




Atlantic General Hospital Corporation

Independent Auditor's Report and Financial Statements

Successor Period May 1, 2025 through June 30, 2025

Predecessor Period July 1, 2024 through April 30, 2025 and for the year
ended June 30, 2024



Atlantic General Hospital Corporation
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Independent Auditor's Report

Board of Trustees
Atlantic General Hospital Corporation
Berlin, Maryland

Opinion

We have audited the financial statements of Atlantic General Hospital Corporation (the "Corporation"), which comprise the balance sheets as of June 30, 2025 (Successor) and 2024 (Predecessor), and the related statements of operations, changes in net assets, and cash flows for the periods from May 1, 2025 through June 30, 2025 (Successor), and from July 1, 2024 through April 30, 2025, and for the year ended June 30, 2024 (Predecessor), and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2025 (Successor) and 2024 (Predecessor), and the results of its operations and its cash flows for the period from May 1, 2025 through June 30, 2025 (Successor), from July 1, 2024 through April 30, 2025 and for the year ended June 30, 2024 (Predecessor), in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Notes 2 to the financial statements, the Corporation executed an affiliation agreement and became a controlled affiliate of TidalHealth, Inc. effective May 1, 2025. The beginning net assets on May 1, 2025 have been adjusted in connection with this transaction and change in control. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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.

Forvis Mazars, LLP

**Tysons, Virginia
October 6, 2025**

Atlantic General Hospital Corporation
Balance Sheets

	Successor June 30, 2025	Predecessor June 30, 2024
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,897,380	\$ 13,712,398
Investments	19,369,114	17,115,539
Patient accounts receivable, net	15,173,947	17,581,394
Supply inventories	2,585,094	3,019,333
Current portion of pledges receivable	2,000	75,450
Prepaid expenses and other current assets	4,384,044	3,981,831
Total Current Assets	54,411,579	55,485,945
Land, Buildings, and Equipment, Net	55,936,936	53,031,665
Right-of-Use Assets, Operating Leases	20,048,958	20,939,239
Other Assets		
Assets whose use is limited		
Cash and cash equivalents restricted by donor	339,004	339,004
Cash and cash equivalents internally designated for an endowment	240,095	244,078
Investments internally designated for deferred compensation	3,305,388	2,996,420
Investments internally designated for an endowment	5,295,793	4,899,402
Noncurrent pledges receivable, net	-	64,105
Goodwill and intangible assets, net	-	1,106,427
Swap contracts	1,618,167	2,611,979
Other noncurrent assets	3,976,241	4,710,043
Total Other Assets	14,774,688	16,971,458
Total Assets	\$ 145,172,161	\$ 146,428,307

Atlantic General Hospital Corporation
Balance Sheets

(Continued)

	<u>Successor</u> <u>June 30, 2025</u>	<u>Predecessor</u> <u>June 30, 2024</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 10,598,959	\$ 11,569,505
Salaries, wages, and related items	7,066,632	7,148,980
Interest payable	117,172	140,970
Advances from third-party payors	1,750,534	2,974,351
Current portion of long-term obligations	1,933,146	2,035,002
Current portion of operating lease obligations	1,981,952	1,654,996
	<u>23,448,395</u>	<u>25,523,804</u>
Total Current Liabilities	23,448,395	25,523,804
Noncurrent Liabilities		
Long-term obligations, less current portion and net of unamortized debt issuance costs	36,223,159	37,133,952
Other liabilities	8,781,629	9,206,463
Long-term operating lease obligations	18,067,006	19,284,243
	<u>86,520,189</u>	<u>91,148,462</u>
Total Liabilities	86,520,189	91,148,462
Net Assets		
Without donor restrictions		
General	52,756,468	49,890,314
Board-designated	5,447,890	4,910,972
With donor restrictions	447,614	478,559
	<u>58,651,972</u>	<u>55,279,845</u>
Total Net Assets	58,651,972	55,279,845
Total Liabilities and Net Assets	<u>\$ 145,172,161</u>	<u>\$ 146,428,307</u>

Atlantic General Hospital Corporation

Statements of Operations

	Successor	Predecessor	
	Period from May 1, 2025 through June 30, 2025	Period from July 1, 2024 through April 30, 2025	Year Ended June 30, 2024
Operating Revenue			
Net patient service revenue	\$ 25,451,536	\$ 131,077,779	\$ 148,046,685
Other operating revenue	3,053,686	14,683,572	15,026,620
Total Operating Revenue	28,505,222	145,761,351	163,073,305
Operating Expenses			
Salaries	12,921,912	60,288,075	73,733,679
Employee benefits and other related expenses	2,156,440	12,399,206	14,797,193
Professional fees and contracted services	3,078,581	13,402,974	12,943,909
Supplies and other expense	8,284,962	41,932,104	45,096,992
Utilities	379,539	1,763,727	2,113,624
Maintenance and repairs	1,736,983	7,907,025	9,615,014
Insurance	502,653	1,667,665	2,148,090
Interest	285,296	1,466,252	1,748,320
Depreciation	1,114,766	5,492,790	7,164,620
Amortization	-	186,297	226,248
Total Operating Expenses	30,461,132	146,506,115	169,587,689
Loss from Operations	(1,955,910)	(744,764)	(6,514,384)
Other Income (Loss)			
Investment income	281,860	957,604	3,760,134
Net unrealized gains (losses)	1,473,636	220,366	(427,665)
Change in fair value of swap contracts	22,662	(1,016,475)	313,639
Other	151,856	1,723,219	979,753
Total Other Income	1,930,014	1,884,714	4,625,861
Excess (Deficit) of Revenue and Gains over Expenses	\$ (25,896)	\$ 1,139,950	\$ (1,888,523)

Atlantic General Hospital Corporation
Statements of Changes in Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Predecessor			
Net Assets, June 30, 2023	<u>\$ 56,572,028</u>	<u>\$ 1,196,834</u>	<u>\$ 57,768,862</u>
Deficit of revenue and gains over expenses	(1,888,523)	-	(1,888,523)
Restricted contributions	-	226,260	226,260
Net assets released from restrictions used for operations	-	(826,754)	(826,754)
Net assets released from restrictions used for capital acquisitions	<u>117,781</u>	<u>(117,781)</u>	<u>-</u>
Changes in net assets	<u>(1,770,742)</u>	<u>(718,275)</u>	<u>(2,489,017)</u>
Net Assets, June 30, 2024	<u>54,801,286</u>	<u>478,559</u>	<u>55,279,845</u>
Excess of revenue and gains over expenses	1,139,950	-	1,139,950
Restricted contributions	-	572,871	572,871
Net assets released from restrictions used for operations	-	(227,159)	(227,159)
Net assets released from restrictions used for capital acquisitions	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	<u>1,139,950</u>	<u>345,712</u>	<u>1,485,662</u>
Net Assets, April 30, 2025	<u><u>\$ 55,941,236</u></u>	<u><u>\$ 824,271</u></u>	<u><u>\$ 56,765,507</u></u>
Successor			
Net Assets, May 1, 2025	<u>\$ 58,031,365</u>	<u>\$ 824,271</u>	<u>\$ 58,855,636</u>
Deficit of revenue and gains over expenses	(25,896)	-	(25,896)
Restricted contributions	-	91,880	91,880
Net assets released from restrictions used for operations	-	(269,648)	(269,648)
Net assets released from restrictions used for capital acquisitions	<u>198,889</u>	<u>(198,889)</u>	<u>-</u>
Changes in net assets	<u>172,993</u>	<u>(376,657)</u>	<u>(203,664)</u>
Net Assets, June 30, 2025	<u><u>\$ 58,204,358</u></u>	<u><u>\$ 447,614</u></u>	<u><u>\$ 58,651,972</u></u>

