

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Luminis Health, Inc. and Subsidiaries  
Years Ended June 30, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



Luminis Health, Inc. and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended June 30, 2021 and 2020

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Ernst & Young LLP  
Suite 310  
1201 Wills Street  
Baltimore, MD 21231

Tel: +1 410 539 7940  
Fax: +1 410 783 3832  
ey.com

## Report of Independent Auditors

The Board of Trustees  
Luminis Health, Inc.

We have audited the accompanying consolidated financial statements of Luminis Health, Inc. (a Maryland not-for-profit corporation) and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cottage Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets constituting 3% in 2021 and 2020 and total revenues constituting 1% in 2021 and 2020 of the related consolidated totals. We did not audit the financial statements of Doctors Community Medical Center and subsidiaries in 2020, a wholly owned subsidiary, which statements reflect total assets constituting 21% in 2020 and total revenues constituting 25% in 2020 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cottage Insurance Company, Ltd., and for Doctors Community Medical Center and subsidiaries in 2020, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Luminis Health, Inc. and subsidiaries at June 30, 2021 and 2020, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

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

*Ernst & Young LLP*

October 28, 2021

Luminis Health, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30	
	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 276,817,000	\$ 178,795,000
Short-term investments	3,447,000	1,365,000
Current portion of assets whose use is limited	16,241,000	15,912,000
Patient receivables, net	144,555,000	118,882,000
Current portion of pledges receivable, net	1,312,000	945,000
Inventories	23,642,000	21,789,000
Prepaid expenses and other current assets	18,998,000	19,857,000
Total current assets	<u>485,012,000</u>	<u>357,545,000</u>
Property and equipment	1,129,871,000	1,096,845,000
Less accumulated depreciation and amortization	<u>(583,269,000)</u>	<u>(538,353,000)</u>
Net property and equipment	<u>546,602,000</u>	<u>558,492,000</u>
Other assets:		
Investments	448,850,000	338,985,000
Investments in joint ventures	13,459,000	14,024,000
Pledges receivable, net	1,662,000	3,192,000
Assets whose use is limited	53,033,000	41,020,000
Restricted collateral for interest rate swap contract	25,699,000	110,002,000
Right-of-use asset	37,528,000	44,995,000
Other assets	68,561,000	53,613,000
Total assets	<u>\$ 1,680,406,000</u>	<u>\$ 1,521,868,000</u>

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 55,696,000	\$ 40,441,000
Accrued salaries, wages, and benefits	76,693,000	53,438,000
Other accrued expenses	29,407,000	32,413,000
Current portion of long-term debt	21,638,000	16,440,000
Advances from third-party payors	178,155,000	182,697,000
Current portion of lease liability	8,187,000	8,753,000
Total current liabilities	369,776,000	334,182,000
Long-term debt, less current portion and unamortized original issue premium	449,175,000	470,308,000
Interest rate swap contracts	90,010,000	117,037,000
Accrued pension liability	2,291,000	29,276,000
Lease liability, less current portion	30,979,000	37,429,000
Other long-term liabilities	54,044,000	47,032,000
Total liabilities	996,275,000	1,035,264,000
Net assets:		
Without donor restrictions	654,877,000	460,552,000
With donor restrictions	26,412,000	23,861,000
Non-controlling interest	2,842,000	2,191,000
Total net assets	684,131,000	486,604,000
Total liabilities and net assets	<b>\$ 1,680,406,000</b>	<b>\$ 1,521,868,000</b>

