ 1,002,944</b>	<b>\$ 235,471</b>	<b>\$ 135,767</b>	<b>\$ 176,064</b>	<b>\$ (735,824)</b>	<b>\$ 1,448,039</b>



Luminis Health, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations

(Amounts Expressed in Thousands of U.S. Dollars)

Year Ended June 30, 2022

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Luminis Health Care Enterprises, Inc. and Subsidiaries	Luminis Health Ventures, LLC and Subsidiaries	Eliminations	Consolidated
Operating revenue:							
Net patient service revenue	\$ –	\$ 650,370	\$ 221,233	\$ 207,455	\$ 7,264	\$ –	\$ 1,086,322
Other operating revenue	–	22,812	7,699	54,406	34,873	(72,386)	47,404
Total operating revenue	–	673,182	228,932	261,861	42,137	(72,386)	1,133,726
Operating expenses:							
Salaries and wages	57,045	219,671	84,668	184,934	1,407	–	547,725
Employee benefits	9,497	36,737	17,219	23,490	282	–	87,225
Supplies	732	132,167	37,610	25,214	246	(2)	195,967
Purchased services	59,939	167,855	62,240	57,228	26,948	(72,201)	302,009
Foundation transfer	–	165	–	–	–	(165)	(0)
Depreciation and amortization	–	26,954	11,594	2,775	3,841	–	45,164
Interest	53	7,931	4,381	–	805	(18)	13,152
Shared services	(127,266)	100,692	26,574	–	–	–	–
Total operating expenses	–	692,172	244,286	293,641	33,529	(72,386)	1,191,242
Operating income (loss)	–	(18,990)	(15,354)	(31,780)	8,608	–	(57,516)
Other income (loss):							
Investment income (loss), net	(115)	24,704	382	–	900	–	25,871
Gain (loss) from joint ventures and other, net	(76,800)	(543)	(1,247)	973	(357)	76,759	(1,215)
Pension expense	–	(1,911)	(151)	–	–	–	(2,062)
Loss on advance refunding of debt	–	(2,320)	–	–	–	–	(2,320)
Change in unrealized losses on trading securities, net	–	(61,907)	(551)	–	(4,886)	–	(67,344)
Realized and unrealized gains on trading securities, net	–	31,095	–	–	–	–	31,095
Total other income (loss), net	(76,915)	(10,882)	(1,567)	973	(4,343)	76,759	(15,975)
(Deficit) excess of revenues over expenses	\$ (76,915)	\$ (29,872)	\$ (16,921)	\$ (30,807)	\$ 4,265	\$ 76,759	\$ (73,491)

Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet  
(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Pathways, Inc.	Luminis Health J Kent McNew Family Medical Center, Inc.	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Eliminations	Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 59,130	\$ 58	\$ (65)	\$ 5,955	\$ –	\$ 65,078
Short-term investments	5,223	–	–	439	–	5,662
Current portion of assets whose use is limited	10,808	–	–	–	–	10,808
Patient receivables, net	94,459	52	948	–	–	95,459
Inventories	7,014	–	–	–	–	7,014
Prepaid expenses and other current assets	8,143	–	11	2,271	–	10,425
Intercompany receivables/(payables)	59,982	140	(27,541)	(8,997)	–	23,584
Total current assets	244,759	250	(26,647)	(332)	–	218,030
Property and equipment	773,087	9,723	28,623	2,266	–	813,699
Less accumulated depreciation and amortization	(469,323)	(5,590)	(2,213)	(225)	–	(477,351)
Net property and equipment	303,764	4,133	26,410	2,041	–	336,348
Other assets:						
Investments	385,607	–	–	1,674	–	387,281
Assets whose use is limited	7	–	–	17,392	–	17,399
Beneficial interest in net assets of Anne Arundel Medical Center Foundation, Inc.	20,960	–	–	–	(20,960)	(0)
Restricted collateral for interest rate swap contract	10,193	–	–	–	–	10,193
Right of use asset long term	4,759	–	–	–	–	4,759
Investment in subsidiaries	3,569	–	–	–	(3,569)	(0)
Other assets	28,310	–	–	624	–	28,934
Total assets	\$ 1,001,928	\$ 4,383	\$ (237)	\$ 21,399	\$ (24,529)	\$ 1,002,944

Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	<b>Luminis Health Anne Arundel Medical Center, Inc.</b>	<b>Luminis Health Pathways, Inc.</b>	<b>Luminis Health J Kent McNew Family Medical Center, Inc.</b>	<b>Luminis Health Anne Arundel Medical Center Foundation, Inc.</b>	<b>Eliminations</b>	<b>Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable	\$ 38,926	\$ 11	\$ 218	\$ 13	\$ –	\$ 39,168
Accrued salaries, wages, and benefits	23,347	205	141	109	–	23,802
Other accrued expenses	16,918	1	–	317	–	17,236
Current portion of long-term debt	8,025	–	–	–	–	8,025
Advances from third-party payors	43,592	–	–	–	–	43,592
Lease liability short term	2,437	–	–	–	–	2,437
<b>Total current liabilities</b>	<b>133,245</b>	<b>217</b>	<b>359</b>	<b>439</b>	<b>–</b>	<b>134,260</b>
Long-term liabilities:						
Long-term debt, less current portion	276,471	–	–	–	–	276,471
Interest rate swap contract	51,922	–	–	–	–	51,922
Lease liability long term	5,917	–	–	–	–	5,917
<b>Total liabilities</b>	<b>467,555</b>	<b>217</b>	<b>359</b>	<b>439</b>	<b>–</b>	<b>468,570</b>
Net assets:						
Without donor restrictions	514,126	4,166	(596)	(207)	(4,986)	512,503
With donor restrictions	20,247	–	–	21,167	(19,543)	21,871
Noncontrolling interest	–	–	–	–	–	–
<b>Total net assets</b>	<b>534,373</b>	<b>4,166</b>	<b>(596)</b>	<b>20,960</b>	<b>(24,529)</b>	<b>534,374</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,001,928</b>	<b>\$ 4,383</b>	<b>\$ (237)</b>	<b>\$ 21,399</b>	<b>\$ (24,529)</b>	<b>\$ 1,002,944</b>

## Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries

### Supplementary Consolidating Statement of Operations

*(Amounts Expressed in Thousands of U.S. Dollars)*

Year Ended June 30, 2022

	<b>Luminis Health Anne Arundel Medical Center, Inc.</b>	<b>Luminis Health Pathways, Inc.</b>	<b>Luminis Health J Kent McNew Family Medical Center, Inc.</b>	<b>Luminis Health Anne Arundel Medical Center Foundation, Inc.</b>	<b>Eliminations</b>	<b>Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries</b>
Operating revenue:						
Net patient service revenue	\$ 639,614	\$ 4,150	\$ 6,606	\$ –	\$ –	\$ 650,370
Other operating revenue	19,865	647	672	4,767	(3,139)	22,812
Total operating revenue	<u>659,479</u>	<u>4,797</u>	<u>7,278</u>	<u>4,767</u>	<u>(3,139)</u>	<u>673,182</u>
Operating expenses:						
Salaries and wages	209,521	4,197	4,490	1,463	–	219,671
Employee benefits	34,901	785	776	275	–	36,737
Supplies	131,505	393	246	24	(1)	132,167
Purchased services	162,740	729	2,853	1,540	(7)	167,855
Foundation transfer	–	–	–	3,297	(3,132)	165
Depreciation and amortization	25,510	436	956	52	–	26,954
Interest	7,931	–	–	–	–	7,931
Shared services	100,692	–	–	–	–	100,692
Total operating expenses	<u>672,800</u>	<u>6,540</u>	<u>9,321</u>	<u>6,652</u>	<u>(3,140)</u>	<u>692,172</u>
Operating income (loss)	<u>(13,321)</u>	<u>(1,743)</u>	<u>(2,043)</u>	<u>(1,884)</u>	<u>1</u>	<u>(18,990)</u>
Other income (loss):						
Investment income (loss), net	24,867	–	–	(163)	–	24,704
Gain (loss) from joint ventures and other, net	(4,328)	–	–	–	3,785	(543)
Pension expense	(1,911)	–	–	–	–	(1,911)
Loss on advance refunding of debt	(2,320)	–	–	–	–	(2,320)
Change in unrealized losses on trading securities, net	(61,907)	–	–	–	–	(61,907)
Realized and unrealized gains on trading securities, net	31,095	–	–	–	–	31,095
Total other income (loss), net	<u>(14,504)</u>	<u>–</u>	<u>–</u>	<u>(163)</u>	<u>3,785</u>	<u>(10,882)</u>
(Deficit) excess of revenues over expenses	<u>\$ (27,825)</u>	<u>\$ (1,743)</u>	<u>\$ (2,043)</u>	<u>\$ (2,047)</u>	<u>\$ 3,786</u>	<u>\$ (29,872)</u>