Atlantic General Hospital Corporation

Statements of Cash Flows

	Successor	Predecessor	
	Period from May 1, 2025 through June 30, 2025	Period from July 1, 2024 through April 30, 2025	Year Ended June 30, 2024
Operating Activities			
Change in net assets	\$ (203,664)	\$ 1,485,662	\$ (2,489,017)
Items not requiring (providing) cash			
Depreciation and amortization expense	1,114,766	5,679,087	7,390,868
Non-cash operating lease expense	338,929	551,352	1,623,432
Amortization of debt issuance costs	-	43,450	52,140
Recognition of change in fair value of swap contracts	(22,662)	1,016,474	(313,639)
Realized (gains) losses on sale of investments	23,378	(36,972)	(2,727,873)
Unrealized losses (gains) on trading portfolio	(1,473,636)	(220,366)	427,665
Loss (gain) on disposal of equipment	211	(1,039,672)	-
Donations and grants for capital acquisition	-	-	(117,781)
Changes in			
Decrease (increase) in			
Patient accounts receivable, net	905,742	1,501,705	(5,342,698)
Supply inventories	(325,143)	759,382	313,225
Prepaid expenses and other current assets	696,478	(1,098,691)	455,899
Other assets	871,357	-	1,775,113
Increase (decrease) in			
Accounts payable and accrued expenses	(1,305,208)	326,862	1,734,786
Salaries, wages, and related items	(916,320)	833,972	(213,771)
Interest payable	(3,896)	(19,902)	22,621
Advances from third-party payors	(660,115)	(563,702)	350,619
Operating lease obligations	(338,929)	(551,352)	(1,623,432)
Other liabilities	(424,834)	-	(2,015,216)
Net Cash (Used in) Provided by Operating Activities	(1,723,546)	8,667,289	(697,059)
Investing Activities			
Net sale (purchase) of investments	(277,097)	(974,241)	633,766
Proceeds from sale of equipment	-	1,300,000	-
Purchase of land, buildings, and equipment	(362,031)	(5,372,727)	(5,831,147)
Net Cash Used in Investing Activities	(639,128)	(5,046,968)	(5,197,381)
Financing Activities			
Payments on long-term obligations	(368,813)	(1,707,835)	(1,944,661)
Proceeds from issuance of long-term obligations	-	-	4,761,092
Donations received restricted for capital acquisitions	-	-	117,781
Net Cash Used in (Provided by) Financing Activities	(368,813)	(1,707,835)	2,934,212

Atlantic General Hospital Corporation
Statements of Cash Flows

(Continued)

	Successor	Predecessor	
	Period from May 1, 2025 through June 30, 2025	Period from July 1, 2024 through April 30, 2025	Year Ended June 30, 2024
Net Change in Cash, Cash Equivalents, and Restricted Cash	(2,731,487)	1,912,486	(2,960,228)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	16,207,966	14,295,480	17,255,708
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 13,476,479</u>	<u>\$ 16,207,966</u>	<u>\$ 14,295,480</u>
Supplemental Cash Flow Disclosure			
Interest paid	\$ 289,192	\$ 1,486,154	\$ 1,718,801
Noncash Supplemental Cash Flow Disclosure			
Land, building, and equipment in accounts payable	\$ -	\$ -	\$ 43,667
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -	\$ -	\$ 19,483,646
Finance lease obligation for the acquisition of equipment	\$ -	\$ 1,020,549	\$ -

Note 1. Organization and Nature of Activities

Atlantic General Hospital Corporation (the "Corporation") is a non-stock, non-profit Maryland corporation organized on April 4, 1989, primarily for the purpose of constructing, owning and operating Atlantic General Hospital (the "Hospital") in Worcester County, Maryland. On May 21, 1993, the Hospital commenced operations as a full-service acute care inpatient and outpatient health care facility. Admitting physicians are primarily practitioners in the local area. Prior to May 21, 1993, the Corporation's primary activity was the planning and development of the Hospital.

Effective May 1, 2025, the Corporation entered into an Affiliation Agreement with TidalHealth, Inc. ("TidalHealth"), a non-stock Maryland corporation, whereby TidalHealth became the sole member of the Corporation.

Note 2. Summary of Significant Accounting Policies

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

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

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

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

The amounts for the period July 1, 2024 through April 30, 2025 and as of June 30, 2024 and for the year then ended, presented as "Predecessor" within the accompanying financial statements and notes to the financial statements represent the historical operations of the Corporation prior to the acquisition by TidalHealth and the related pushdown accounting. The amounts as of June 30, 2025 and for the period from May 1, 2025 through June 30, 2025, presented as "Successor", include the effects of pushdown accounting and have been separated by a black line in the financial statements to highlight the lack of comparability between the periods.

Atlantic General Hospital Corporation
Notes to Financial Statements
June 30, 2025 and 2024

Application of Pushdown Accounting

The affiliation agreement between the Corporation and TidalHealth was accounted for in accordance with Accounting Standards Codification (ASC) 958-805: *Not for Profit Business Combination* resulting in a new basis of accounting as of opening of business on May 1, 2025. The fair values of the assets and liabilities acquired were pushed down from TidalHealth to the Corporation. Pushdown accounting resulted in a new basis for the assets and liabilities of the Corporation based on TidalHealth's stepped-up basis to the Corporation in connection with the change-in-control event. The application of pushdown accounting was elected in the reporting period in which the change-in-control event occurred, specifically the period from May 1, 2025 through June 30, 2025. The decision to apply pushdown accounting is irrevocable.

Cash and Cash Equivalents

The Corporation invests excess cash in financial instruments, which are converted into cash as needed to meet the Corporation's obligations. Cash equivalents are highly liquid financial instruments with original maturities of less than three months or containing provisions for early redemption without penalty. The Corporation has cash holding in commercial banks that routinely exceed the Federal Deposit Insurance Corporation maximum insurance limit of \$250,000.

The composition of cash and cash equivalents is as follows:

	<u>Successor</u> <u>June 30,</u> <u>2025</u>	<u>Predecessor</u> <u>April 30,</u> <u>2025</u>	<u>June 30,</u> <u>2024</u>
Cash and cash equivalents, classified as current assets	\$ 12,897,380	\$ 15,566,764	\$ 13,712,398
Amounts restricted by donor	339,004	441,122	339,004
Amounts internally designated for an endowment	<u>240,095</u>	<u>200,080</u>	<u>244,078</u>
Total cash and cash equivalents (as reported in the accompanying statements of cash flows)	<u>\$ 13,476,479</u>	<u>\$ 16,207,966</u>	<u>\$ 14,295,480</u>

Investments

Investments in equity securities with readily determinable fair values are measured at fair value in the accompanying balance sheets based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other income, unless the income or loss is restricted by donor or law. Long-term investments represent charitable gift annuities recorded at the present value of the expected gift and investment in a captive insurance company.

Investments are exposed to certain risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from the amounts reported in the accompanying financial statements.

Patient Accounts Receivable

Patient accounts receivable are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Patient accounts receivable include Hospital and physician charges for accounts due from Medicare, Maryland Medical Assistance ("Medicaid"), CareFirst, commercial and managed care insurers, and self-paying patients. Deducted from patient accounts receivable are estimates of implicit price concessions for the excess of charges over the payments on patient accounts to be received from third party payors and uncollectible amounts related to self-paying patients. These estimates are calculated by management based on historical collection experience and the aging of accounts receivable balances.

Atlantic General Hospital Corporation
Notes to Financial Statements
June 30, 2025 and 2024

The Hospital performs periodic assessments to determine if an allowance for expected credit losses is necessary. The Hospital considers its incurred loss experience and adjusts for known and expected events and other circumstances. In estimating its expected credit losses, the Hospital may consider changes in the length of time its receivables have been outstanding, changes in credit ratings for payors, requests from payors to alter payment terms due to financial difficulty, and notices of payor bankruptcies or payors entering receivership. Because the Hospital's accounts receivables are typically paid for by highly-solvent, creditworthy payors, such as Medicare, other governmental programs, and highly-regulated commercial insurers on behalf of the patient, the Hospital's credit losses are immaterial to the financial statements.

Supply Inventories

Supply inventories consist primarily of drugs and medical supplies and are stated at the lower of cost or net realizable value, as determined principally by the first-in, first-out method.

Pledges Receivable

Unconditional promises to give cash and others assets are recorded at fair value in the year that they are made net of allowance for uncollectible accounts and discounted to their present value. The allowance for doubtful accounts for pledges receivable was \$0 and \$62,562 at June 30, 2025 (Successor) and 2024 (Predecessor), respectively. The discount for pledges receivable as of June 30, 2025 and 2024 was not significant.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of prepaid expenditures for insurance and other contract services and other miscellaneous receivables. Prepaid expenditures paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Land, Buildings, and Equipment, Net

Land, buildings, and equipment are recorded at cost, including net interest on related borrowings capitalized during periods of construction. Donated items are recorded at fair value at the date of the donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The carrying amounts of significant assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts. On May 1, 2025, a step-up in basis was recognized with the adoption of pushdown accounting.