*See accompanying notes.*

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Operations

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Operating revenue:		
Net patient service revenue	<b>\$ 1,036,435,000</b>	\$ 969,105,000
Other operating revenue	<b>69,455,000</b>	78,393,000
Total operating revenue	<b><u>1,105,890,000</u></b>	<u>1,047,498,000</u>
Operating expenses:		
Salaries and wages	<b>508,722,000</b>	479,880,000
Employee benefits	<b>76,396,000</b>	75,930,000
Supplies	<b>189,217,000</b>	197,487,000
Purchased services	<b>247,676,000</b>	226,375,000
Depreciation and amortization	<b>46,884,000</b>	45,994,000
Interest	<b>14,404,000</b>	16,151,000
Total operating expenses	<b><u>1,083,299,000</u></b>	<u>1,041,817,000</u>
Operating income	<b><u>22,591,000</u></b>	<u>5,681,000</u>
Other income (loss):		
Investment income (loss), net	<b>13,467,000</b>	(9,700,000)
Loss from joint ventures and other, net	<b>(93,000)</b>	(673,000)
Inherent contribution	–	61,715,000
Pension (expense) credit, net	<b>(3,446,000)</b>	1,116,000
Unrealized gains (losses) on trading securities, net	<b>104,506,000</b>	(15,151,000)
Realized and unrealized gains (losses) on interest rate swap contracts, net	<b>20,165,000</b>	(43,149,000)
Total other gain (loss), net	<b><u>134,599,000</u></b>	<u>(5,842,000)</u>
Excess (deficit) of revenue over expenses	<b><u>\$ 157,190,000</u></b>	<u>\$ (161,000)</u>

## Luminis Health, Inc. and Subsidiaries

### Consolidated Statements of Changes in Net Assets

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Net assets, June 30, 2019	\$ 482,661,000	\$ 24,730,000	\$ 507,391,000
Net assets acquired	2,265,000	487,000	2,752,000
Deficit of revenues over expenses	(161,000)	–	(161,000)
Pension liability adjustment	(24,810,000)	–	(24,810,000)
Released from restrictions used for			
purchase of property and equipment	1,837,000	–	1,837,000
Transfers and other, net	951,000	(598,000)	353,000
Restricted gifts, bequests, and contributions	–	9,518,000	9,518,000
Unrealized losses on investments	–	(3,394,000)	(3,394,000)
Restricted investment income	–	693,000	693,000
Net assets released from restrictions	–	(7,575,000)	(7,575,000)
Changes in net assets	<u>(19,918,000)</u>	<u>(869,000)</u>	<u>(20,787,000)</u>
Net assets, June 30, 2020	462,743,000	23,861,000	486,604,000
Excess of revenues over expenses	<b>157,190,000</b>	–	<b>157,190,000</b>
Pension liability adjustment	<b>35,092,000</b>	–	<b>35,092,000</b>
Transfers and other, net	<b>2,694,000</b>	<b>(1,239,000)</b>	<b>1,455,000</b>
Restricted gifts, bequests, and contributions	–	<b>5,583,000</b>	<b>5,583,000</b>
Restricted investment income	–	<b>1,071,000</b>	<b>1,071,000</b>
Net assets released from restrictions	–	<b>(2,864,000)</b>	<b>(2,864,000)</b>
Changes in net assets	<u><b>194,976,000</b></u>	<u><b>2,551,000</b></u>	<u><b>197,527,000</b></u>
Net assets, June 30, 2021	<u><b>\$ 657,719,000</b></u>	<u><b>\$ 26,412,000</b></u>	<u><b>\$ 684,131,000</b></u>

