Frederick Health, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

June 30, 2024 and 2023

Independent Auditors' Report

To the Board of Directors of
Frederick Health, Inc. and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Frederick Health, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheet as of June 30, 2024, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of June 30, 2024, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Monacacy Insurance, Ltd (Monacacy), a wholly owned subsidiary, which statements reflect total assets of $28,148 as of June 30, 2024 and net loss after elimination of intercompany loss of $152 for the year then ended (stated in thousands). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for Monacacy, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the System, with the exception of Monacacy, as of June 30, 2023 and for the year then ended, were audited by other auditors whose report dated October 16, 2023, expressed an unqualified opinion on those statements.

The financial statements of Monacacy as of June 30, 2023 and for the year then ended, were audited by other auditors whose report dated August 30, 2023, expressed an unqualified opinion on those statements.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and *Government Auditing Standards* 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 System'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 33-42 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Pittston, Pennsylvania
October 24, 2024

Frederick Health, Inc. and Subsidiaries

Consolidated Balance Sheets
June 30, 2024 and 2023
(In Thousands)

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 3,359	$ 20,414
Patient receivables	102,930	76,459
Other receivables	5,309	5,154
Inventory	11,953	11,231
Prepaid expenses	6,995	6,592
Assets limited as to use	5,824	6,196
Promises to give, net	397	675
Total current assets	136,767	126,721
Property and Equipment, Net	288,463	295,365
Finance Lease Right-of-Use Assets, Net	7,257	8,297
Operating Lease Right-of-Use Assets, Net	28,107	27,945
Other Assets		
Assets limited as to use	5,011	2,853
Investments, donor restricted	2,241	3,416
Promises to give, net	3,100	3,894
Long-term investments	200,900	188,020
Other investments	19,148	19,636
Other assets	12,998	12,613
Total other assets	243,398	230,432
Total assets	$ 703,992	$ 688,760

See notes to consolidated financial statements

(In Thousands)

	2024	2023
Liabilities and Net Assets		
Current Liabilities		
Lines of credit	$ 7,339	$ 109
Current maturities of:		
Long-term debt	5,280	2,385
Finance lease obligations	1,771	1,930
Operating lease obligations	3,840	3,619
Accounts payable	51,527	44,559
Accrued expenses	31,665	27,901
Advances from third-party payors	21,982	11,333
Other current liabilities	6,571	5,547
Total current liabilities	129,975	97,383
Long-Term Liabilities, Net of Current Portion		
Long-term debt, net	221,294	226,981
Lines of credit	-	10,000
Other long-term liabilities	27,573	24,811
Finance lease obligations	5,667	6,507
Operating lease obligations	28,076	28,321
Total long-term liabilities, net of current portion	282,610	296,620
Total liabilities	412,585	394,003
Net Assets		
Without donor restrictions	285,214	286,211
With donor restrictions	5,738	7,985
Total net assets attributable to the system	290,952	294,196
Noncontrolling interest	455	561
Total net assets	291,407	294,757
Total liabilities and net assets	$ 703,992	$ 688,760

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2024 and 2023
(In Thousands)

	2024	2023
Operating Revenues		
Net patient service revenue	$ 525,217	$ 491,379
Other revenue	24,981	22,501
Total operating revenues	550,198	513,880
Operating Expenses		
Salaries and wages	264,688	257,872
Employee benefits	50,085	51,917
Professional fees	12,807	10,818
Cost of goods sold	108,239	89,595
Supplies	14,321	15,507
Contract services	63,462	56,570
Other	17,379	15,954
Utilities	5,185	5,002
Insurance	3,673	5,360
Depreciation and amortization	32,122	32,908
Interest	7,457	6,285
Total operating expenses	579,418	547,788
Loss from operations	(29,220)	(33,908)
Other Income (Loss), Net		
Gain on sale of assets	34	3
Loss on extinguishment of debt	-	(268)
Investment gain, net	12,804	14,527
Change in unrealized gains on trading securities, net	11,082	5,088
Realized losses and unrealized gains on interest rate swap contract, net	-	939
Other nonoperating (loss) gains, net	(450)	454
Total other income, net	23,470	20,743
Deficit of revenues over expenses	(5,750)	(13,165)
Less noncontrolling interest deficit (excess) of revenues over expenses	106	(47)
Deficit of revenues over expenses attributable to the System	$ (5,644)	$ (13,212)

See notes to consolidated financial statements

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2024 and 2023
(In Thousands)

	Attributable to the System: Without Donor Restrictions	Attributable to the System: With Donor Restrictions	Noncontrolling Interest	Total
Net Assets, June 30, 2022	$ 291,854	$ 12,303	$ -	$ 304,157
(Deficit) excess of revenues over expenses	(13,212)	-	47	(13,165)
Noncontrolling equity interest related to business acquisition	4,621	-	514	5,135
Released from restriction used for operations and nonoperating activities	-	(4,651)	-	(4,651)
Released from restriction used to purchase capital	2,636	(2,636)	-	-
Restricted gifts, bequests and contributions	-	2,969	-	2,969
Other changes	312	-	-	312
Change in net assets	(5,643)	(4,318)	561	(9,400)
Net Assets, June 30, 2023	286,211	7,985	561	294,757
Deficit of revenues over expenses	(5,644)	-	(106)	(5,750)
Released from restriction used for operations and nonoperating activities	-	(707)	-	(707)
Released from restriction used to purchase capital	4,647	(4,647)	-	-
Restricted gifts, bequests and contributions	-	3,107	-	3,107
Change in net assets	(997)	(2,247)	(106)	(3,350)
Net Assets, June 30, 2024	$ 285,214	$ 5,738	$ 455	$ 291,407

See notes to consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(In Thousands)

	2024	2023
Cash Flows From Operating Activities		
Changes in net assets	$ (3,350)	$ (9,400)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	32,122	32,908
Loss on extinguishment of debt	-	268
Amortization of premium and deferred financing	20	(43)
Equity in earning of joint ventures	(3,900)	(4,045)
Noncash gain from acquisition	-	(3,071)
Net unrealized and realized gains on unrestricted investments	(16,597)	(17,334)
Proceeds from restricted contributions	(7,921)	(5,595)
Change in fair value of interest rate swap, net of realized losses	-	(939)
Gain on sale of assets	(34)	(3)
Increase (decrease) in:		
Receivables, patient and other	(26,626)	(7,231)
Inventories and prepaids	(1,125)	(443)
Pledges receivable	1,072	1,357
Other assets	(417)	1,251
Accounts payable	6,968	11,575
Accrued expenses	3,764	(6,042)
Advanced from third-party payors	10,649	(10,856)
Other current liabilities	1,024	(1,172)
Other long-term liabilities	2,762	(5,847)
Net cash used in operating activities	(1,589)	(24,662)
Cash Flows From Investing Activities		
Realized losses on interest rate swap contract	-	(2,576)
Other investments	4,388	3,724
Acquisition, net	-	(1,103)
Purchases of property and equipment	(23,178)	(47,191)
Net sales of long-term investments and assets limited as to use	2,734	19,742
Net cash used in investing activities	(16,056)	(27,404)

See notes to consolidated financial statements

(In Thousands)

	2024	2023
Cash Flows From Fundraising and Financing Activities		
Proceeds from restricted contributions	$ 7,921	$ 5,595
Repayments of long-term debt and lines of credit	(5,156)	(71,015)
Proceeds from borrowings	-	108,741
Payments for finance lease obligations	(2,121)	(2,058)
Deferred financing costs paid	(426)	(1,263)
Net cash provided by fundraising and financing activities	218	40,000
Net decrease in cash, cash equivalents and restricted cash	(17,427)	(12,066)
Cash, Cash Equivalents and Restricted Cash, Beginning	26,610	38,676
Cash, Cash Equivalents and Restricted Cash, Ending	$ 9,183	$ 26,610
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents	$ 3,359	$ 20,414
Restricted cash, included in assets limited as to use	5,824	6,196
Total cash, cash equivalents and restricted cash	$ 9,183	$ 26,610
Supplemental Disclosures		
Cash paid for interest	$ 5,873	$ 4,436

1. Organization and Mission

Frederick Health, Inc. (the System) is a not-for-profit parent corporation formed on June 23, 2011, exempt from income tax under Section 50l(a) of the Internal Revenue Code (the Code) as an organization described in Section 50l(c)(3) whereby only unrelated business income as defined by Section 512(a)(l) of the Code is subject to federal income tax. The System has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income taxes under Section 50l(c) of the Code.