Depreciation, which includes amortization of equipment under financing leases, is recorded on the straight-line basis using the half-year convention over the estimated useful lives (or lease term if shorter) of 10 to 40 years for buildings and improvements and 3 to 10 years for equipment. Any acquisitions from July 1, 1999 that are in excess of \$100,000 are depreciated on the straight-line basis without using the half-year convention.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from revenue and gains in excess of expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Leases

At lease inception, the Corporation determines whether an arrangement is or contains a lease. Operating leases are included in right-of-use ("ROU") assets – operating leases, current portion of operating lease obligations, and long-term operating lease obligations in the accompanying balance sheets. Finance leases are included in land, buildings and equipment, current portion of long-term obligations, and long-term obligations in the accompanying balance sheets. ROU assets represent the Corporation's right to use leased assets over the term of the lease. Lease liabilities represent the Corporation's contractual obligation to make lease payments over the lease term.

Atlantic General Hospital Corporation
Notes to Financial Statements
June 30, 2025 and 2024

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured at the present value of the lease payments over the lease term. Through April 30, 2025, the Corporation elected the practical expedient to use the risk-free discount rate. As of May 2025, the incremental borrowing rate was used as the discount rate. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs and any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates and the presence of factors that would cause a significant economic penalty to the Corporation if the option were not exercised. The Corporation has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in supplies and other expense in the accompanying statements of operations. Variable lease costs include common area maintenance costs and represent non-lease components. As such, these costs are not included in the lease obligation calculation and are expensed as incurred.

For finance leases, after lease commencement, the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term. The discount rate used by the Corporation for finance leases is generally the incremental borrowing rate, as most such leases do not provide a readily determinable implicit interest rate. To the extent a lease arrangement includes both lease and non-lease components, the components are not accounted for separately.

Goodwill

Goodwill represents the excess of the cost over the fair value of the identified net assets of acquired businesses. The Corporation evaluates goodwill for impairment at the entity level. Goodwill is tested for impairment only when a triggering event occurs, or circumstances change that indicate the fair value of the entity may be less than its carrying value. Goodwill was amortized over a period of 10 years (or less) through April 30, 2025. The residual balance of goodwill was written-off as part of the pushdown accounting on May 1, 2025.

Net Assets

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

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions. All revenue without donor restrictions and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Board-Designated Net Assets without Donor Restrictions

Net assets without donor restrictions include amounts designated by the Board of Trustees for a particular purpose. The Board of Trustees may remove or modify the designations at any time. The board-designated assets were a result of the Hospital being named beneficiary in a portion of an estate pursuant to a will in 2001. The Board of Trustees has determined that any investment income on the endowment will be internally designated by using a three-year rolling average market value method, of which 3% annually can be used to fund physician practice development.

Net Assets with Donor Restrictions

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

Third-Party Advances

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

Charity Care and Other Community Services

The Hospital provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient (or their guarantor) and subsequent analysis and use of the federal poverty limits as guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of net patient service revenue or net patient accounts receivable.

The cost of charity care provided by the Hospital totaled \$36,516, \$330,816, and \$647,073 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025 and for the year ended June 30 2024 (Predecessor), respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Revision Commission ("HSCRC"). For any charity services rendered by the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the Hospital services to the total amount of charges for services provided to patients benefiting from the charity care policies of the Hospital.

A Maryland hospital either receives payments from or makes payments to the HSCRC with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital made net payments to the UCC of \$40,572 for the period May 1, 2025 to June 30, 2025 (Successor), \$315,778 for the period July 1, 2024 to April 30, 2025 (Predecessor) and \$796,724 for the year ended June 30, 2024 (Predecessor).

The HSCRC requires all Maryland hospitals to complete and submit a Community Benefit Report annually on December 15th for the preceding fiscal year. The Hospital's Community Benefit Report for the years ended June 30, 2024 and 2023 reported \$9,237,424 and \$8,044,005, respectively (unaudited), in community benefit services.

Statements of Operations

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue or expenses, as applicable. Peripheral or incidental transactions are reported as other income or losses, as applicable.

Other Operating Revenue

The majority of other operating revenue is derived from retail pharmacy sales and revenue from the Maryland Primary Care Program ("MDPCP"). During the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), the Corporation generated pharmacy revenue totaling \$2,234,072, \$12,126,509, and \$11,251,749, respectively, and MDPCP revenue totaling \$332,391, \$2,007,759 and \$2,117,195, respectively. Other operating revenue also includes grant income, rental income, cafeteria income, rebates, physician billing fees, medical home revenue, and other miscellaneous income.

Advertising and Marketing Costs

The Corporation expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses were approximately \$331,258, \$1,002,515 and \$1,653,000 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), respectively, and are reported as supplies and other expense in the accompanying statements of operations. No advertising or marketing costs have been capitalized in the accompanying balance sheets.

Excess (Deficit) of Revenue and Gains Over Expenses

The statements of operations include excess (deficit) of revenue and gains over expenses. Changes in net assets without donor restrictions, which are excluded from excess (deficit) of revenue and gains over expenses, consistent with industry practice, include contributions of (and assets released from donor restrictions related to) long-lived assets and other items that are required by accounting principles generally accepted in the United States of America to be reported separately.

Tax-Exempt Status

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption. The state in which the Corporation operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the Corporation is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

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

Maryland Health Services Cost Review Commission

Patient service revenue is recorded at rates established by the HSCRC. The Hospital entered into the Global Budget Revenue ("GBR") agreement with the HSCRC. The GBR agreement renews each year for a one-year period unless it is cancelled by the HSCRC or by the Hospital. The GBR agreement provides the Hospital with a fixed revenue amount ("CAP") under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payor mix and uncompensated care, change in population and quality incentives. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed. Overcharges and undercharges are recouped in succeeding years through the HSCRC's rate setting methodology.

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Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 6, 2025, the date the financial statements were available to be issued.

Note 3. Business Combination

On May 1, 2025, TidalHealth became the sole member of the Corporation. No consideration was transferred by TidalHealth as part of the transaction. The transaction was recorded using the acquisition method of accounting in accordance with current accounting guidance for business combinations. As part of the terms of the agreement, TidalHealth has committed to invest \$50,000,000 into the Corporation over the next five years. No amount has been invested as of June 30, 2025.

The following information summarizes the recorded values of the assets acquired and liabilities assumed as of the date of the change in control:

Cash	\$ 15,566,764
Investments	18,232,682
Patient accounts receivable	16,079,689
Supply inventories	2,259,951
Prepaid expenses and other current assets	4,878,765
Land, buildings, and equipment	56,689,882
Right-of-use assets	20,939,239
Cash and cash equivalents, restricted for use	441,122
Investments, internally designated	5,213,917
Pledges receivable	341,311
Swap contracts	1,595,505
Other noncurrent assets	<u>4,710,043</u>
Total assets acquired	<u>146,948,870</u>
Accounts payable and accrued expenses	14,435,882
Salaries, wages, and related items	7,982,952
Long-term obligations	38,525,118
Operating lease obligations	20,939,239
Other liabilities	<u>6,210,043</u>
Total liabilities assumed	<u>88,093,234</u>
Net assets acquired	<u>\$ 58,855,636</u>

All assets and liabilities, other than land, buildings, and equipment were stated at their historical carrying values, which approximated their fair value. The fair value of land, buildings, and equipment was determined using various fair value techniques. The pushdown accounting resulted in \$2,097,929 adjustment to the beginning net assets of the Successor entity, which was the result of an increase in the value of land, buildings, and equipment of \$3,018,059 and the write down of net goodwill of \$920,103.

Note 4. Net Patient Service Revenue

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

The Corporation elected certain available practical expedients under FASB ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). First, the Corporation elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the respective contracts. Additionally, the Corporation has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Estimated uncollectible amounts from patients are considered implicit price concessions (as defined in Topic 606) and, therefore, included in net patient service revenue in the accompanying financial statements.