*See accompanying notes.*



# Luminis Health, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 197,527,000	\$ (20,787,000)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Change in net unrealized (gains) losses on investments	(104,506,000)	18,545,000
Realized and unrealized losses on interest rate swap contracts, net	(20,165,000)	43,149,000
Pension liability adjustment	(35,092,000)	24,810,000
Equity in earnings of joint ventures and other	(578,000)	804,000
Restricted contributions and pledges, net	(5,583,000)	(9,518,000)
Depreciation and amortization	46,884,000	45,994,000
Restricted investment income	(1,071,000)	(693,000)
(Increase) decrease in investments – trading	(7,440,000)	60,680,000
Increase in assets whose use is limited, net – trading	(10,926,000)	(5,164,000)
Inherent contribution and net assets acquired	–	(64,467,000)
Net change in operating assets and liabilities	5,858,000	154,413,000
Net cash provided by operating activities	64,908,000	247,766,000
<b>Investing activities</b>		
Purchases of property and equipment	(33,813,000)	(62,284,000)
Payments on interest rate swaps	(6,861,000)	(4,591,000)
Distributions from joint ventures	1,143,000	–
Cash acquired	–	34,168,000
Net cash used in investing activities	(39,531,000)	(32,707,000)
<b>Financing and fundraising activities</b>		
Repayments of long-term debt	(18,059,000)	(17,530,000)
Restricted contributions received and other	6,746,000	8,676,000
Restricted income received	1,071,000	693,000
Net cash used in financing and fundraising activities	(10,242,000)	(8,161,000)
Net increase in cash, cash equivalents, and restricted cash	15,135,000	206,898,000
Cash, cash equivalents, and restricted cash at beginning of year	305,828,000	98,930,000
Cash, cash equivalents, and restricted cash at end of year	\$ 320,963,000	\$ 305,828,000
Cash and cash equivalents	\$ 276,817,000	\$ 178,795,000
Restricted cash, included in restricted collateral and assets whose use is limited	44,146,000	127,033,000
Cash, cash equivalents, and restricted cash at end of year	\$ 320,963,000	\$ 305,828,000

Luminis Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
<b>Changes in operating assets and liabilities</b>		
(Decrease) increase in operating assets:		
Patient receivables, net	\$ (25,674,000)	\$ 265,000
Inventories	(1,853,000)	(8,896,000)
Prepaid expenses and other	859,000	3,869,000
Other assets	(6,539,000)	11,797,000
	<u>(33,207,000)</u>	<u>7,035,000</u>
 Increase (decrease) in operating liabilities:		
Accounts payable	15,255,000	(5,845,000)
Accrued salaries, wages, and benefits	23,255,000	(422,000)
Other accrued expenses	(3,572,000)	14,024,000
Advances from third-party payors	(4,542,000)	151,029,000
Other long-term liabilities	8,669,000	(11,408,000)
	<u>39,065,000</u>	<u>147,378,000</u>
Net change in operating assets and liabilities	<u>\$ 5,858,000</u>	<u>\$ 154,413,000</u>
 <b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	<u>\$ 13,591,000</u>	<u>\$ 15,541,000</u>

*See accompanying notes.*

# Luminis Health, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

June 30, 2021

### 1. Organization and Basis of Presentation

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

LHAAMC is a private, not-for-profit corporation that operates a 349-licensed bed acute care hospital. LHAAMC, the Real Estate Company, and PPI own an interest in Kent Island Medical Arts, LLC (KIMA), a limited liability company that owns and operates a medical office building. PPI is the managing member of KIMA and has substantive participation rights in KIMA. The financial statements of KIMA are consolidated in the accompanying consolidated financial statements. The non-controlling interest in KIMA was 50% as of June 30, 2021 and 2020. This interest was \$974,000 and \$929,000 at June 30, 2021 and 2020, respectively, and is included within net assets without donor restriction on the accompanying consolidated balance sheets.

On July 1, 2019, Anne Arundel Health System, Inc. and Doctors Community Hospital and subsidiaries executed an affiliation agreement (the Agreement) providing for an affiliation between AAHS and Doctors Community Hospital and subsidiaries. In September 2019, Doctors Community Hospital and subsidiaries changed its name to Doctors Community Medical Center and subsidiaries (DCMC). This affiliation agreement resulted in DCMC becoming a wholly owned subsidiary of AAHS. DCMC is a Maryland health system that includes an acute care hospital and a network of other health care providers serving residents of Prince George's County region near Lanham, Maryland, east of Washington, DC. On the date of the affiliation, the articles of incorporation and bylaws of DCMC were amended such that AAHS became the sole corporate

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

member of the Doctors Community Medical Center and its subsidiaries. As part of the Agreement, AAHS committed approximately \$138,000,000 over a five-year period in strategic investments to DCMC to expand health care services. As of June 30, 2021, Luminis has contributed approximately \$31,000,000 to DCMC to meet the capital commitment.