Frederick Health Hospital, Inc. (the Hospital) is a not-for-profit hospital, exempt from federal income tax under Section 50l(a) of the Code as an organization described in Section 50l(c)(3) whereby only unrelated business income as defined by Section 512(a)(l) of the Code is subject to federal income tax. The Hospital is located in Frederick, Maryland, and provides health care services primarily to residents of Frederick County. The Hospital has received a determination letter from the IRS stating that it is exempt from federal income taxes under Section 501(c) of the Code.

Monocacy Insurance, Ltd. (MIL) is a Cayman Islands-domiciled single-parent captive incorporated on May 24, 2011, and holds an Unrestricted Class B insurance license issued under Section 7(2) of the Cayman Island Insurance Law. MIL directly provides primary medical professional liability, primary general liability coverage, and cyber liability coverage to the System.

Frederick Health Medical Group, LLC (the Medical Group) serves as a physician enterprise, providing governance, management, and support functions for employed physicians. The Medical Group is a not-for-profit corporation, formed on June 23, 2011, and operational as of October 1, 2013, exempt from income tax under Section 50l(a) of the Code as an organization described in Section 50l(c)(3) whereby only unrelated business income as defined by Section 512(a)(l) of the Code is subject to federal income tax. The Medical Group has received a determination letter from the IRS stating that it is exempt from federal income taxes under Section 501(c) of the Code.

Frederick Health Services Corporation (FHSC) is a Maryland for-profit corporation, all of the stock of which is owned by the System. FHSC is subject to federal and state income taxes.

On March 25, 2014, Frederick Integrated Healthcare Network, LLC (FIHN) was formed and is operated exclusively as a charitable organization for charitable, scientific, and educational purposes within the meaning of Section 50l(c)(3) of the Code and the Regulations thereunder as they now exist or as they may hereafter be amended. FIHN was formed to maintain and operate a program of clinical integration and an accountable care organization among health care providers.

In October 2019, the System purchased 100% of the membership interests of Frederick View, LLC, a Maryland limited liability company. The sole asset of Frederick View, LLC was real property consisting of an approximately 94-acre parcel of land with an approximately 387,000- square-foot building, which was formerly used by an insurance company. On December 2, 2019, the Articles of Organization of Frederick View, LLC were amended for the purpose of changing the name of Frederick View, LLC to Frederick Health Village, LLC (the Village).

On December 16, 2021, Frederick Health Community Enterprises, LLC (FHCE) was formed and is operated exclusively as a charitable organization for charitable, scientific, and educational purposes within the meaning of Section 50l(c)(3) of the Code and the Regulations thereunder as they now exist or as they may hereafter be amended. FHCE was formed for the benefit of, and to advance the interests of, the System.

The Obligated Group, consisting of the Hospital, Medical Group, and the System, is responsible for repayment of the Maryland Health and Higher Education Facilities Authority (MHHEFA) Series Bonds, Promissory Note 2020 and any outstanding amount on the 2013 Line of Credit. Refer to Notes 9 and 10 for additional information on the line of credit and long-term debt.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of the System and its wholly owned subsidiaries: the Hospital, MIL, FHSC, the Medical Group, FIHN, FHCE and the Village. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Hospital has one wholly owned subsidiary, Frederick Health Hospice, LLC (Hospice), an independent 501(c)(3) organization controlled by the Hospital, operates as a fundraising organization for the benefit of hospice services and owns the Kline Hospice House.

FHSC has two wholly owned subsidiaries: Rosehill of Frederick, LLC and Frederick Health Employer Solutions, LLC, both of which are for-profit limited liability companies that have been consolidated with FHSC into the System in the accompanying consolidated financial statements. FHSC also has a 90% ownership interest in Frederick Surgical Center, LLC which as been consolidated with FHSC into the System in the accompanying consolidated financial statements and the noncontrolling interest represents the 10% that is not owned by FHSC.

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift becomes unconditional. Contributions are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified as net assets without donor restrictions and changes in net assets as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as contributions without donor restrictions. Contributed nonfinancial assets received from donors are subsequently monetized.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with an original maturity of three months or less, excluding assets limited as to use and those classified as long-term investments. Cash and cash equivalent balances may exceed amounts insured by federal agencies and, therefore, bear a risk of loss. The System has not experienced such losses on these funds.

Other Revenue

Other revenue consists primarily of other operating revenue as well as gifts, bequests and contributions. The System accounts for grant funding in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions, and accordingly, revenues are measured and recognized when barriers are substantially met, which occurs when the System complies with the terms and conditions related to the purpose of the grant, rather than those that are administrative in nature.

Inventory

Inventory, consisting primarily of drugs and medical and surgical supplies, is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Cost of Goods Sold

Cost of goods sold consists primarily of drugs, medical supplies, and surgical implants used in the care and treatment of patients.

Investments and Assets Limited as to Use

The fair values of individual investments, excluding private equity investments and hedge funds, are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Private equity investments and hedge funds are recorded based on net asset value of these investments, which is discussed further in Note 7, Fair Value Measurements. Realized and unrealized investment returns from all unrestricted investments and assets limited as to use are included on the accompanying consolidated statements of operations and changes in net assets as part of other nonoperating income (loss), net.

Long-term investments represent investments without donor restrictions and income earned on investments with and without donor restrictions. The cost of securities sold is based on the specific-identification method. Investments are classified as either current or noncurrent based on maturity dates and availability for current operations.

The System's investment portfolio is classified as trading, with unrealized gains and losses included in deficit of revenues over expenses.

Investment Risk and Liquidity Management

The System invests in professionally managed portfolios that contain corporate obligations, U.S. government obligations, agency securities, mortgage-backed securities, marketable equity securities, hedge funds, money market funds and private equity investments. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the accompanying consolidated financial statements.

As part of its liquidity management, the System's strategy is to structure its financial assets to be available to satisfy general operating expenses, current liabilities, and other obligations as they come due. The System has a committed line of credit, as discussed in Note 9, to help manage unanticipated liquidity needs.

Property and Equipment

Property and equipment are carried at cost or estimated fair value at date of contribution, less accumulated depreciation. Items acquired by gift are recorded at fair value at the time of acquisition. Depreciation is recorded using the straight-line method over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Leases

The System enters into lease agreements for equipment, office space, and certain facilities in conducting its normal business operations. Right-of-use assets represent the System's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. At the inception of any contract, the System evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, the System then evaluates the term and whether the lease is an operating or a finance lease. Most leases include one or more options to renew or may have a termination option. The System determines whether these options are reasonably certain to be exercised at the inception of the lease. The depreciable life of right-of-use assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain to be exercised at the inception of the lease. The lease expense is recognized on a straight-line basis on the accompanying consolidated statements of operations and changes in net assets over the terms of the respective leases. Leases with an initial term of 12 months or less are not recorded on the accompanying consolidated balance sheets.

ASC 842, *Leases,* includes an accounting policy election for nonpublic business entities to use the risk-free rate for the measurement of lease liabilities. The System elected to utilize the risk-free rate for the measurement of lease liabilities. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease liability is subsequently increased by interest expense recognized and reduced by lease payments made. The System also elected the practical expedient that allows the System to treat the lease and nonlease components of a contract as a single component and account for as a lease.

Valuation of Long-Lived Assets

The System accounts for the valuation of long-lived assets under ASC 360-10-45, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Debt Issuance Costs

Debt issuance costs related to long-term debt issuance are being deferred and amortized over the life of the related debt using the effective-interest method and are netted in long-term debt on the accompanying consolidated balance sheets.

Net Patient Service Revenue and Patient Accounts Receivable

In accordance with ASC 606, *Revenue from Contracts with Customers*, net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient services revenue, is recorded at the transaction price estimated by the System to reflect the total consideration due from patients and third-party payors (including commercial payers and government programs) and others. The System assesses collectability on patient contracts prior to the recognition of net patient service revenue. Revenue is recognized over time as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The services provided to a patient during an inpatient stay or outpatient visit represent a bundle of goods and services that are distinct and accounted for as a single performance obligation.

The System's estimate of the transaction price includes the System's standard charges for the goods and services provided with a reduction recorded related to explicit price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and implicit price concessions such as uncollectible amounts. The price concessions are determined using the portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Based on historical experience, a significant portion of the self-pay population will be unable or unwilling to pay for services and only the amount anticipated to be collected is recognized in the transaction price. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of change.

The standard charges for goods and services for the Hospital reflect actual charges to patients based on rates established by the Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered. See Note 18 for further discussion on the HSCRC and regulated rates.

Patient receivables are recorded at their net realizable value and includes 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. Accounts are written off through the provision for credit loss when the Company has exhausted all collection efforts and determines accounts are impaired based on changes in patient credit worthiness.