The Corporation routinely obtains assignments of (or is otherwise entitled to receive) patient benefits receivable under their health insurance programs, plans or policies (i.e., third-party payors). Third-party payors include both government payors, which include Medicare, Medicaid, and management care organizations, and commercial insurance carriers. Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of payment arrangements with third-party payors, by service type, is as follows:

- Global budget revenue – the Corporation has entered into agreements by which the third-party payors pay a percentage of approved Maryland HSCRC charges. A reduced percentage can be obtained if the payor advances a certain amount of working capital.
- Physician practice services – Corporation has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.
- Regional cancer center revenue – Corporation has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.
- Unregulated hospital patient revenue - the Corporation has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving services over multiple days. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time are generally recognized when goods or services are provided and the Corporation does not believe it is required to provide additional services to the patient. Generally, performance obligations satisfied at a point in time relate to patients receiving outpatient services in a single day. The Corporation measures the performance obligation from the commencement of the outpatient service to the point when it is no longer required to provide services to that patient, which is generally the completion of the outpatient service.

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All of the Corporation's performance obligations generally relate to contracts with a duration of less than one year, therefore the Corporation has elected to apply the optional exemptions provided under applicable standards and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Generally, patients who are covered by third party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients financial assistance, by either policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions.

The initial estimate of the transaction price is determined by reducing the standard charges by any explicit price concession, financial assistance, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The Corporation aggregates revenue from contracts with customers by type of service and payor source.

Net patient service revenue disaggregated by service type are as follows for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	Successor	Predecessor	
	Period from	Period from	Year-Ended
	May 1, 2025	July 1, 2024	June 30, 2024
	through	through	
	June 30, 2025	April 30, 2025	
Global budget revenue	\$ 18,528,377	\$ 98,589,387	\$ 111,955,306
Physician services revenue	4,608,937	20,880,494	23,653,466
Regional cancer center revenue	2,201,901	10,599,132	11,680,655
Unregulated hospital revenue	<u>112,321</u>	<u>1,008,766</u>	<u>757,258</u>
Total	<u>\$ 25,451,536</u>	<u>\$131,077,779</u>	<u>\$ 148,046,685</u>

Atlantic General Hospital Corporation
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Net patient service revenue disaggregated by payor are as follows for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	Successor	Predecessor	
	Period from May 1, 2025 through June 30, 2025	Period from July 1, 2024 through April 30, 2025	Year-Ended June 30, 2024
Medicare	\$ 10,499,062	\$ 56,250,293	\$ 61,753,270
Medicaid	2,348,294	11,451,768	15,311,233
Commercial insurance and HMOs	2,224,571	11,931,963	13,073,500
CareFirst	2,965,111	16,835,732	18,668,567
Self-pay and others	<u>491,339</u>	<u>2,119,631</u>	<u>3,148,736</u>
	18,528,377	98,589,387	111,955,306
Physician services revenue	4,608,937	20,880,494	23,653,466
Regional cancer center revenue	2,201,901	10,599,132	11,680,655
Unregulated hospital revenue	<u>112,321</u>	<u>1,008,766</u>	<u>757,258</u>
Total	<u>\$ 25,451,536</u>	<u>\$ 131,077,779</u>	<u>\$ 148,046,685</u>

The following table presents the details of net patient service revenue for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	Successor	Predecessor	
	Period from May 1, 2025 through June 30, 2025	Period from July 1, 2024 through April 30, 2025	Year-Ended June 30, 2024
Gross charges	\$ 37,007,991	\$183,210,188	\$ 213,577,493
Price concessions			
Explicit price concessions	(10,577,871)	(46,613,446)	(56,313,677)
Implicit price concessions	(895,055)	(4,742,245)	(8,092,362)
Charity care	<u>(83,529)</u>	<u>(776,718)</u>	<u>(1,124,769)</u>
Net patient service revenue	<u>\$ 25,451,536</u>	<u>\$ 131,077,779</u>	<u>\$ 148,046,685</u>

The following presents the beginning and ending balances of net patient accounts receivables as of June 30, 2025, 2024 and 2023:

Patient accounts receivables, net as of July 1, 2023 (Predecessor)	\$	12,238,696
Patient accounts receivables, net as of June 30, 2024 (Predecessor)	\$	17,581,394
Patient accounts receivables, net as of July 1, 2024 (Predecessor)	\$	17,581,394
Patient accounts receivables, net as of June 30, 2025 (Successor)	\$	15,173,947

Atlantic General Hospital Corporation
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Note 5. Investments

The composition of investments is as follows at June 30:

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Investments		
Common stock	\$ 2,787,413	\$ 2,557,510
Mutual funds - alternative investments	659,572	649,231
Mutual funds - equities	15,675,356	13,740,237
Mutual funds - fixed income	<u>8,847,954</u>	<u>8,064,383</u>
	27,970,295	25,011,361
Investments internally designated for an endowment	(5,295,793)	(4,899,402)
Investments internally designated for deferred compensation	<u>(3,305,388)</u>	<u>(2,996,420)</u>
Undesignated investments	<u>\$ 19,369,114</u>	<u>\$ 17,115,539</u>

Investment income (loss) consists of the following for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	<u>Successor</u> <u>Period from</u> <u>May 1, 2025</u> <u>through</u> <u>June 30, 2025</u>	<u>Predecessor</u> <u>Period from</u> <u>July 1, 2024</u> <u>through</u> <u>April 30, 2025</u>	<u>Year-Ended</u> <u>June 30, 2024</u>
Interest and dividends	\$ 305,238	\$ 920,632	\$ 1,032,261
Unrealized gains (losses)	1,473,636	220,366	(427,665)
Realized gains (losses)	<u>(23,378)</u>	<u>36,972</u>	<u>2,727,873</u>
Income	<u>\$ 1,755,496</u>	<u>\$ 1,177,970</u>	<u>\$ 3,332,469</u>

Fair Value Measurements

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

- Level 1** Quoted prices in active markets for identical assets or liabilities such as debt and equity securities, mutual funds, and money market accounts that are traded in an active market, and other cash equivalents. Level one investments include common stocks, equity mutual funds and money market funds that are traded in an active market.

- Level 2** Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level two investments include corporate bonds, U.S. government obligations, and asset and mortgage-backed securities. A third-party pricing service may be used to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level three investments can include limited liability partnerships and limited liability companies. The fair value for these investments is determined by applying the ownership percentage to the net asset value of the investment fund. Underlying investments of the funds can include hedge funds, real estate funds, mortgage-backed securities, asset backed securities, and global equity fund of funds.

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

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Fair values of common stock and mutual funds have been determined by the Corporation from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

The fair values of the Corporation's interest rate swap contracts are based on the proprietary model of a third-party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swap and considers the credit risk of the Corporation and the counterparty. The method used to determine the fair value calculates the estimated future payments required by the swap and discounts these payments using an appropriate discount rate. The value represents the estimated exit price that the Corporation would pay to terminate the agreement.

Atlantic General Hospital Corporation
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The following table presents the Corporation's fair value hierarchy for assets measured at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Fair Value Measurements at June 30, 2025 (Successor)</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds				
Fixed income				
Intermediate	\$ 8,158,971	\$ 8,158,971	\$ -	\$ -
High-yield	688,983	688,983	-	-
Equities				
International emerging markets	1,760,388	1,760,388	-	-
International developed	2,126,360	2,126,360	-	-
U.S. REIT	60,687	60,687	-	-
U.S. large/mid-cap	10,590,348	10,590,348	-	-
U.S. small-cap	498,451	498,451	-	-
Balanced	354,050	354,050	-	-
Target date	285,072	285,072	-	-
Alternatives	659,572	659,572	-	-
Common Stocks				
Consumer discretionary	231,936	231,936	-	-
Energy	53,583	53,583	-	-
Consumer staples	75,402	75,402	-	-
Financials	345,535	345,535	-	-
Healthcare	145,231	145,231	-	-
Industrials	519,687	519,687	-	-
Communication services	198,548	198,548	-	-
Information technology	336,216	336,216	-	-
Real estate	36,519	36,519	-	-
Utilities	43,461	43,461	-	-
Materials	49,646	49,646	-	-
Total investments	27,218,646	27,218,646	-	-
Interest rate swaps assets	1,618,167	-	1,618,167	-
Investments at fair value	<u>\$ 28,836,813</u>	<u>\$ 27,218,646</u>	<u>\$ 1,618,167</u>	<u>\$ -</u>

Certain investments that were measured at cost have not been classified in the fair value hierarchy. As of June 30, 2025 (Successor), the costs of these investments were \$751,649. There were no significant transfers between fair value hierarchy levels for the year ended June 30, 2025 (Successor).