During the year ended June 30, 2021, DCMC changed its name to Luminis Health Doctors Community Medical Center, Inc. (LHDCMC). LHDCMC includes the following: LHDCMC and its subsidiaries; Doctors Community Medical Group, LLC; Doctors Community Healthcare Programs, LLC; Doctors Community Hospital Clinic, LLC; Doctors Community Health Ventures, Inc.; Doctors Regional Cancer Center LLC (DRCC); and Luminis Health Doctors Community Hospital Foundation, Inc., formerly Doctor's Community Hospital Foundation, Inc. LHDCMC is a nonprofit corporation that operates an acute care general hospital facility licensed for 190 beds. The accompanying consolidated financial statements include non-controlling interest held by third parties in less than wholly owned subsidiaries. This interest at LHDCMC was \$2,842,000 and \$2,191,000 at June 30, 2021 and 2020, respectively, and relates to DRCC, which is 60% owned by LHDCMC and consolidated in the accompanying financial statements.

#### **Global Pandemic**

In response to the ongoing COVID-19 pandemic, the Governor of the state of Maryland proclaimed a state of emergency and catastrophic health emergency on March 5, 2020, and renewed on March 17, 2020, April 10, 2020, and May 6, 2020. Effective March 16, 2020, all Maryland hospitals were ordered by the Maryland Department of Health to cease all elective and non-urgent medical procedures for the duration of the catastrophic health emergency. The Governor issued a statewide stay-at-home order effective March 30, 2020.

Effective May 7, 2020, the Maryland Department of Health allowed resumption of elective and non-urgent medical procedures, and effective May 15, 2020, major provisions of the Governor's stay-at-home order were rescinded.

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The Health Services Cost Review Commission (HSCRC or Commission) publicly announced its intention to support Maryland hospitals during the state of emergency and catastrophic health emergency. The HSCRC's collaboration with other Maryland regulatory agencies to remove licensure, regulatory, and other barriers to hospitals in the provision of emergency health care services. Recognizing that LHAAMC and LHDCMC have experienced lower than historical volumes in fiscal year 2021 due to the pandemic, the HSCRC permitted both hospitals to increase rate corridors to a fiscal year average threshold of 10% for inpatient rate centers and 9.17% for all other rate centers. This action is intended to allow hospitals that are undercharged under their Global Budget Revenue due to volume losses to increase their charges in order to make up for lost revenue. The HSCRC has stated that this rate corridor increase is a temporary adjustment to ensure financial viability of Maryland hospitals.

To further accommodate any Global Budget Revenue that Maryland hospitals were unable to bill in fiscal year 2021 due to fluctuating volumes resulting from the COVID-19 pandemic, the HSCRC has stated that it will suspend undercharge penalties. The HSCRC will allow Maryland hospitals to recoup undercharges from 2020 and 2021 within the next two fiscal years by applying a onetime adjustment net of the application of CARES Act relief funding. The HSCRC is proposing to reduce the System's undercharge by an amount derived from the CARES Act funding. Maryland hospitals will be allowed to bill any net undercharge in the next two fiscal years, thus allowing them to recoup a portion of lost revenue associated with the catastrophic health emergency period. The HSCRC provided additional Global Budget Revenue for fiscal year 2022 via the update factor to aid Maryland hospitals with increasing labor cost due to the COVID-19 pandemic. It is unknown if the HSCRC will provide any further assistance.