The System's revenues generally relate to contracts with patients in which the System's performance obligations are to provide health care services to patients. These revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Refer to Note 3 for additional information regarding the recognition of revenues in accordance with generally accepted accounting principles.

Measure of Operations

The consolidated statements of operations and changes in net assets reflect all changes in net assets without donor restrictions, including changes from both operating and nonoperating activities. Operating revenues and expenses consist of those items that are an integral part of the System's healthcare and related supporting activities. Nonoperating activities are limited to resources that generate return from investment and other activities considered to be of a more unusual or nonrecurring nature.

Performance Indicator

The performance indicator is the deficit of revenues over expenses. Other changes in net assets, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restrictions, were to be used for the purpose of acquiring such assets), and the noncontrolling equity interest related to business acquisition.

Fair Value of Financial Instruments

The carrying amounts reported on the accompanying consolidated balance sheets for cash and cash equivalents, patient receivables, other receivables, accounts payable, accrued expenses, other liabilities, and advances from third-party payors approximate their fair values.

Use of Estimates

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

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 with donor restrictions and excluded from deficit of revenues over expenses. 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 statements of operations and changes in net assets. Resources restricted by donors for additions to property 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.

Reclassifications

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Accounting Standard Adopted

In June 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. On July 1, 2023, the System adopted the ASU using the modified retrospective transition approach of the period of adoption. There was no adjustment to net assets upon adoption.

(Dollars in Thousands)

3. Net Patient Service Revenue

Net patient service revenue consists of the following for the years ended June 30:

	2024	2023
Inpatient charges	$ 246,720	$ 252,926
Outpatient charges	501,441	447,692
Gross charges	748,161	700,618
Less contractual and other allowances	(222,944)	(209,239)
Net patient service revenue	$ 525,217	$ 491,379

The System has elected to apply the optional exemption in ASC 606-10-50-14A as all performance obligations relate to contracts with a duration of less than one year. Under this exemption, the System was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

The System has also elected the practical expedient to utilize the portfolio approach 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.

The System does not pursue collection of amounts determined to qualify as charity care; therefore, these revenues are not reported as net patient service revenue. Using the cost to charge ratio to approximate cost, charity care provided for the years ended June 30, 2024 and 2023, was $6,924 and $7,021, respectively. The state of Maryland rate system includes components within the rates to partially compensate hospitals for uncompensated care.

4. Assets Limited as to Use

A summary of assets that are limited as to use substantially for debt service and deferred compensation trusts at June 30 is as follows:

	2024	2023
Current:		
Principal, interest and other, bonds	$ 5,790	$ 1,229
Construction funds	-	4,912
Other	34	55
	$ 5,824	$ 6,196
Noncurrent:		
Deferred compensation trusts	$ 5,011	$ 2,853

(Dollars in Thousands)

The assets that are limited as to use consist of the following at June 30:

	2024	2023
Current:		
Cash and money market accounts	$ 5,824	$ 6,196
Noncurrent:		
Mutual funds	$ 5,011	$ 2,853

The noncurrent assets limited as to use mutual funds are primarily invested in equities and bonds chosen by deferred compensation plan participants.

5. Promises to Give

Promises to give are discounted and are due as follows at June 30:

	2024	2023
Less than one year	$ 467	$ 794
One to five years	1,749	2,682
More than five years	2,132	2,649
	4,348	6,125
Less discounting and allowance for uncollectible promises	851	1,556
Total promises to give, net	3,497	4,569
Less current portion of promises to give, net	397	675
Total	$ 3,100	$ 3,894

Promises to give include $1,601 and $1,320 for the years ended June 30, 2024 and 2023, respectively, related to charitable remainder trusts. This net amount represents the excess of the fair value of the related trust accounts over the net present value of the annuities to be paid out of the trust to the named beneficiaries over their estimated life expectancy.

6. Investments

Investments with donor restrictions are designated by the donors for expenses relating to capital projects or replacement or improvement of existing assets, or to cover the cost of services rendered as charity care and other programs.

Long-term investments represent investments without donor restrictions and income earned on investments with and without donor restrictions.

(Dollars in Thousands)

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

Long-term investments with and without donor restrictions recorded at fair value consist of the following at June 30:

	2024	2023
Cash and cash equivalents	$ 2,739	$ 3,282
U.S. government obligations	5,075	3,957
Agency securities	10	1,269
Corporate obligations	6,024	6,526
Mortgage-backed securities	6,654	5,046
Equity securities	78,083	66,807
Mutual funds	60,880	60,443
Private equity investments*	20,099	18,455
Hedge funds*	23,577	25,651
Total	$ 203,141	$ 191,436

*Private equity investments and hedge funds are recorded net asset values (NAVs), which is discussed further in Note 7, Fair Value Measurements.

Investment gain, net for the years ended June 30 is as follows:

	2024	2023
Unrestricted:		
Net realized gains	$ 5,515	$ 7,684
Interest and dividends, net of investment expense	3,389	3,180
Gains from joint ventures	3,900	3,663
Total	$ 12,804	$ 14,527

Other investments consist of investments in joint ventures that are accounted for using the equity method at June 30 and are as follows:

	Entity	Interest	2024	2023
Mt. Airy Health Services, LLC	Hospital	50.0 %	$ 1,131	$ 1,031
Frederick County Radiology, LLC	Hospital	35.0	12,993	13,006
Emmitsburg Wellness Pavilion, LLC	FH	50.0	700	700
Mt. Airy Med-Services, LLC	FHSC	50.0	2,567	3,131
MNR of Frederick, LLC	FHSC	22.5	801	565
Other	Multiple	6.0-50.0	956	1,203
			$ 19,148	$ 19,636

(Dollars in Thousands)

Income recognized on these joint ventures was $3,900 and $3,663 for the year ending June 30, 2024 and 2023, respectively, and is included in investment gains, net in the accompanying consolidated statements of operations and changes in net assets. The fair value of these joint ventures is not readily determinable. Summarized financial information related to these entities is presented below as of June 30, 2024:

Total assets	$	76,310
Total liabilities		25,190
Net revenue		29,971
Revenues in excess of expenses		6,472

7. Fair Value Measurements

Assets and liabilities recorded at fair value on the accompanying consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

FASB guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, emphasizing that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

Level 1 - Inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the System has the ability to access at the measurement date.

Level 2 - Inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 - Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. Inputs to determine the fair value of Level 3 assets and liabilities require management judgment and estimation.

In addition to amounts recorded at fair value, certain investments are recorded at net asset value. The calculated NAV for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, and other business and market sector factors.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the assets or liabilities.

(Dollars in Thousands)

The following tables present the System's assets measured at fair value on a recurring basis and those recorded at NAV, aggregated by the level in the fair value hierarchy within which those measurements fall as of June 30:

	2024				
	Total	**Level 1**	**Level 2**	**Level 3**	**NAV**
Assets:					
Cash and cash equivalents	$ 8,563	$ 8,563	$ -	$ -	$ -
Equity securities	78,083	78,083	-	-	-
U.S. government obligations	5,075	-	5,075	-	-
Agency securities	10	-	10	-	-
Corporate and other bonds	6,024	-	6,024	-	-
Mutual funds	65,891	65,891	-	-	-
Mortgage-backed securities	6,654	-	6,654	-	-
Private equity investments	20,099	-	-	-	20,099
Hedge funds	23,577	-	-	-	23,577
Total assets	$ 213,976	$ 152,537	$ 17,763	$ -	$ 43,676

	2023				
	Total	**Level 1**	**Level 2**	**Level 3**	**NAV**
Assets:					
Cash and cash equivalents	$ 9,478	$ 9,478	$ -	$ -	$ -
Equity securities	66,807	66,807	-	-	-
U.S. government obligations	3,957	-	3,957	-	-
Agency securities	1,269	-	1,269	-	-
Corporate and other bonds	6,526	-	6,526	-	-
Mutual funds	63,296	63,296	-	-	-
Mortgage-backed securities	5,046	-	5,046	-	-
Private equity investments	18,455	-	-	-	18,455
Hedge funds	25,651	-	-	-	25,651
Total assets	$ 200,485	$ 139,581	$ 16,798	$ -	$ 44,106

The fair value of the System's trading securities is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, interest rate curves, and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

(Dollars in Thousands)

Private equity investments and hedge funds are recorded at NAV. These amounts are not required to be categorized in the fair value hierarchy. The recorded value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally as of the balance sheet date. It is expected that NAV approximates fair value. The System had approximately $6,626 of unfunded commitments in private equity investments and hedge funds as of June 30, 2024. The following represents the investment strategies and redemption restrictions of the private equity investments and hedge funds at June 30:

Investment	Strategy	2024	2023	Liquidity	Redemption Process
Marshall Wace Eureka Fund PLC	Hedge Fund	$ 4,855	$ 8,365	< 1 Year	Quarterly, 45 Days Notice
P2 Capital Fund, Ltd.	Hedge Fund	4,971	4,732	< 1 Year	Annual, 90 days notice
P2 Capital Fund, Ltd.	Hedge Fund	739	646	< 1 Year	Annual, 90 days notice
Paloma International, Ltd	Hedge Fund	3,947	3,730	< 1 Year	Redemption expected in January 2025
Hudson Bay Ltd. (Intl)	Hedge Fund	4,612	4,358	< 1 Year	N/A
SEG Partners Offshore, Ltd Class I	Hedge Fund	4,453	3,820	< 1 Year	N/A
BTAS 2015 Private Investors, LP	Private Equity	965	999	Illiquid	N/A
Secondary Opportunities Fund II PCS Feeder, LP	Private Equity	125	140	Illiquid	N/A
Blue Owl Technology Finance Corporation	Private Credit	3,107	3,090	Illiquid	N/A
Goldman Sachs Middle Market Lending Corp. II	Private Credit	2,194	955	Illiquid	N/A
Private Equity Global Select Fund VII, LP (Intl)	Private Equity	2,785	2,934	Illiquid	N/A
Glendower Access Secondary Opportunities IV, LP (Intl)	Private Equity	886	1,012	Illiquid	N/A
StepStone VC Secondaries Fund IV, LP	Private Equity	1,947	2,133	Illiquid	N/A
Glendower Access Secondary Opportunities V, LP (Intl)	Private Equity	1,207	1,016	Illiquid	N/A
Milestone Real Estate Investors IV, LP	Private Real Estate	1,221	1,679	Illiquid	N/A
MREI V Reit Feeder B, LP	Private Real Estate	2,593	2,358	Illiquid	N/A
ICAPITAL SL Partners VII Access Fund, LP (Intl)	Private Equity	460	-	Illiquid	N/A
Secondary Opportunities Fund III PCS Feeder International, LP	Private Equity	440	516	Illiquid	N/A
Calamos Market Neutral Income Fund CL	Alternative Mutual Fund	986	787	1Day	Market Price
JPMorgan Hedged Equity 3 Fund CL	Alternative Mutual Fund	1,117	818	1 Day	Market Price
Blue Owl Technology Finance Corporation II	Private Credit	66	18	Illiquid	N/A
		$ 43,676	$ 44,106		

(Dollars in Thousands)

8. Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2024	2023
Land		$ 10,967	$ 10,967
Land improvements	8-20 years	4,629	4,625
Buildings	20-40 years	368,922	331,664
Fixed equipment	10-20 years	29,769	29,485
Movable equipment	3-20 years	283,955	288,699
Leasehold improvements	5-20 years	28,060	24,291
		726,302	689,731
Less accumulated depreciation		452,249	433,977
		274,053	255,754
Construction-in-process, renovations and deposits		14,410	39,611
Total		$ 288,463	$ 295,365

Construction-in-progress consists of the System's building construction and renovations. 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.

9. Lines of Credit

2013 Line of Credit

On September 9, 2013, the System entered into a $20,000 revolving line of credit with a lending institution for the purpose of funding short-term working capital needs. The line of credit bears a variable interest rate of one-month LIBOR plus 1.50% per annum, adjusted and payable monthly.

Under the provisions of this revolving line of credit, the System has granted a security interest in all receipts now owned and hereafter acquired. Any outstanding amounts on this line of credit are secured with a deed of trust and security agreement applicable to the main hospital campus of the System and are secured ratably with the Series 2023 Bonds, Series 2020 Bonds, and the Promissory Note 2020. All outstanding principal and interest must be repaid on the maturity date.

This agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2024.

(Dollars in Thousands)

This line-of-credit agreement was amended on November 4, 2015, extending the maturity date to December 1, 2017, and decreased the revolving loan commitment from $20,000 to $15,000. A second amendment was made on January 1, 2017, reducing the variable interest rate to one-month LIBOR plus 1.25% per annum. A third amendment was made on November 30, 2017, extending the maturity date to January 31, 2020. A fourth amendment was made on October 29, 2019, reducing the variable interest rate to one-month LIBOR plus 1.05% and extending the maturity date to January 31, 2022. A fifth amendment was made on March 7, 2022, changing the interest rate to the Secured Overnight Financing Rate (SOFR) + 1.08% instead of LIBOR and extending the maturity date to January 31, 2024. A sixth amendment was made on January 1, 2023, extending the maturity date to January 31, 2025, and increasing the loan commitment to $50,000.

The outstanding balance on this line of credit was $6,900 and $10,000 as of June 30, 2024 and 2023, respectively. The interest rate on the 2013 Line of Credit was 6.39% as of June 30, 2024.

FSC Line of Credit

FSC had a line of credit with a lending institution in the amount of $750 which expires on July 3, 2025. The interest rate is variable at one-month SOFR + 2.32% and the balance outstanding as of June 30, 2024 and 2023 was $439 and 109, respectively. The applicable interest rate on June 30, 2024 was 7.64%.

10. Long-Term Debt

Long-term debt consists of the following:

	Interest Rate	2024	2023
MHHEFA Series 2023 Bonds	4.00-5.00 %	$ 69,975	$ 69,975
MHHEFA Series 2020 Bonds	3.25-4.00	62,645	62,645
Promissory Note 2020 converted	1.83	90,200	92,585
		222,820	225,205
Less current maturities		(5,280)	(2,385)
Plus unamortized premiums, net		6,591	6,831
Less deferred financing costs, net		(2,837)	(2,670)
Total	%	$ 221,294	$ 226,981

Series 2023 MHHEFA Revenue Bonds

On June 29, 2023, the System obtained a loan of $69,975 in MHHEFA Revenue Bonds, Frederick Health Issue, Series 2023. The MHHEFA Series 2023 Bonds were issued to refund $35,685 of MHHEFA Series 2017B, refinance $22,463 of outstanding 2013 Line of Credit, pay financing costs, and finance a portion of certain construction and equipment costs of the System.

Interest is payable semiannually on each January 1 and July 1, through July 1, 2053.

The Series 2023 Bonds were issued with a premium of $3,766 and resulted in the incurrence of $1,263 of deferred financing costs to be amortized over the 30-year life of the bonds.

Series 2023 Bonds are subject to redemption prior to maturity beginning at the option of the authority at the principal amount of the Series 2023 Bonds to be redeemed plus accrued interest thereon to the date set for redemption.

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2024.

Series 2020 MHHEFA Revenue Bonds

On June 25, 2020, the System obtained a loan of $62,645 in MHHEFA Revenue Bonds, Frederick Health System Issue, Series 2020. The MHHEFA Series 2020 Bonds were issued to refund all of the outstanding MHHEFA Series 2017A Bonds, pay financing costs, and finance a portion of certain construction and equipment costs of the System.

Interest is payable semiannually on each January 1 and July 1, through July 1, 2050.

The Series 2020 Bonds were issued with a premium of $3,405 and resulted in the incurrence of $877 of deferred finance costs to be amortized over the 30-year life of the bonds.

Series 2020 Bonds are subject to redemption prior to maturity beginning at the option of the authority at the principal amount of the Series 2020 Bonds to be redeemed plus accrued interest thereon to the date set for redemption.

Under the provisions of the bond agreement, the System has granted a security interest in all receipts now owned and hereafter acquired. The bonds are also secured with a deed of trust and security agreement applicable to the main hospital campus of the System. The Series 2020 Bonds are secured ratably with the Series 2012A Bonds, Series 2017B Bonds, Promissory Note 2020, and any outstanding amounts on the 2013 Line of Credit.

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2024.

Promissory Note 2020

On June 25, 2020, the System's Obligated Group issued a promissory note in favor of a lending institution in the amount of $93,875 facilitating legal defeasance of $86,290 of the Series 2012A MHHEFA Revenue Bonds, to pay related finance costs and fund an escrow account to provide for future Series 2012A interest and principal payments. In conjunction with the issuance of this note,

MHHEFA issued a tax exempt bond on July 1, 2022, in the principal amount of the remaining balance on this promissory note, in what is often referred to as a Cinderella bond. The transaction resulted in the incurrence of $386 of deferred finance costs to be amortized over the life of the promissory note of 18 years.

The interest rate on the Promissory Note 2020 is a fixed rate of 2.32% until the tax exempt bond is issued and is payable monthly. There is no debt service reserve requirement associated with the Promissory Note 2020.