Atlantic General Hospital Corporation
Notes to Financial Statements
June 30, 2025 and 2024

The following table presents the Corporation's fair value hierarchy for assets measured at fair value on a recurring basis:

	Fair Value	Fair Value Measurements at June 30, 2024 (Predecessor)		
		Level 1	Level 2	Level 3
Mutual Funds				
Fixed income				
Intermediate	\$ 7,724,128	\$ 7,724,128	\$ -	\$ -
High-yield	340,255	340,255	-	-
Equities				
International emerging markets	1,595,836	1,595,836	-	-
International developed	1,936,949	1,936,949	-	-
U.S. REIT	51,214	51,214	-	-
U.S. large/mid-cap	9,088,831	9,088,831	-	-
U.S. small-cap	536,248	536,248	-	-
Balanced	306,741	306,741	-	-
Target	224,418	224,418	-	-
Alternatives	649,231	649,231	-	-
Common Stocks				
Consumer discretionary	261,672	261,672	-	-
Energy	58,776	58,776	-	-
Consumer staples	61,933	61,933	-	-
Financials	270,369	270,369	-	-
Healthcare	276,661	276,661	-	-
Industrials	402,966	402,966	-	-
Communication services	42,254	42,254	-	-
Information technology	306,253	306,253	-	-
Real estate	29,448	29,448	-	-
Utilities	29,152	29,152	-	-
Materials	56,153	56,153	-	-
Total investments	24,249,488	24,249,488	-	-
Interest rate swaps assets	2,611,979	-	2,611,979	-
Investments at fair value	<u>\$ 26,861,467</u>	<u>\$ 24,249,488</u>	<u>\$ 2,611,979</u>	<u>\$ -</u>

Certain investments that were measured at cost have not been classified in the fair value hierarchy. As of June 30, 2024 (Predecessor), the costs of these investments were \$761,873. There were no significant transfers between fair value hierarchy levels for the year ended June 30, 2024 (Predecessor).

Note 6. Land, Buildings, and Equipment

Land, buildings, and equipment are comprised of the following as of June 30:

	Successor	Predecessor
	2025	2024
Land, buildings, and improvements	\$ 43,922,820	\$ 68,894,058
Equipment	6,619,176	91,785,448
Finance lease equipment	5,216,008	5,356,868
	55,758,004	166,036,374
Accumulated depreciation	<u>(1,116,510)</u>	<u>(113,792,840)</u>
	54,641,494	52,243,534
Construction in process	1,295,442	788,131
	<u>\$ 55,936,936</u>	<u>\$ 53,031,665</u>

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On May 1, 2025, land, building, and equipment was adjusted to the fair value of \$56,689,882 as a result of adopting pushdown accounting, see Note 2. The carrying value of land, building, and equipment prior to the adjustment was \$53,671,823.

Accumulated amortization on leased equipment totaling \$94,338 and \$4,187,763 is included in the balance of accumulated depreciation as of June 30, 2025 (Successor) and 2024 (Predecessor), respectively. Amortization expense associated with finance lease equipment was \$94,338, \$587,052, and \$660,599 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), and is included in depreciation expense in the accompanying statements of operations.

In June 2025, the Corporation entered into construction contracts not to exceed \$2,181,861 for a renovation project and \$3,059,200 for a fitout project.

Note 7. Long-term Obligations

Long-term debt comprised of the following as of June 30:

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
2023 Construction loan	\$ 4,297,890	\$ 4,587,703
2017 Series A Bond	2,141,000	3,125,000
2017 Series B Bond	20,013,000	20,013,000
2017 Series Mayor and Council of Berlin Hospital Revenue Bond (Atlantic General Hospital Facility)	10,000,000	10,000,000
2014 Commercial mortgage loan	-	135,203
2015 Commercial mortgage loan	406,963	442,039
2016 Commercial loan	34,422	96,268
Finance leases payable, with interests ranging from 3.00% to 6.67% secured by selected equipment.	<u>1,645,103</u>	<u>1,203,953</u>
Total long-term debt	38,538,378	39,603,166
Net unamortized debt issuance costs	(382,073)	(434,212)
Current portion	<u>(1,933,146)</u>	<u>(2,035,002)</u>
	<u><u>\$ 36,223,159</u></u>	<u><u>\$ 37,133,952</u></u>

Maturities of long-term debt, including finance leases, are as follows for years ending June 30 (Successor):

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>Thereafter</u>
Future minimum lease payments	\$ 653,075	\$ 593,675	\$ 348,200	\$ 240,284	\$ -	\$ -
Interest	<u>(78,743)</u>	<u>(74,332)</u>	<u>(25,406)</u>	<u>(11,650)</u>	<u>-</u>	<u>-</u>
	574,332	519,343	322,794	228,634	-	-
Notes/loans payable	349,814	334,764	353,094	372,436	392,845	2,936,322
Bonds payable	<u>1,009,000</u>	<u>1,041,000</u>	<u>1,071,000</u>	<u>1,108,000</u>	<u>1,141,000</u>	<u>26,784,000</u>
	<u>1,358,814</u>	<u>1,375,764</u>	<u>1,424,094</u>	<u>1,480,436</u>	<u>1,533,845</u>	<u>29,720,322</u>
	<u><u>\$ 1,933,146</u></u>	<u><u>\$ 1,895,107</u></u>	<u><u>\$ 1,746,888</u></u>	<u><u>\$ 1,709,070</u></u>	<u><u>\$ 1,533,845</u></u>	<u><u>\$ 29,720,322</u></u>

Swap Agreements

During 2018, the Corporation obtained a new swap agreement connected with the revenue bonds. The fair value of the swap agreements as of June 30, 2025 (Successor) and 2024 (Predecessor) (as determined after consultation with investment hedging consultants), based on the present value of cash flow differences over the lives of the swap agreements between the interest rate calculated on the swap agreements at inception and rates available on similar swap agreements is \$1,618,167 and \$2,611,979, respectively. Payments made to the counterparty to the swap agreements totaled \$237,696, \$1,208,926, and \$1,420,685 for the for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), respectively. These amounts include interest due on both the bonds and swap agreements. The Corporation is exposed to credit loss in the event of nonperformance by the counterparty on the swap agreements but does not anticipate nonperformance by the counterparty.

2014 Commercial Mortgage Loan

On May 23, 2014, the Corporation obtained a \$1,950,000 commercial mortgage from the Bank of Ocean City for the purposes of purchasing a medical office building. The loan was collateralized by a mortgage lien against the building. Principal and interest payments of \$11,810 were made monthly based on an interest rate of 3.99% and the loan was scheduled to mature on May 23, 2034. The loan was repaid in full during 2025.

2015 Commercial Mortgage Loan

On June 30, 2015, the Corporation obtained a \$680,000 commercial mortgage from the Bank of Ocean City for the purposes of purchasing a condominium unit in the medical office building. The loan is collateralized by a mortgage lien against the condominium. Principal and interest payments of \$4,118 are made monthly based on an interest rate of 3.99%. The loan matures on June 30, 2035.

2016 Commercial Loan

On March 1, 2016, the Corporation obtained a \$452,208 loan from an unrelated third party pertaining to leasehold improvements associated with a medical office building. Principal and interest payments of \$4,797 are made monthly based on an interest rate of 5.00%. The loan matures on March 1, 2026.

2017 Series Revenue Bonds

On September 1, 2017, pursuant to a loan and financing agreement (the 2017 Loan and Financing Agreement) between the Corporation, (the "Issuer"), and M&T Bank (the "Lender"), the Issuer issued the Hospital Revenue Bonds (Atlantic General Hospital Facility) 2017 Series A in the amount of \$7,501,000 and Series B in the amount of \$20,013,000. The Series A Bond proceeds were to refund a portion of the 2010 Series Revenue Bonds and to refinance a portion of the 2008 Commercial Mortgage Loan. The Series B Bond was issued in the maximum principal amount of \$20,013,000 in order to finance the 2017 Project, consisting of building renovations and equipment acquisitions, to refund a portion of the 2001 Series Refunding Revenue Bonds, 2002 Series Revenue Bonds, and 2010 Series Revenue Bonds, and to refinance a portion of the 2008 Commercial Mortgage Loan.

The financing requires monthly payments by the Corporation directly to the Lender sufficient to meet the principal and interest requirements of the 2017 Series A and Series B Bonds through their maturity on July 1, 2027, and March 3, 2042, respectively. Interest payments for Series A and Series B Bonds began on October 1, 2017. Principal and interest payments for Series A began September 3, 2019, with any outstanding interest and principal due July 1, 2027. Principal and interest payments for Series B are to begin August 2, 2027, with any outstanding interest and principal due March 3, 2042.