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of health care providers generally. The treatment of this contagious disease at health care facilities has resulted in a temporary shutdown or diversion of patients from those facilities and in staffing and supply shortages. Elective procedures and other patient care appointments are being deferred, and individuals may otherwise avoid medical treatment unrelated to COVID-19, resulting in reduced patient volumes and operating revenues at outpatient facilities.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies**

##### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Luminis and its wholly owned subsidiaries. The financial results of LHDCMC and subsidiaries are included from the date of acquisition, which was July 1, 2019. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

##### **Acquisition of Doctors' Hospital, Inc.**

On July 1, 2019, Luminis completed a transaction that resulted in LHDCMC and subsidiaries becoming a wholly owned subsidiary of Luminis. This transaction was accounted for as an acquisition under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Mergers and Acquisitions*, during the year ended June 30, 2020.

The System elected to apply pushdown accounting whereby individual assets and liabilities were adjusted to the new basis of accounting as of the acquisition date.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The following information summarizes the recorded fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

Cash and cash equivalents	\$ 34,168,000
Patient accounts receivable, net	38,840,000
Other receivables	5,620,000
Inventories	4,243,000
Prepaid expenses	3,981,000
Marketable securities	18,258,000
Joint ventures and equity investments	5,942,000
Property and equipment	116,540,000
Other noncurrent assets	30,093,000
Total assets acquired	<u>257,685,000</u>
Accounts payable and accrued expenses	31,875,000
Advances from third-party payors	7,765,000
Current portion of long-term debt	4,448,000
Long-term debt	128,123,000
Net pension liability	5,001,000
Deferred compensation and claims incurred but not reported	16,006,000
Total liabilities assumed	<u>193,218,000</u>
Non-controlling interest	<u>2,265,000</u>
Net assets acquired, net of non-controlling interest	<u>\$ 62,202,000</u>

An inherent contribution of \$61,715,000 was resulting from the difference between the net assets acquired, net of non-controlling interest and net assets with donor restrictions at LHDCMC and subsidiaries as of the acquisition date. Net assets with donor restrictions of \$487,000 was recorded within changes in net assets with donor restrictions.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking and savings accounts, money market accounts, and short-term certificates of deposit with original maturities of 90 days or less, excluding those held in short-term investments and those classified as long-term investments. Cash balances and collateral held by a counterparty are principally uninsured and are subject to normal credit risks. At June 30, 2021 and 2020, and at various times during the year, the System maintained cash-in-bank balances in excess of the \$250,000 federally insured limits.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Derivative Instruments

On May 10, 2006, LHAAMC entered into a forward variable-to-fixed interest rate swap agreement with an effective date of November 1, 2008. This contract was entered into in an effort to reduce the risk of variable interest rate debt and has a term through July 1, 2048. Under ASC 815, *Derivatives and Hedging*, LHAAMC has recognized its derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. As these derivative instruments are not designated as hedges, the unrealized gain or loss on these contracts has been recognized on the accompanying consolidated statements of operations as realized and unrealized gains (losses) on interest rate swap contracts, net. The fair market values of the derivative instruments include a credit valuation adjustment (CVA) as required by ASC 820, *Fair Value Measurement*. When applying the CVA, the valuation of the variable-to-fixed interest rate swap contract was decreased by \$4,145,000 and \$375,000 as of June 30, 2021 and 2020, respectively.

On March 23, 2016, in an effort to reduce the amount of restricted cash pledged as collateral with the original counterparty, the Hospital entered into a novation agreement with a second counterparty. Immediately prior to the novation agreement, the System modified the existing swap to bifurcate the existing swap into a five-year swap with the remainder into a 2021 through 2048 swap. The terms of the bifurcated swap remain identical to the original swap. The novation agreement resulted in the return of \$29,164,000 as of June 30, 2016. This agreement expired in February 2021.

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



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

<u>Description of Derivative Instrument</u>	<u>Fair Value Liability</u>	
	<u>2021</u>	<u>2020</u>
Variable-to-fixed interest rate swap contract (maturity date March 2021)	\$ —	\$ (4,442,000)
Variable-to-fixed interest rate swap contract (maturity date March 2031)	<b>(36,790,000)</b>	—
Variable-to-fixed interest rate swap contract (maturity date July 2048)	<b>(53,220,000)</b>	(112,595,000)
	<b><u>\$ (90,010,000)</u></b>	<b><u>\$(117,037,000)</u></b>

The change in unrealized gains (losses) recognized in excess (deficit) of revenues over expenses for the years ended June 30, 2021 and 2020, were \$27,026,000 and \$(38,558,000), respectively.