Under the provisions of the loan agreement, the System has granted a security interest in all receipts now owned and hereafter acquired. The Promissory Note 2020 is also secured with a deed of trust and security agreement applicable to the main hospital campus of the System. The Promissory Note 2020 is secured ratably with the Series 2023 Bonds, Series 2020 Bonds, and any outstanding amounts on the 2013 Line of Credit.

The Promissory Note 2020 contains certain financial covenants, all of which the System was in compliance with, as of June 30, 2024.

(Dollars in Thousands)

Debt service requirements on long-term debt, excluding original issue premium and deferred financing costs at June 30, 2024, of $6,591 and $2,837, respectively, are as follows:

Years ending June 30:		
2025	$	5,280
2026		5,650
2027		5,850
2028		6,060
2029		7,320
Thereafter		192,660
Total	$	222,820

11. Employee Benefit Plans

The System also has a tax-deferred annuity savings (403(b)) plan available to substantially all employees. In conjunction with the curtailment of the defined benefit pension plan, the System modified the 403(b) plan effective July 1, 2007. Effective January 1, 2018, the 403(b) plan was amended such that all new hires will be automatically enrolled in the 403(b) plan at 3% of employee earnings, which will be automatically increased 1% annually up to 10%. Employees can opt out of this automatic enrollment and annual increase. The System will match 100.0% on employee contributions up to 5.0% of employee earnings. The System's contribution for base matching totaled $8,718 and $9,106 for the years ended June 30, 2024 and 2023, respectively.

In December 2005, the System adopted two nonqualified deferred compensation plans with an effective date of December 15, 2004, for certain members of executive management. Under these plans, participating employees may contribute amounts from their compensation to the plan and may receive a discretionary employer contribution. Employees are fully vested in all employee contributions to the plans. Vesting in employer contributions occurs in accordance with the underlying plan documents. All assets of the plans are held in separate trusts. Total contributions by the System to the plans were $440 and $423 for the years ended June 30, 2024 and 2023, respectively.

12. Concentration of Credit Risk

The System has funds on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. The System grants credit without collateral to its 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 (in percentages) at June 30 was as follows:

	2024	2023
Medicare	39 %	32 %
Medicaid	23	28
Blue Cross	16	14
HMOs and PPOs	12	13
Commercial insurance and other third-party payors	7	7
Patients	3	6
	100 %	100 %

(Dollars in Thousands)

In February 2024, the System was notified that one of its external healthcare technology vendors, Change Healthcare, experienced a cyber event. As a result of the cyber event, Change Healthcare disconnected their information technology systems, which ceased their normal operations provided to its customers within the healthcare industry. Change Healthcare provided revenue cycle billing and payment management services to the System, and accordingly, the Change Healthcare events impacted the System's billing and cash collections for services provided to patients for the remainder of the fiscal year ending June 30, 2024. The System switched revenue cycle billing and payment management services to a new healthcare technology vendor and claims resumed processing in April 2024. The increase in patient receivables as of June 30, 2024 is primarily driven by the Change Healthcare cybersecurity event adversely impacting billing. The System anticipates normalization of patient receivables in fiscal year 2025.

As a result of this disruption, the System received interest free funding advances from third-party payors in the amount of $22,118 during the year ending June 30, 2024. As of June 30, 2024, $12,246 was returned to payors and the remaining amount of $9,872 will be repaid in fiscal year 2025 and is included in advances from third-party payors on the accompanying consolidated balance sheets.

13. Functional Expenses

The System and its subsidiaries provide general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	2024		
	Program	General and Administrative	Total
Salaries and wages	$ 227,685	$ 37,003	$ 264,688
Employee benefits	43,255	6,830	50,085
Professional fees	8,836	3,971	12,807
Cost of goods sold	105,873	2,366	108,239
Supplies	13,774	547	14,321
Contract services	54,066	9,396	63,462
Other	14,006	3,373	17,379
Utilities	3,629	1,556	5,185
Insurance	1,640	2,033	3,673
Depreciation	28,220	3,902	32,122
Interest	6,919	538	7,457
Total	$ 507,903	$ 71,515	$ 579,418

	2023		
	Program	General and Administrative	Total
Salaries and wages	$ 221,277	$ 36,595	$ 257,872
Employee benefits	44,419	7,498	51,917
Professional fees	6,186	4,632	10,818
Cost of goods sold	88,363	1,232	89,595
Supplies	14,613	894	15,507
Contract services	48,133	8,437	56,570
Other	13,041	2,913	15,954
Utilities	4,095	907	5,002
Insurance	1,486	3,874	5,360
Depreciation	29,071	3,837	32,908
Interest	5,797	488	6,285
Total	$ 476,481	$ 71,307	$ 547,788

(Dollars in Thousands)

14. Net Assets

Net assets with restrictions are available for the following purposes or periods for the years ended June 30:

	2024	2023
Buildings and equipment	$ 2,355	$ 4,300
Restricted by time only	1,601	1,320
Staff resiliency programs	6	454
Education programs	371	447
Indigent care and research	431	488
Health care services permanently restricted	974	976
Total	$ 5,738	$ 7,985

During 2024 and 2023, net assets were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes in the amounts of $5,354 and $7,287, respectively.

15. Commitments and Contingencies

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

On July 1, 2011, MIL, a single-parent captive, was created to provide a flexible risk financing structure to meet the needs of the System's organization. As of June 30, 2012, MIL provided FMH with Primary Medical Professional Liability and Primary General Liability coverage with policy limits of liability of $1,000 each and every medical incident with a $3,000 annual aggregate for the 2011/2012 policy year and with a $5,000 annual aggregate for the 2012/2013 policy year through to the 2017/2018 policy year. Effective for the 2018/2019 policy year, MIL provides FMH with Primary Medical Professional Liability (MPL) and Primary General Liability (GL) coverage with policy limits of liability of $1,000 per claim/per occurrence for both MPL and GL separately, with a $4,000 aggregate for both MPL and GL combined. The System also issued a Buffer Medical Professional Liability and General Liability policy providing limits of liability of $1,000 each and every medical incident with a $2,000 aggregate, for Medical Professional Liability and General Liability combined. The MIL Primary Policy coverage form is mature claims-made with a retroactive date of July 1, 2005. The policy funding is retrospectively rated.

For policy years 2019/2020 through 2021/2022, the System's Primary MPL/GL policy provides limits of liability of $2,000,000 per claim/per occurrence for both MPL and GL separately, with a $6,000,000 aggregate for both MPL and GL combined.

MIL has also issued an Excess Umbrella Liability mature claims-made policy with a retroactive date of July 1, 2005. This policy is structured on a "dualtower" design. The Excess Medical Professional Liability Tower follows the form of the underlying Primary Medical Professional Liability coverage providing $20,000 limits of liability ($10,000 prior to July 1, 2016). The Umbrella Liability Tower provides $20,000 limits of liability ($10,000 prior to July 1, 2016) excess of scheduled underlying coverages. The "dualtowers" are 100% reinsured with a commercial carrier with an AM Best rating of A- or better.

Effective June 30, 2012, MIL assumed Professional Liability and Comprehensive General Liability coverage previously included under FMH's self-insured plan, for incidents occurring between July 1, 2005 and June 30, 2011, that were reported to FMH prior to June 30, 2011. The policy provides limits of liability of $1,000 each and every medical incident for the hospital professional liability and $1,000 each and every medical incident for comprehensive general liability. The policy is subject to a $3,000 annual aggregate for the hospital professional liability and comprehensive general liability combined, which applies to each covered year separately on a claims-made basis.

Effective June 30, 2012, MIL further assumed Professional Liability and Comprehensive General Liability coverage previously included under another FMH self-insurance plan, for incidents occurring between July 1, 1999 and June 30, 2001, with a limit of liability of$100 per claim. The Primary Medical Professional and Primary General Liability policy is 100% MIL retained risk. The Excess Umbrella Liability coverage is fully reinsured with a commercial carrier with an AM Best rating of A- or better.

Effective September 1, 2017, MIL issued a Cyber Deductible Liability Policy to the System at a per claim limit of liability of $100 and an annual aggregate limit of $200. The per claim limit of liability changed to $150,000/annual aggregate of $300,000 effective September 1, 2021. The policy funding is retrospectively rated.

There are known claims and incidents that could result in the assertion of additional claims, as well as claims from unknown incidents that could be asserted arising from services provided to patients.

Through MIL, a wholly owned subsidiary, the System maintains reserves, including excess coverage, in the amount of $17,568 and $17,226 at June 30, 2024 and 2023, respectively, which is included in other long-term liabilities on the accompanying consolidated balance sheets. The System also has a related reinsurance receivable of $8,770 and $7,980 at June 30, 2024 and 2023, respectively, which is included in other long-term assets on the accompanying consolidated balance sheets. In addition, the System has also estimated a tail liability for claims incurred but not reported under the claims-made policy totaling $4,766 and $4,062 as of June 30, 2024 and 2023, respectively, which is included in other long-term liabilities on the accompanying consolidated balance sheets. The System employs an independent actuary to estimate the ultimate settlement of such claims.