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The Series 2017 Bonds bore interest at the respective index floating rates applicable to the bonds, excluding the immediately succeeding interest payments date, in which the interest rates were 2.21% and 2.45% for Series A and B, respectively. Thereafter, the index floating rate was determined by the London Interbank Offered Rate ("LIBOR") Interest Period. On April 11, 2023, the bond agreements were amended to base the index floating rate on the Term Secured Overnight Financing Rate ("SOFR"). The interest rates as of June 30, 2025 and 2024 for the 2017 Series A bonds were 5.25% and 6.11%, respectively. The interest rates as of June 30, 2025 and 2024 for the 2017 Series B bonds were 5.74% and 6.66%, respectively.

Each Series 2017 Bond is subject to redemption at the option of Maryland Health and Higher Educational Facilities Authority ("MHHEFA") upon the request of the Corporation, on any date upon not less than five days' notice to the lender, at a redemption price of 100% of the principal amount of the bond redeemed plus accrued interest to the redemption date. The Bonds may also be redeemed at the option of MHHEFA upon the request of the Corporation through purchase at a price equal to 100% of the principal amount of the bond plus accrued interest on the date set for redemption.

On September 1, 2017, the Corporation also entered into a financing agreement with the Mayor and Council of Berlin and the Lender for a 2017 Taxable Bond in the amount of \$10,000,000 to finance the 2017 Project. The 2017 Taxable Bond bore interest at the index floating rate, excluding the immediately succeeding interest payment date, in which the interest rate was 2.36%. Thereafter, the index floating rate was determined by the LIBOR Interest Period. On May 3, 2023, the bond was amended to base the index floating rate on the Term SOFR. The interest rates as of June 30, 2025 and 2024 for the bond was 5.37% and 6.20%, respectively. Interest payments began November 1, 2017. Principal and interest payments are to begin April 1, 2042, with any outstanding interest and principal due July 1, 2047.

The 2017 Taxable Bond is subject to redemption at the option of the Corporation, in whole or in part, on any date upon not less than five days' notice to the lender, at a redemption price of 100% of the principal amount of the bond redeemed plus accrued interest to the redemption date.

The bonds are secured by a collateral interest in the Corporation's receipts, revenue, and other amounts received by or on behalf of the Corporation. The revenue bonds also place limits on the incurrence of additional borrowings and require the Corporation to maintain a certain debt service coverage, cash covenant, and capitalization ratio.

TidalHealth Health expects to issue bonds in the fall of 2025 in which the Corporation will become a member of the obligated group. Management anticipates proceeds of the planned TidalHealth 2025 bonds will be used to refund the outstanding Series 2017A and 2017B Bonds and the 2017 Taxable Bond.

2023 Construction Loan

On March 30, 2023, the Corporation entered into a 14-year \$5,000,000 construction loan with Calvin B. Taylor Bank for the purposes of facilitating the tenant outfit project at the Ocean Pines facility. The Corporation draws down balances as the project progresses. As of June 30, 2024, approximately \$4,761,000 was drawn on the construction loan. The loan has a fixed rate of 5.5% with interest payments beginning in July 2023 following the first draw on the loan. Principal and interest payments began on October 30, 2023 on the unpaid principal sum. The loan matures on September 30, 2037. The loan is secured by a collateral interest in the Corporation's real property.

Line of Credit

In March 2020, the Corporation entered into an \$8,500,000 revolving line of credit agreement with M&T Bank of which \$7,000,000 matured in October 2020 with the remainder maturing February 28, 2025. Amounts drawn on the remaining \$1,500,000 were due on demand with an interest rate of SOFR plus 1.96%. The line of credit was secured by a third security interest in all non-realty assets and the Corporation's property.

Note 8. Goodwill

In March 2018, the Corporation acquired 100% of the equity interest of Berlin Radiation Therapy Treatment Center, LLC (the "Center"). The Center is in the business of providing cancer care services to Berlin, Maryland and the surrounding area. The Corporation paid \$2,500,000 and acquired medical and office equipment of \$308,171. Goodwill of \$2,191,837 was recorded as part of the acquisition, which included the assembled workforce and noncompete agreements, as well as the Center's brand. Amortization expense was approximately \$182,000 and \$219,000 for the period July 1, 2024 to April 30, 2025 and the year ended June 30, 2024 (Predecessor), respectively. The remaining balance of goodwill was written off on May 1, 2025 with the application of the pushdown accounting.

Note 9. Professional Liability Insurance Coverage

The Corporation is presently exposed to asserted and unasserted potential legal claims encountered in the ordinary course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Corporation's June 30, 2025 (Successor) financial position or the results of operations for the year then ended. Prior to 2005, the Corporation had claims-made professional liability insurance through a commercial insurance carrier covering claims arising from the performance of professional services and brought against the Corporation while the policy was in force. Insurable limits under this policy were \$1 million per claim and \$3 million annual aggregate shared limit basis. In addition, the Corporation maintained an umbrella policy of \$15,000,000 per occurrence and aggregate.

During 2005, the Hospital, became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (the "Captive"), a Cayman Islands company, that provides claims-made professional and general liability coverage for the risks of its covered shareholders, their controlled affiliates, and their respective employees.

The Captive provides primary coverage to its covered shareholders and their affiliates with limits of liability of \$2,000,000 for each and every claim ("Retained Layer") and provides an excess policy with various limits of liability which is fully reinsured through commercial carriers. The Corporation has \$15,000,000 of additional reinsurance in the aggregate through such reinsurance arrangements. The estimated unpaid loss liability reserved by the Captive for the Hospital was \$3,976,241 and \$4,710,043 at June 30, 2025 (Successor) and 2024 (Predecessor), respectively, and is included in noncurrent other liabilities in the balance sheets. The corresponding insurance recoverable is included in other noncurrent assets in the balance sheets.

The June 30, 2025 and 2024 unpaid loss liability is recorded as a noncurrent liability, and the related insurance recovery was reported as a noncurrent asset in the accompanying balance sheets. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately \$1,500,000 as a noncurrent other liability in the accompanying balance sheets as of June 30, 2025 (Successor) and 2024 (Predecessor).

Premiums are calculated by an actuary under a retrospectively rated policy and are based primarily on the experience of the Shareholders. The total premium is allocated to each of the Shareholders based on their experience. Premiums for the Corporation's professional and general liability insurance of approximately \$253,405, \$1,285,823, and \$1,695,000 were charged to operations during the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor). Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. Each named insured will not be charged or entitled to any

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retrospective premium assessments or credits until the policy period has been closed and no further claim obligations are expected. In management's opinion, the assets of the Captive are sufficient to meet its obligations as of June 30, 2025. If the financial condition of the Captive were to materially deteriorate in the future, and the Captive was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

The Corporation has served notice of withdrawal from the Captive effective March 1, 2026. Professional and general liability coverage for the Corporation will be provided by Delmarva Peninsula Insurance Company, a wholly-owned captive insurance company of TidalHealth.

Note 10. Commitments

Employment Agreements

The Corporation has entered into various employee agreements with certain physicians whereby the Corporation has agreed to pay reasonable expenses of the physicians' practices in addition to compensation for services rendered. These agreements are generally for a period of two years.

Retirement Plans

The Corporation sponsors a 403(b) retirement covering substantially all employees of the Corporation. Participants may elect to contribute a percentage of their pretax annual compensation, as defined by the Plan, not to exceed the maximum allowable contributions under the IRC. The Corporation matches 50% of the first 5% of participants' elective deferrals and participants become fully vested in employer contributions after three years of continuous service. Plan expenses were \$194,606, \$843,528, and \$1,028,716 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), respectively.

The Corporation sponsors a Section 457 deferred compensation plan. All contributions to the Section 457 plan are from participating employees; however, all assets of the Section 457 plan are the sole property of the Corporation and are fully subject to claims by the Corporation's general creditors. As of June 30, 2025 (Successor) and 2024 (Predecessor), \$3,305,388 and \$2,996,420, respectively, are recorded as investments internally designated for deferred compensation and a related liability in the same amounts as other liabilities on the balance sheets.