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet  
(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	<b>Luminis Health Doctors Community Medical Center, Inc.</b>	<b>Doctors Community Health Ventures, Inc.</b>	<b>Luminis Health Doctors Community Medical Center Foundation, Inc.</b>	<b>Eliminations</b>	<b>Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 24,933	\$ —	\$ 1,469	\$ —	\$ 26,402
Short-term investments	(383)	—	—	—	(383)
Patient receivables, net	44,709	—	(0)	—	44,709
Inventories	5,535	—	—	—	5,535
Prepaid expenses and other current assets	5,394	206	524	—	6,124
Intercompany receivables/(payables)	7,617	(33,490)	(1,511)	—	(27,384)
Total current assets	87,805	(33,284)	482	—	55,003
Property and equipment	147,734	—	—	—	147,734
Less accumulated depreciation and amortization	(26,871)	—	—	—	(26,871)
Net property and equipment	120,863	—	—	—	120,863
Other assets:					
Investments	19,062	—	—	—	19,062
Beneficial interest in net assets of Foundation	163	—	—	(163)	(0)
Right of use asset long term	15,611	—	—	—	15,611
Investment in subsidiaries	(34,056)	—	—	34,056	(0)
Other assets	24,932	—	—	—	24,932
Total assets	\$ 234,380	\$ (33,284)	\$ 482	\$ 33,893	\$ 235,471

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet  
(Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	<b>Luminis Health Doctors Community Medical Center, Inc.</b>	<b>Doctors Community Health Ventures, Inc.</b>	<b>Luminis Health Doctors Community Medical Center Foundation, Inc.</b>	<b>Eliminations</b>	<b>Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries</b>
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 9,359	\$ 201	\$ (2)	\$ –	\$ 9,558
Accrued salaries, wages, and benefits	7,292	–	4	–	7,296
Other accrued expenses	5,190	–	–	–	5,190
Current portion of long-term debt	5,200	–	–	–	5,200
Advances from third-party payors	25,875	571	–	–	26,446
Lease liability short term	1,483	–	–	–	1,483
Total current liabilities	54,399	772	2	–	55,173
Long-term liabilities:					
Long-term debt, less current portion	113,434	–	–	–	113,434
Accrued pension liability	2,643	–	–	–	2,643
Lease liability long term	15,139	–	–	–	15,139
Other long-term liabilities	7,136	–	–	–	7,136
Total liabilities	192,751	772	2	–	193,525
Net assets:					
Without donor restrictions	41,477	(34,056)	(661)	33,903	40,663
With donor restrictions	152	–	1,141	(10)	1,283
Noncontrolling interest	–	–	–	–	–
Total net assets	41,629	(34,056)	480	33,893	41,945
Total liabilities and net assets	\$ 234,380	\$ (33,284)	\$ 482	\$ 33,893	\$ 235,471

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations

(Amounts Expressed in Thousands of U.S. Dollars)