These reserves are recorded on an undiscounted basis at June 30, 2024 and 2023. 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 upon final resolution of such matters.

Workers' Compensation

The System is self-insured against workers' compensation claims, currently up to $600 per occurrence. Excess insurance attaches at $600 and has unlimited liability above this amount. Expenses include claims paid, reserves on known claims, and reserves on unreported claims (incurred but not reported).

Letter of Credit

The System has a letter of credit issued by a lending institution in the amount of $1,457. This letter of credit is renewed on an annual basis and is required by the state of Maryland as collateral for unemployment benefits.

(Dollars in Thousands)

16. Leases

The System leases equipment, office space, and certain facilities. Included on the accompanying consolidated statements of operations and changes in net assets are lease expenses of $6,797 and $6,999 in 2024 and 2023, respectively. The following table summarizes the components of lease expense for the years ended June 30:

	2024	2023
Finance lease cost:		
Amortization	$ 2,008	$ 2,123
Interest	154	179
Total finance lease cost	2,162	2,302
Operating lease cost	4,635	4,339
Short-term lease cost	-	358
Total lease costs	$ 6,797	$ 6,999

As of June 30, 2024, the System recognized $7,257 and $28,107 of financing and operating right-of-use assets, net, respectively. As of June 30, 2023, the System recognized $8,297 and $27,945 of financing and operating right-of-use assets, net. respectively.

The following table summarizes cash flows from operating and finance leases for the years ended June 30:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	$ 4,315	$ 4,563
Operating cash flows paid for interest portion of finance leases	154	179
Financing cash flows paid for principal portion of finance leases	1,967	2,058
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	643	2,692
Finance leases	-	-

The weighted average discount rates and the System's weighted remaining lease terms as of June 30 are as follows:

	2024	2023
Weighted average discount rate:		
Operating leases	2.38 %	2.20 %
Financing leases	2.28	1.84
Weighted average lease term (in years):		
Operating leases	10.57	11.43
Financing leases	4.29	5.00

(Dollars in Thousands)

The following table reconciles undiscounted future finance and operating lease obligations for each of the next five years and thereafter, as of June 30, 2024, to the lease obligation recorded on the consolidated balance sheet at June 30, 2024:

	Finance Leases	Operating Leases	Total
Years ending June 30:			
2025	$ 1,918	$ 4,589	$ 6,507
2026	1,741	4,360	6,101
2027	1,741	4,051	5,792
2028	1,741	3,966	5,707
2029	674	4,047	4,721
Thereafter	-	14,944	14,944
Total future undiscounted lease obligations	7,815	35,957	43,772
Less lease payment representing interest	(377)	(4,041)	(4,418)
Present value of future lease payments	7,438	31,916	39,354
Less current portion of future lease payments	(1,771)	(3,840)	(5,611)
Long-term lease obligations	$ 5,667	$ 28,076	$ 33,743

17. Liquidity and Availability

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

	2024	2023
Cash and cash equivalents	$ 3,359	$ 20,414
Patient accounts receivable	102,930	76,459
Promises to give, net	397	675
Other receivables	5,309	5,154
Investments with daily and weekly liquidity	152,810	142,200
Total	$ 264,805	$ 244,902

The System’s most restrictive bond covenant requires the Obligated Group to maintain unrestricted cash and marketable securities on hand to meet 75 days of normal operating expenses, which would be approximately $106,014 and $105,797 as of June 30, 2024 and 2023, respectively.

18. Regulatory Environment

Medicare and Medicaid

The Medicare and Medicaid reimbursement programs represent a substantial portion of the System's revenues. The System'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 and 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 the System.

In 1983, Congress approved a Medicare prospective payment plan for most inpatient services as part of the Social Security Amendments Act of 1983. Hospitals in Maryland are currently exempt from these federal reimbursement regulations under a special waiver. The waiver currently in effect is subject to renewal based upon criteria defined in the federal law. Under these payment arrangements with Medicare, a retroactive adjustment could occur if certain performance standards are not attained by all hospitals on a statewide basis. The impact, if any, of any retroactive adjustment of the Medicare prospective payment system, should hospitals in Maryland become subject to such system, on future operations of the System has not been determined.

State of Maryland Health Services Cost Review Commission

Certain hospital charges are subject to review and approval by the HSCRC. Hospital management has filed the required forms with the Commission and believes the Hospital is in compliance with the Commission's requirements.

Through June 2023, the current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between CMS and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the state of Maryland under Section l 8l 4(b) of the Social Security Act. As of January 2014, CMS approved a modernized waiver that will be in place as long as Maryland hospitals commit to achieving significant quality improvements, limits on all-payor per capita hospital growth, and limits on annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate.

Starting in January 2019, Maryland's hospitals began operating under a new 10-year contract with the federal government entitled Maryland Total Cost of Care Model (TCOC). TCOC is designed to test whether the improvements hospitals have made under the previous modernized waiver can be expanded to all health care providers. The Global Budget Revenue (GBR) methodology will remain in place for hospital rate setting under TCOC. 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 and will be further defined in the next fiscal year.

Beginning in fiscal year 2014, the System entered into an agreement with HSCRC to participate in the GBR program. GBR methodology encourages hospitals to focus on population health strategies by establishing a fixed annual revenue cap for each GBR hospital. The agreement is evergreen in nature and covers both regulated inpatient and outpatient revenues.

Under GBR, hospital revenue is known at the beginning of each fiscal year. Annual revenue is calculated from a base year and is adjusted annually for inflation, infrastructure requirements, population changes, performance in quality-based programs, and changes in levels of uncompensated care. Revenue may also be adjusted annually for market levels and shifts of services to unregulated services.

The Commission's rate-setting methodology for hospital service centers consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the System. The actual average unit charge for each service center is compared with the approved rate monthly and annually.

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; however, uncertainties exist as to the final outcome of HSCRC rate setting decision-making. The System was overcharged by $1,689 for the year ended June 30, 2024, and overcharged by $1,567 for the year ended June 30, 2023.

The timing of HSCRC's rate adjustments for the System could result in an increase or a reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur, and there is at least a possibility that the amounts may be material. The System's policy is to record revenue based on actual charges for services to patients in the year in which the services are performed.

HSCRC established an uncompensated care fund whereby certain hospitals are required to contribute to the fund to help cover the costs associated with uncompensated care for all Maryland hospitals equitably. The System received from the fund $569 and $195 for the years ended June 30, 2024 and 2023, respectively.

19. Subsequent Events

The System has evaluated subsequent events through October 24, 2024, the date of issuance of these accompanying consolidated financial statements. The System is unaware of any subsequent events that would require recognition or disclosure at this time.

Frederick Health, Inc. and Subsidiaries

Consolidating Balance Sheet
June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Inc. Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Assets									
Current Assets									
Cash and cash equivalents	$ 71	$ 904	$ 1	$ -	$ 2,166	$ 217	$ -	$ -	$ 3,359
Patient receivables	-	77,479	-	23,991	1,460	-	-	-	102,930
Other receivables	-	4,497	-	847	-	-	-	(35)	5,309
Inventory	-	7,964	-	3,341	648	-	-	-	11,953
Prepaid expenses	-	6,461	6	78	368	-	82	-	6,995
Assets limited as to use	-	5,791	33	-	-	-	-	-	5,824
Promises to give, net	-	397	-	-	-	-	-	-	397
Total current assets	71	103,493	40	28,257	4,642	217	82	(35)	136,767
Property and Equipment, Net	-	256,307	-	1,316	4,863	-	25,977	-	288,463
Finance Lease Right-of-Use Assets, Net	-	7,257	-	-	-	-	-	-	7,257
Operating Lease Right-of-Use Assets, Net	-	17,375	-	7,241	3,491	-	-	-	28,107
Other Assets									
Assets limited as to use	-	5,011	-	-	-	-	-	-	5,011
Investments, donor restricted	-	2,241	-	-	-	-	-	-	2,241
Promises to give, net	-	3,100	-	-	-	-	-	-	3,100
Long-term investments	-	196,333	4,567	-	-	-	-	-	200,900
Other investments	743	14,869	-	-	3,536	-	-	-	19,148
Investments in subsidiaries	307,157	16,210	-	-	-	-	-	(323,367)	-
Other assets	-	132	8,770	-	4,113	-	-	(17)	12,998
Intercompany receivables	-	59,811	14,771	402	-	517	-	(75,501)	-
Total other assets	307,900	297,707	28,108	402	7,649	517	-	(398,885)	243,398
Total assets	$ 307,971	$ 682,139	$ 28,148	$ 37,216	$ 20,645	$ 734	$ 26,059	$ (398,920)	$ 703,992