Self-Insured Plans

Effective May 1, 2002, the Corporation joined the Maryland Hospital Association ("MHA") Workers' Compensation Self-Insurance Group to self-insure for worker's compensation benefits. The annual premium for worker's compensation is calculated based on the Corporation's payroll estimate and MHA rates per payroll classification. The MHA rates are determined based on past experience. Amounts charged to operations for workers' compensation expense were \$56,865, \$284,166 and \$379,763 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), respectively.

In lieu of paying unemployment tax premiums to the State of Maryland, the Corporation secured a letter of credit with M&T Bank, effective May 21, 2004. As of June 30, 2025 (Successor) and 2024 (Predecessor), the letter of credit was in the amount of \$473,836 and \$490,071, respectively. Additionally, the Corporation paid actual Maryland unemployment claims in the amount of \$6,086, \$99,780, and \$17,953 for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor), respectively.

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The Corporation maintains an agreement with a third-party to administer a self-insured health plan that benefits Hospital employees and their dependents. On behalf of participating employees, the Corporation pays the cost of health claims and an administration fee for each subscriber employee. The participating associates share in the cost by remitting a pre-established premium through payroll deductions.

Additionally, the Hospital obtains stop loss insurance to cover possible claims in excess of expected claims. The stop loss insurance agreements are annual agreements, subject to annual renewals. The Corporation submits a claim for reimbursement of stop loss insurance when claims exceed a pre-established ceiling. The Corporation's net health benefit expense for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor) was \$1,103,239, \$6,637,974, and \$8,103,226, respectively, net of premiums received from associates for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor) of \$351,482, \$1,208,828, and \$1,295,536, respectively.

Effective March 1, 2026, the self-insured health plan for the Corporation will be provided by Delmarva Peninsula Insurance Company, a wholly-owned captive insurance company of TidalHealth.

The Corporation maintains an agreement with a third-party to coordinate the administration of dental health benefits to Hospital employees and their dependents. This is an annual agreement, subject to annual renewals. On behalf of participating employees, the Hospital pays the cost of claims and a fee for each subscriber employee, and the participating employees remit a portion of the Corporation's cost through a pre-established schedule of payroll deductions.

Note 11. Leases

The Corporation leases certain office space and medical equipment under the terms of non-cancellable operating leases and finance leases. Operating lease expense is recognized in operations on a straight-line basis over the lease term. In determining lease asset values, the Corporation considers fixed payment terms, incentives, and options to extend or terminate. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. Variable payments, such as variable common area maintenance, are expensed in the period incurred and not included in the lease asset or liability values.

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The components of lease expense (and related classification in the accompanying statements of operations) were as follows during the for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	<u>Successor</u> <u>Period from</u> <u>May 1, 2025</u> <u>through</u> <u>June 30, 2025</u>	<u>Predecessor</u>	
		<u>Period from</u> <u>July 1, 2024</u> <u>through</u> <u>April 30, 2025</u>	<u>Year-Ended</u> <u>June 30, 2024</u>
Operating lease cost	\$ 506,660	\$ 2,000,046	\$ 2,336,250
(supplies and other expense)			
Short-term lease cost	66,618	944,144	627,367
(supplies and other expense)			
Finance lease costs			
Amortization of right-of-use assets	94,338	587,052	660,599
(depreciation expense)			
Interest on lease liabilities	16,143	94,562	77,913
(interest expense)			-
Total lease cost	<u>\$ 683,759</u>	<u>\$ 3,625,804</u>	<u>\$ 3,702,129</u>

Cash paid for amounts included in the measurement of lease liabilities is as follows for the years ended June 30:

	<u>Successor</u> <u>Period from</u> <u>May 1, 2025</u> <u>through</u> <u>June 30, 2025</u>	<u>Predecessor</u>	
		<u>Period from</u> <u>July 1, 2024</u> <u>through</u> <u>April 30, 2025</u>	<u>Year-Ended</u> <u>June 30, 2024</u>
Operating cash flows from operating leases	\$ 338,929	\$ 551,352	\$ 1,623,432
Operating cash flows from finance leases	16,143	94,562	77,913
Financing cash flows from finance leases	<u>115,270</u>	<u>456,330</u>	<u>660,599</u>
Total	<u>\$ 470,342</u>	<u>\$ 1,102,244</u>	<u>\$ 2,361,944</u>

Right-of-use assets obtained in exchange for new lease obligations are as follows for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	<u>Successor</u> <u>Period from</u> <u>May 1, 2025</u> <u>through</u> <u>June 30, 2025</u>	<u>Predecessor</u>	
		<u>Period from</u> <u>July 1, 2024</u> <u>through</u> <u>April 30, 2025</u>	<u>Year-Ended</u> <u>June 30, 2024</u>
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -	\$ -	\$ 19,483,646
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ -	\$ 1,020,549	\$ -

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Operating lease right-of-use assets are classified as long-term assets with the related liabilities classified as current and long-term in the accompanying balance sheets.

The following table presents lease-related assets and liabilities at June 30:

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Right-of-use assets - operating leases	\$ 20,048,958	\$ 20,939,239
Current portion of operating lease obligations	1,981,952	1,654,996
Long-term operating lease obligations	<u>18,067,006</u>	<u>19,284,243</u>
Total operating lease liabilities	<u>\$ 20,048,958</u>	<u>\$ 20,939,239</u>

Current finance lease obligations are included in current portion of long-term obligations in the accompanying balance sheets. Noncurrent finance lease obligations are included in long-term obligations in the accompanying balance sheets.

The following table presents finance lease-related assets and liabilities at June 30:

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Property and equipment, net	\$ 1,500,253	\$ 1,169,005
Current portion of finance lease obligations	574,332	474,322
Long-term finance lease obligations	<u>1,070,771</u>	<u>729,631</u>
Total finance lease liabilities	<u>\$ 1,645,103</u>	<u>\$ 1,203,953</u>

Other information

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Weighted-average remaining lease term – operating leases	11.20 years	12.27 years
Weighted-average remaining lease term – finance leases	2.23 years	2.04 years
Weighted-average discount rate – operating leases	4.76%	4.79%
Weighted-average discount rate – finance leases	4.17%	5.35%

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Future operating lease liability maturities are as follows for the years ended June 30 (Successor):

	<u>Operating</u>	<u>Finance</u>
2026	\$ 2,910,795	\$ 574,332
2027	2,542,851	546,982
2028	2,345,579	235,868
2029	2,014,293	228,635
2030	1,954,149	-
Thereafter	<u>15,011,479</u>	<u>-</u>
Total	26,779,146	1,585,817
Interest	<u>(6,730,188)</u>	<u>(381,864)</u>
Lease liability	<u>\$ 20,048,958</u>	<u>\$ 1,203,953</u>

Note 12. Functional Expenses

The Corporation provides general health care services and related services to individual within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the period May 1, 2025 to June 30, 2025 (Successor), the period July 1, 2024 to April 30, 2025, and the year ended June 30, 2024 (Predecessor):

	<u>Period May 1, 2025 to June 30, 2025 (Successor)</u>		
	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 9,799,343	\$ 3,122,569	\$ 12,921,912
Employee benefits and other related expenses	1,724,827	431,613	2,156,440
Professional fees and contracted services	2,172,889	905,692	3,078,581
Supplies and other expenses	7,573,748	711,214	8,284,962
Utilities	152,880	226,659	379,539
Maintenance and repairs	1,315,431	421,552	1,736,983
Insurance	165,879	336,774	502,653
Interest	60,637	224,659	285,296
Depreciation	853,137	261,629	1,114,766
Amortization	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 23,818,771</u>	<u>\$ 6,642,361</u>	<u>\$ 30,461,132</u>

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	Period July 1, 2024 to April 30, 2025 (Predecessor)		
	Healthcare Services	General and Administrative	Total
Salaries	\$ 45,440,227	\$ 14,847,848	\$ 60,288,075
Employee benefits and other related expenses	9,869,013	2,530,193	12,399,206
Professional fees and contracted services	8,560,483	4,842,491	13,402,974
Supplies and other expenses	38,527,671	3,404,433	41,932,104
Utilities	818,713	945,014	1,763,727
Maintenance and repairs	5,817,984	2,089,041	7,907,025
Insurance	331,841	1,335,824	1,667,665
Interest	370,550	1,095,702	1,466,252
Depreciation	4,203,657	1,289,133	5,492,790
Amortization	182,653	3,644	186,297
Total	<u>\$ 114,122,792</u>	<u>\$ 32,383,323</u>	<u>\$ 146,506,115</u>

	Year Ended 2024 (Predecessor)		
	Healthcare Services	General and Administrative	Total
Salaries	\$ 54,767,081	\$ 18,966,598	\$ 73,733,679
Employee benefits and other related expenses	11,731,575	3,065,618	14,797,193
Professional fees and contracted services	8,577,656	4,366,253	12,943,909
Supplies and other expenses	40,974,126	4,122,866	45,096,992
Utilities	985,561	1,128,063	2,113,624
Maintenance and repairs	7,143,517	2,471,497	9,615,014
Insurance	392,449	1,755,641	2,148,090
Interest	440,735	1,307,585	1,748,320
Depreciation	5,248,540	1,916,080	7,164,620
Amortization	219,184	7,064	226,248
Total	<u>\$ 130,480,424</u>	<u>\$ 39,107,265</u>	<u>\$169,587,689</u>

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

Note 13. Business and Credit Concentrations

The Corporation grants credit to patients, many of whom are local residents. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies.