Year Ended June 30, 2022

	<b>Luminis Health Doctors Community Medical Center, Inc.</b>	<b>Doctors Community Health Ventures, Inc.</b>	<b>Luminis Health Doctors Community Medical Center Foundation, Inc.</b>	<b>Eliminations</b>	<b>Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries</b>
Operating revenue:					
Net patient service revenue	\$ 221,233	\$ –	\$ –	\$ –	\$ 221,233
Other operating revenue	7,699	–	94	(94)	7,699
Total operating revenue	228,932	–	94	(94)	228,932
Operating expenses:					
Salaries and wages	84,403	–	265	–	84,668
Employee benefits	17,182	–	37	–	17,219
Supplies	37,606	–	4	–	37,610
Purchased services	61,695	–	545	–	62,240
Foundation transfer	–	–	94	(94)	–
Depreciation and amortization	11,594	–	–	–	11,594
Interest	4,381	–	–	–	4,381
Shared services	26,574	–	–	–	26,574
Total operating expenses	243,435	–	945	(94)	244,286
Operating income (loss)	(14,503)	–	(851)	(0)	(15,354)
Other income (loss):					
Investment income, net	348	34	–	–	382
Gain (loss) from joint ventures and other, net	(1,212)	(120)	–	85	(1,247)
Pension expense	(151)	–	–	–	(151)
Change in unrealized losses on trading securities, net	(551)	–	–	–	(551)
Total other income (loss), net	(1,566)	(86)	–	85	(1,567)
(Deficit) excess of revenues over expenses	\$ (16,069)	\$ (86)	\$ (851)	\$ 85	\$ (16,921)

## Luminis Health Obligated Group

### Supplementary Combining Balance Sheet (Amounts Expressed in Thousands of U.S. Dollars)

June 30, 2022

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ (5,744)	\$ 59,130	\$ 472	\$ 24,933	\$ –	\$ 78,791
Short-term investments	–	5,223	–	(383)	–	4,840
Current portion of assets whose use is limited	–	10,808	–	–	–	10,808
Patient receivables, net	(616)	94,459	3,147	44,709	–	141,699
Inventories	584	7,014	–	5,535	–	13,133
Prepaid expenses and other current assets	6,169	8,143	254	5,394	–	19,960
Intercompany receivables/(payables)	(102,658)	59,982	103,458	7,617	–	68,399
Total current assets	(102,265)	244,759	107,331	87,805	–	337,630
Property and equipment	58	773,087	33,378	147,734	–	954,257
Less accumulated depreciation and amortization	–	(469,323)	(27,985)	(26,871)	–	(524,179)
Net property and equipment	58	303,764	5,393	120,863	–	430,078
Other assets:						
Investments	–	385,607	–	19,062	–	404,669
Assets whose use is limited	–	7	–	–	–	7
Beneficial interest in net assets of the Foundation	–	20,960	–	163	–	21,123
Restricted collateral for interest rate swap contract	–	10,193	–	–	–	10,193
Right of use asset long term	–	4,759	694	15,611	–	21,064
Investment in subsidiaries	735,824	3,569	–	(34,056)	(686,537)	18,800
Other assets	–	28,310	–	24,932	–	53,242
Total assets	\$ 633,617	\$ 1,001,928	\$ 113,418	\$ 234,380	\$ (686,537)	\$ 1,296,806