Frederick Health, Inc. and Subsidiaries

Consolidating Balance Sheet
June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Inc. Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Liabilities and Net Assets									
Current Liabilities									
Line of credit	$ -	$ 6,900	$ -	$ -	$ 439	$ -	$ -	$ -	$ 7,339
Current maturities of:									
Long-term debt	-	5,280	-	-	-	-	-	-	5,280
Finance lease obligations	-	1,771	-	-	-	-	-	-	1,771
Operating lease obligations	-	2,593	-	509	738	-	-	-	3,840
Accounts payable	-	49,411	-	479	713	380	544	-	51,527
Accrued expenses	-	24,271	50	6,457	887	-	-	-	31,665
Advances from third-party payors	-	21,982	-	-	-	-	-	-	21,982
Other current liabilities	-	4,737	-	1,724	511	-	-	(401)	6,571
Total current liabilities	-	116,945	50	9,169	3,288	380	544	(401)	129,975
Long-Term Liabilities, Net of Current Portion									
Long-term debt, net	-	221,294	-	-	-	-	-	-	221,294
Other long-term liabilities	-	9,965	17,568	-	40	-	-	-	27,573
Finance lease obligations, long term	-	5,667	-	-	-	-	-	-	5,667
Operating lease obligations, long term	-	17,742	-	7,341	2,993	-	-	-	28,076
Intercompany liabilities	234	15,099	10,410	20,706	3,188	-	25,515	(75,152)	-
Total long-term liabilities, net of current portion	234	269,767	27,978	28,047	6,221	-	25,515	(75,152)	282,610
Total liabilities	234	386,712	28,028	37,216	9,509	380	26,059	(75,553)	412,585
Net Assets									
Without donor restrictions	301,544	289,689	120	-	10,681	354	-	(317,174)	285,214
With donor restrictions	5,738	5,738	-	-	-	-	-	(5,738)	5,738
Total net assets attributable to the System	307,282	295,427	120	-	10,681	354	-	(322,912)	290,952
Noncontrolling interest	455	-	-	-	455	-	-	(455)	455
Total net assets	307,737	295,427	120	-	11,136	354	-	(323,367)	291,407
Total liabilities and net assets	$ 307,971	$ 682,139	$ 28,148	$ 37,216	$ 20,645	$ 734	$ 26,059	$ (398,920)	$ 703,992

Frederick Health, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Inc. Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Operating Revenues									
Net patient service revenue	$ -	$ 400,999	$ -	$ 107,792	$ 16,940	$ -	$ -	$ (514)	$ 525,217
Other revenue (loss)	-	20,585	(152)	15,124	2,499	1,755	-	(14,830)	24,981
Total operating revenues	-	421,584	(152)	122,916	19,439	1,755	-	(15,344)	550,198
Operating Expenses									
Salaries and wages	-	190,688	-	64,645	7,843	1,512	-	-	264,688
Employee benefits	-	38,701	-	9,822	1,443	315	-	(196)	50,085
Professional fees	-	24,781	183	203	84	36	-	(12,480)	12,807
Cost of goods sold	-	46,538	-	57,013	4,688	-	-	-	108,239
Supplies	-	13,742	-	567	-	2	10	-	14,321
Contract services	-	54,496	-	6,131	2,212	14	977	(368)	63,462
Other	-	12,451	124	4,746	2,059	5	294	(2,300)	17,379
Utilities	-	4,307	-	101	395	7	375	-	5,185
Insurance	-	2,065	(98)	1,450	190	-	66	-	3,673
Depreciation and amortization	-	28,589	-	495	948	-	2,090	-	32,122
Interest	-	7,388	-	-	229	-	-	(160)	7,457
Total operating expenses	-	423,746	209	145,173	20,091	1,891	3,812	(15,504)	579,418
(Loss) income from operations	-	(2,162)	(361)	(22,257)	(652)	(136)	(3,812)	160	(29,220)
Other Income (Loss), Net									
Gain on sale of assets	-	34	-	-	-	-	-	-	34
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-
Investment gain (loss), net	(997)	12,159	541	-	264	-	-	837	12,804
Change in unrealized gains (losses) on trading securities, net	-	11,262	(180)	-	-	-	-	-	11,082
Other nonoperating (loss) gains, net	-	(369)	-	-	(81)	-	-	-	(450)
Total other income (loss), net	(997)	23,086	361	-	183	-	-	837	23,470
(Deficit) excess of revenues over expenses	(997)	20,924	-	(22,257)	(469)	(136)	(3,812)	997	(5,750)
Less noncontrolling interest deficit of revenues over expenses	-	-	-	-	106	-	-	-	106
(Deficit) excess of revenues over expenses attributable to the System	(997)	20,924	-	(22,257)	(363)	(136)	(3,812)	997	(5,644)

Frederick Health, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Inc. Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Net Assets Without Donor Restrictions									
(Deficit) excess of revenues over expenses attributable to the System	$ (997)	$ 20,924	$ -	$ (22,257)	$ (363)	$ (136)	$ (3,812)	$ 997	$ (5,644)
Other changes in unrestricted net assets*	-	(26,033)	-	22,221	-	-	3,812	-	-
Released from restriction used to purchase capital	-	4,647	-	-	-	-	-	-	4,647
Changes in net assets without donor restrictions attributable to the System	(997)	(462)	-	(36)	(363)	(136)	-	997	(997)
Net Assets With Donor Restrictions									
Released from restriction used for operations and nonoperating activities	(707)	(707)	-	-	-	-	-	707	(707)
Released from restriction used to purchase capital	(4,647)	(4,647)	-	-	-	-	-	4,647	(4,647)
Restricted gifts, bequests and contributions	3,107	3,107	-	-	-	-	-	(3,107)	3,107
Changes in net assets with donor restrictions attributable to the System	(2,247)	(2,247)	-	-	-	-	-	2,247	(2,247)
Noncontrolling Interest									
Deficit of revenues over expenses attributable to noncontrolling interest	(106)	-	-	-	(106)	-	-	106	(106)
Changes in net assets	(3,350)	(2,709)	-	(36)	(469)	(136)	-	3,350	(3,350)
Net Assets, Beginning	311,087	298,136	120	36	11,605	490	-	(326,717)	294,757
Net Assets, Ending	$ 307,737	$ 295,427	$ 120	$ -	$ 11,136	$ 354	$ -	$ (323,367)	$ 291,407

* Includes the board resolution to cancel intercompany liabilities exceeding subsidiaries' net assets.

Frederick Health, Inc. Obligated Group

Combining Balance Sheet
June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Assets					
Current Assets					
Cash and cash equivalents	$ 71	$ 312	$ -	$ -	$ 383
Patient receivables	-	77,479	23,991	-	101,470
Other receivables	-	4,497	847	-	5,344
Inventory	-	7,964	3,341	-	11,305
Prepaid expenses	-	6,461	78	-	6,539
Assets limited as to use	-	5,791	-	-	5,791
Promises to give, net	-	397	-	-	397
Total current assets	71	102,901	28,257	-	131,229
Property and Equipment, Net	-	255,610	1,316		256,926
Finance Lease Right-of-Use Assets, Net	-	7,257	-	-	7,257
Operating Lease Right-of-Use Assets, Net	-	17,375	7,241		24,616
Other Assets					
Assets limited as to use	-	5,011	-	-	5,011
Investments, donor restricted	-	1,972	-	-	1,972
Promises to give, net	-	3,100	-	-	3,100
Long-term investments	-	181,358	-	-	181,358
Other investments	743	14,869	-	-	15,612
Investments in subsidiaries	307,157	32,247	-	(311,757)	27,647
Other assets	-	132	-	-	132
Intercompany receivables	-	59,811	402	(20,940)	39,273
Total other assets	307,900	298,500	402	(332,697)	274,105
Total assets	$ 307,971	$ 681,643	$ 37,216	$ (332,697)	$ 694,133