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At June 30, the Corporation had accounts receivable from third-party payors and others as follows:

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Medicare	50%	50%
Medicaid	10%	10%
Blue Cross	17%	17%
Commercial	18%	18%
Self-pay and others	5%	5%
	<u>100%</u>	<u>100%</u>

Note 14. Perdue Kresge Challenge for the Community

In January 2002, the Hospital received notice indicating it was a recipient of a conditional award of up to \$750,000 through the Perdue Kresge Challenge for the Community, an endowment challenge grant program for nonprofit organizations serving the Lower Eastern Shore of Maryland. This grant was contingent upon the Hospital's ability to raise, at a minimum, slightly more than two-thirds of the \$750,000 match (\$502,500) in qualified gifts in the Hospital's named agency-restricted endowment fund (the "Fund"). During 2005, the Hospital met the full challenge and Perdue Kresge matched the \$750,000. By Board designation, all of the income distributed from the Perdue Kresge Challenge endowment will be used to fund physician practice development in the community.

On January 15, 2002, the Fund was established in the Hospital's name in order for the Hospital to participate in the Perdue Kresge Challenge for the Community. The Fund is held by and accounted for in the financial statements of the Community Foundation of the Eastern Shore. An unrelated third party actively manages the investments, which are invested currently in various bonds, mutual funds, and equities. All realized gains and losses are reinvested in the Fund. The Fund has no minimum value requirement. All gifts to the Fund will be invested in perpetuity. The Hospital, as sole beneficiary to any interest earned on the Fund, will receive income distributions earned on the assets of the Fund with no external restrictions regarding use; however, the Board of Trustees has designated all investment income from this endowment fund for funding physician practice development in the community. Income distributions will be made on an annual basis.

Fund activity is presented below for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Beginning fund balance	\$ 2,220,898	\$ 2,178,628
Investment earnings	250,984	167,569
Administrative and management fees	(21,863)	(20,513)
Annual income distributions	<u>(107,751)</u>	<u>(104,786)</u>
Ending fund balance	<u>\$ 2,342,268</u>	<u>\$ 2,220,898</u>

Note 15. Certain Risks and Uncertainties

Risk Factors

The Corporation's ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee-for-service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however, managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the outcome of the federal budget debate, and the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the ultimate impact of the federal health care reform legislation (5) the future of Maryland's certificate of need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Hospital's ability to expand or add new services; and (6) the future of the HSCRC's authority to regulate rates, where future changes could result in reductions to revenues since payors would be allowed to negotiate discounts not currently allowed.

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

The Joint Commission

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States of America. Such accreditation is based upon a number of requirements including undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payors require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services of the U.S. Department of Health and Human Services ("CMS"), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. In other words, by being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payors would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The Hospital has been accredited by the Joint Commission through December 31, 2027.

Maryland HSCRC

The HSCRC has jurisdiction over hospital reimbursement in Maryland by an agreement with CMS based on a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a waiver to modernize Maryland's unique all-payor rate-setting system for hospital services. The waiver consisted of a five-year performance period. Maryland Hospitals are committed to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions.

Maryland also limited annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2015 to 2018. Under this model, Medicare savings were estimated to be at least \$330 million. Under the waiver, Maryland shifted virtually all of its hospital revenue over the five-year performance period into global payment models.

In connection with the waiver, the HSCRC introduced new revenue arrangements, including the GBR model. This new model for Maryland hospitals moved payment to hospitals from each individual service to a total revenue for each hospital or a combination of hospitals to provide hospitals flexibility in the objectives of better care for individuals, higher levels of overall population health, and improved health care affordability. It removed the financial incentive from increasing volume and provided incentive to work with partners to provide care in the appropriate setting. Beginning January 2019, the new "Total Cost of Care Model" (TCOC Model) was approved and builds upon the successes of the all-payor model. The TCOC Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. The TCOC Model was approved for a 10-year term provided Maryland met the TCOC Model performance requirements. The currently negotiated performance period is scheduled to end December 31, 2026.

On November 1, 2024, the state of Maryland entered into an agreement with CMS to participate in the Achieving Healthcare Efficiency through Accountable Design Model ("AHEAD Model") as the next framework for the reimbursement of its covered providers. The AHEAD Model is designed to promote statewide accountability for healthcare cost growth, enhance investment in primary care, and improve population health outcomes through a multi-payor approach. The AHEAD Model is a successor to the Maryland TCOC Model, and as such, Maryland will continue state-wide efforts to improve healthcare quality and control costs across all payors. The AHEAD Model agreement includes a 1) Pre-Implementation Period, which commenced on July 1, 2024 and continues until December 31, 2025; and 2) Performance Years, which begins on January 1, 2026 and expires on December 31, 2034. Like the TCOC Model, the AHEAD Model includes requirements to meet certain health care cost savings targets, among other goals, such as quality and health outcomes.

The core payment structure of AHEAD remains the hospital global budget system. The Hospital will continue to operate under the HSCRC regulated global budget for inpatient and outpatient services with collaboration with CMS on establishing Medicare rates.

HSCRC and the state of Maryland are in the process of refining the specific terms of the AHEAD implementation. Participation agreements for the individual hospitals are scheduled to be completed by November 2025. However, specific details and targets associated with AHEAD implementation are unknown at this time.

Regulatory Environment

The Medicare and Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues. The Corporation's operations are subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse.

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Changes in Federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Hospital. The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws (STARK law and regulation). The Hospital's compliance with these laws and regulations is subject to ongoing internal monitoring as well as periodic governmental review and inquiries, and the Hospital has responded appropriately to any such compliance matters. The Hospital is aware of certain asserted and unasserted compliance matters, and from time to time, the Hospital may agree to resolve certain compliance matters with the government through the self-disclosure process. The amount of such settlement for compliance matters currently being evaluated for submission under the self-disclosure process cannot be estimated at this time. The Hospital will continue to monitor its compliance and all related government inquiries and respond appropriately, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

As a result of pending federal healthcare reform legislation, substantial changes may occur in the healthcare system. Such legislation potentially includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers.

On July 3, 2025, the U.S. Congress enacted the One Big Beautiful Bill Act (OBBBA), a comprehensive budget reconciliation law introducing significant changes to federal healthcare programs, tax policy, and energy-related incentives. The legislation includes substantial reductions in Medicaid funding, modifications to provider tax structures, and new eligibility and cost-sharing requirements for Medicaid beneficiaries. The OBBBA has no impact on the results of operations and financial condition as of June 30, 2025 and for the period May 1, 2025 to June 30, 2025 (Successor) and the period July 1, 2024 to April 30, 2025 (Predecessor). The Corporation is currently evaluating what impact the OBBBA may have on the financial results, cash flows and financial position for future periods. Future regulatory developments and economic effects stemming from the OBBBA or other legislation remain uncertain and could have as adverse impact on the Corporation's results of operations and financial condition.

Note 16. Liquidity and Availability

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

	<u>Successor</u> <u>2025</u>	<u>Predecessor</u> <u>2024</u>
Cash and cash equivalents	\$ 12,897,380	\$ 13,712,398
Investments and internally designated cash and cash equivalents	<u>19,609,209</u>	<u>22,251,323</u>
	32,506,589	35,963,721
Patient accounts receivable, net	15,173,947	17,581,394
Other receivables	<u>378,544</u>	<u>454,415</u>
Total	<u>\$ 48,059,080</u>	<u>\$ 53,999,530</u>

The Corporation has certain other assets whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.