## Luminis Health Obligated Group

### Supplementary Combining Balance Sheet (continued)

*(Amounts Expressed in Thousands of U.S. Dollars)*

June 30, 2022

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable	\$ 2,152	\$ 38,926	\$ 1,653	\$ 9,359	\$ –	\$ 52,090
Accrued salaries, wages, and benefits	32,181	23,347	535	7,292	–	63,355
Other accrued expenses	(14)	16,918	–	5,190	–	22,094
Current portion of long-term debt	–	8,025	–	5,200	–	13,225
Advances from third-party payors	(806)	43,592	–	25,875	–	68,661
Lease liability short term	–	2,437	33	1,483	–	3,953
<b>Total current liabilities</b>	<b>33,513</b>	<b>133,245</b>	<b>2,221</b>	<b>54,399</b>	<b>–</b>	<b>223,378</b>
Long-term liabilities:						
Long-term debt, less current portion	–	276,471	–	113,434	–	389,905
Interest rate swap contract	–	51,922	–	–	–	51,922
Accrued pension liability	–	–	–	2,643	–	2,643
Lease liability long term	–	5,918	649	15,139	–	21,706
Other long-term liabilities	–	–	–	7,136	–	7,136
<b>Total liabilities</b>	<b>33,513</b>	<b>467,555</b>	<b>2,870</b>	<b>192,751</b>	<b>–</b>	<b>696,689</b>
Net assets:						
Without donor restrictions	577,394	514,126	110,548	41,477	(662,459)	581,086
With donor restrictions	22,710	20,247	–	152	(24,078)	19,031
Noncontrolling interest	–	–	–	–	–	–
<b>Total net assets</b>	<b>600,104</b>	<b>534,373</b>	<b>110,548</b>	<b>41,629</b>	<b>(686,537)</b>	<b>600,117</b>
<b>Total liabilities and net assets</b>	<b>\$ 633,617</b>	<b>\$ 1,001,928</b>	<b>\$ 113,418</b>	<b>\$ 234,380</b>	<b>\$ (686,537)</b>	<b>\$ 1,296,806</b>

## Luminis Health Obligated Group

### Supplementary Combining Statement of Operations (Amounts Expressed in Thousands of U.S. Dollars)

Year Ended June 30, 2022

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
Operating revenue:						
Net patient service revenue	\$       –	\$ 639,614	\$ 30,800	\$ 221,233	\$       –	\$ 891,647
Other operating revenue	–	19,865	70	7,699	–	27,634
Total operating revenue	–	659,479	30,870	228,932	–	919,281
Operating expenses:						
Salaries and wages	57,045	209,521	6,553	84,403	–	357,522
Employee benefits	9,497	34,901	1,304	17,182	–	62,884
Supplies	732	131,505	1,438	37,606	–	171,281
Purchased services	59,939	162,740	14,485	61,695	–	298,859
Depreciation and amortization	–	25,510	650	11,594	–	37,754
Interest	53	7,931	–	4,381	–	12,365
Shared services	(127,266)	100,692	–	26,574	–	–
Total operating expenses	–	672,800	24,430	243,435	–	940,665
Operating income (loss)	–	(13,321)	6,440	(14,503)	–	(21,384)
Other income (loss):						
Investment income (loss), net	(115)	24,867	–	348	–	25,100
Gain (loss) from joint ventures and other, net	(76,800)	(4,328)	–	(1,212)	43,555	(38,785)
Pension expense	–	(1,911)	–	(151)	–	(2,062)
Loss on advance refunding of debt	–	(2,320)	–	–	–	(2,320)
Change in unrealized gains on trading securities, net	–	(61,907)	–	(551)	–	(62,458)
Realized and unrealized gains on swap, net	–	31,095	–	–	–	31,095
Total other income (loss), net	(76,915)	(14,504)	–	(1,566)	43,555	(49,430)
(Deficit) excess of revenues over expenses	\$ (76,915)	\$ (27,825)	\$ 6,440	\$ (16,069)	\$ 43,555	\$ (70,814)

## Luminis Health, Inc. and Subsidiaries

### Supplementary Description of Consolidating and Eliminating Entries

June 30, 2022

1. To eliminate intercompany payables and receivables
2. To eliminate investments in subsidiaries and related net asset accounts
3. To eliminate intercompany income and expense generated from management fees, staffing contracts, captive insurance premiums, and operating leases
4. To eliminate intercompany notes
5. To eliminate income of wholly owned subsidiaries
6. To eliminate intercompany revenue and expense for interest and other miscellaneous transactions

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