Frederick Health, Inc. Obligated Group

Combining Balance Sheet
June 30, 2024
(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Liabilities and Net Assets					
Current Liabilities					
Line of credit	$ -	$ 6,900	$ -	$ -	$ 6,900
Current maturities of:					
Long-term debt	-	5,280	-	-	5,280
Finance lease obligations	-	1,771	-	-	1,771
Operating lease obligations	-	2,593	509	-	3,102
Accounts payable	-	49,252	479	-	49,731
Accrued expenses	-	24,256	6,457	-	30,713
Advances from third-party payors	-	21,982	-	-	21,982
Other current liabilities	-	4,737	1,724	-	6,461
Total current liabilities	-	116,771	9,169	-	125,940
Long-Term Liabilities, Net of Current Portion					
Long-term debt, net	-	221,294	-	-	221,294
Other long-term liabilities	-	9,965	-	-	9,965
Finance lease obligations, long term	-	5,667	-	-	5,667
Operating lease obligations, long term	-	17,742	7,341	-	25,083
Intercompany liabilities	234	14,777	20,706	(20,940)	14,777
Total long-term liabilities, net of current portion	234	269,445	28,047	(20,940)	276,786
Total liabilities	234	386,216	37,216	(20,940)	402,726
Net Assets					
Without donor restrictions	301,544	289,689	-	(306,019)	285,214
With donor restrictions	5,738	5,738	-	(5,738)	5,738
Total net assets attributable to the System	307,282	295,427	-	(311,757)	290,952
Noncontrolling interest	455	-	-	-	455
Total net assets	307,737	295,427	-	(311,757)	291,407
Total liabilities and net assets	$ 307,971	$ 681,643	$ 37,216	$ (332,697)	$ 694,133

The Obligated Group consists of Frederick Health Inc., Frederick Health Hospital, Inc., and Frederick Health Medical Group, LLC and the financial statements presented for the Obligated Group include only their accounts, which include their investment interest in controlled, affiliated entities, but do not include the revenues, expenses, assets, or liabilities of the Obligated Group or the revenues, expenses, assets or liabilities of any of those controlled, affiliated entities.

(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Operating Revenues					
Net patient service revenue	$ -	$ 400,999	$ 107,792	$ (196)	$ 508,595
Other revenue	-	18,363	15,124	(14,807)	18,680
Total operating revenues	-	419,362	122,916	(15,003)	527,275
Operating Expenses					
Salaries and wages	-	190,688	64,645	-	255,333
Employee benefits	-	38,701	9,822	(196)	48,327
Professional fees	-	24,781	203	(12,480)	12,504
Cost of goods sold	-	46,538	57,013	-	103,551
Supplies	-	13,663	567	-	14,230
Contract services	-	54,118	6,131	(50)	60,199
Other	-	11,917	4,746	(2,277)	14,386
Utilities	-	4,287	101	-	4,388
Insurance	-	2,065	1,450	-	3,515
Depreciation and amortization	-	28,531	495	-	29,026
Interest	-	7,388	-	-	7,388
Total operating expenses	-	422,677	145,173	(15,003)	552,847
Loss from operations	-	(3,315)	(22,257)	-	(25,572)
Other Income (Loss), Net					
Gain on sale of assets	-	34	-	-	34
Investment gain (loss), net	(997)	14,416	-	498	13,917
Change in unrealized gains on trading securities, net	-	10,158	-	-	10,158
Other nonoperating loss, net	-	(369)	-	-	(369)
Total other income (loss), net	(997)	24,239	-	498	23,740
(Deficit) excess of revenue over expenses	(997)	20,924	(22,257)	498	(1,832)
Less noncontrolling interest deficit of revenues over expenses	-	-	-	-	-
(Deficit) excess of revenues over expenses attributable to the Obligated Group	(997)	20,924	(22,257)	498	(1,832)
Net Assets Without Donor Restrictions					
(Deficit) excess of revenues over expenses attributable to the Obligated Group	(997)	20,924	(22,257)	498	(1,832)
Other changes in unrestricted net assets*	-	(26,033)	22,221	-	(3,812)
Released from restriction used to purchase capital	-	4,647	-	-	4,647
Changes in net assets without donor restrictions attributable to the Obligated Group	(997)	(462)	(36)	498	(997)

(In Thousands)

	Frederick Health Incorporated	Frederick Health Hospital, Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Net Assets With Donor Restrictions					
Released from restriction used for operations and nonoperating activities	$ (707)	$ (707)	$ -	$ 707	$ (707)
Released from restriction used to purchase capital	(4,647)	(4,647)	-	4,647	(4,647)
Restricted gifts, bequests and contributions	3,107	3,107	-	(3,107)	3,107
Changes in net assets with donor restrictions	(2,247)	(2,247)	-	2,247	(2,247)
Noncontrolling Interest					
Deficit of revenues over expenses attributable to noncontrolling interest	(106)	-	-	-	(106)
Changes in net assets	(3,350)	(2,709)	(36)	2,745	(3,350)
Net Assets, Beginning	311,087	298,136	36	(314,502)	294,757
Net Assets, Ending	$ 307,737	$ 295,427	$ -	$ (311,757)	$ 291,407

* Includes the board resolution to cancel intercompany liabilities exceeding subsidiaries' net assets.

The Obligated Group consists of Frederick Health Inc., Frederick Health Hospital, Inc., and Frederick Health Medical Group, LLC and the financial statements presented for the Obligated Group include only their accounts, which include their investment interest in controlled, affiliated entities, but do not include the revenues, expenses, assets, or liabilities of the Obligated Group or the revenues, expenses, assets or liabilities of any of those controlled, affiliated entities.

Frederick Health, Inc. Obligated Group

Combined Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(In Thousands)

	2024	2023
Cash Flows From Operating Activities		
Changes in net assets	$ (3,350)	$ (9,400)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	29,026	29,924
Loss on advance of refunding debt	-	268
Amortization of premium and deferred financing	20	(43)
Equity in earning of joint ventures	(3,636)	(3,478)
Net unrealized and realized gains on unrestricted investments	(15,035)	(15,551)
Proceeds from restricted contributions	(7,921)	(5,595)
Change in fair value of interest rate swap	-	(939)
Gain on sale of assets	(34)	(3)
Increase (decrease) in:		
Receivables, patient and other	(27,368)	(7,125)
Inventories and prepaids	(876)	(326)
Pledges receivable	1,072	1,357
Other assets	64	1,027
Accounts payable	6,384	13,719
Accrued expenses	3,825	(6,500)
Advanced from third-party payors	10,649	(10,856)
Intercompany receivable, net	3,886	(2,401)
Other current liabilities	1,129	(1,193)
Other long-term liabilities	2,922	(4,025)
Net cash provided by (used in) operating activities	757	(21,140)
Cash Flows From Investing Activities	(4,814)	
Realized losses on interest rate swap contract	-	(2,576)
Other investments	1,057	(745)
Purchases of property and equipment	(20,573)	(41,025)
Net sales of long-term investments and assets limited as to use	1,590	14,051
Net cash used in investing activities	(17,926)	(30,295)

Frederick Health, Inc. Obligated Group

Combined Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(In Thousands)

	2024	2023
Cash Flows From Fundraising and Financing Activities		
Proceeds from restricted contributions	$ 7,921	$ 5,595
Repayments of long-term debt and lines of credit	(5,486)	(70,795)
Proceeds from borrowings	-	108,741
Payments for finance lease obligations	(2,121)	(2,058)
Deferred financing costs paid	(426)	(1,263)
Net cash (used in) provided by fundraising and financing activities	(112)	40,220
Net decrease in cash, cash equivalents and restricted cash	(17,281)	(11,215)
Cash, Cash Equivalents and Restricted Cash, Beginning	23,455	34,670
Cash, Cash Equivalents and Restricted Cash, Ending	$ 6,174	$ 23,455
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents	$ 383	$ 17,315
Restricted cash, included in assets limited as to use	5,791	6,140
Total cash, cash equivalents and restricted cash	$ 6,174	$ 23,455
Supplemental Disclosures		
Cash paid for interest	$ 5,804	$ 4,436

The Obligated Group consists of Frederick Health Inc.; Frederick Health Hospital, Inc.; and Frederick Health Medical Group, LLC and the financial statements presented for the Obligated Group include only their accounts, which include their investment interest in controlled, affiliated entities, but do not include the revenues, expenses, assets, or liabilities of the Obligated Group or the revenues, expenses, assets or liabilities of any of those controlled, affiliated entities.

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

<u>Independent Auditors' Report</u>

To the Board of Directors of
Frederick Health, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Frederick Health, Inc. and Subsidiaries (the System), which comprise the System's consolidated balance sheet as of June 30, 2024, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated DATE OF REPORT. Our report includes a reference to other auditors who audited the financial statements of Monacacy Insurance, Ltd (Monacacy), as described in our report on the System's consolidated financial statements. The financial statements of Monacacy were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Monacacy or that are reported on separately by those auditors who audited the financial statements of Monacacy.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Baker Tilly US, LLP

Pittston, Pennsylvania
October 24, 2024