At June 30, 2021 and 2020, the net termination value (i.e., mark-to-market value) of the derivative instruments totaled \$97,003,000 and \$119,671,000, respectively. LHAAMC may be exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreements, the risk of which is reflected in the fair value of the instruments under ASC 820. However, LHAAMC does not anticipate nonperformance by the counterparty.

During fiscal year 2021 and 2020, LHAAMC paid net payments under its interest rate swap program of \$6,861,000 and \$4,591,000, respectively. These amounts are included within realized and unrealized gains (losses) on interest rate swap contracts, net on the accompanying consolidated statements of operations and within investing activities on the accompanying consolidated statements of cash flows.

Under the derivative contracts for the 2021 through 2048 swap, LHAAMC must transfer collateral for the benefit of the counterparty, to the extent that the termination values exceed certain limits. LHAAMC's collateral requirement for the benefit of the counterparty was approximately \$25,699,000 (which includes \$7,045,000 due to the counterparty at June 30, 2021) and \$110,002,000 at June 30, 2021 and 2020, respectively. The ongoing mark-to-market values and resulting collateral requirements of LHAAMC's interest rate swap contract are subject to variability based on market factors (primarily changes in interest rates). Collateral requirements

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

under this interest rate swap contract are excluded from unrestricted cash and investments for purposes of determining the System's compliance with its liquidity covenants under its Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) revenue bond agreements and its derivative agreements. Collateral amounts are included in noncurrent assets on the accompanying consolidated balance sheets.

#### Assets Whose Use is Limited and Investments

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Current:		
Principal, interest and other – bonds	<b>\$ 12,538,000</b>	\$ 12,382,000
Investments held at trustee	<b>3,703,000</b>	3,530,000
	<b>\$ 16,241,000</b>	\$ 15,912,000
Noncurrent:		
Endowment assets	<b>\$ 20,424,000</b>	\$ 15,482,000
Investments held at trustee	<b>32,609,000</b>	25,538,000
	<b>\$ 53,033,000</b>	\$ 41,020,000

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

All investment balances are principally uninsured and subject to normal credit risk. Investments are classified as either current or noncurrent based on the maturity dates and the availability for current operations. Investments included in noncurrent assets consist of board-designated investment funds of \$448,850,000 and \$338,985,000 as of June 30, 2021 and 2020, respectively. Based on the System's investment policy, such amounts could be liquidated, at the discretion of the board, to satisfy short-term requirements.

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

Borrowed funds required to be expended for capital projects are classified as other-than-trading and are included in assets whose use is limited.

#### **Patient Receivables**

Patient receivables include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid, and other insurers. The provision for price concessions is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance.

Insurance coverage and credit information are obtained from patients, when available. No collateral is obtained for accounts receivable.

#### **Inventories**

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Property and Equipment

Property and equipment are stated at cost; or fair value as of the acquisition date for LHDCMC property and equipment. Included in computers and software are capitalized labor costs of \$16,340,000 and \$14,344,000 as of June 30, 2021 and 2020, respectively. Depreciation and amortization, including amortization of assets recorded under capital leases, are recorded on the straight-line method over the estimated useful lives of the assets.

The following is a summary of property and equipment:

	<b>Estimated Useful Lives</b>		<b>June 30</b>	
		<b>2021</b>	<b>2020</b>	
Land		\$ 22,823,000	\$ 22,823,000	
Land improvements	20 years	23,854,000	23,480,000	
Buildings and improvements	20–40 years	614,286,000	592,593,000	
Fixed equipment	5–20 years	30,833,000	55,510,000	
Leasehold improvements	5–10 years	62,591,000	62,389,000	
Movable equipment	7–10 years	237,988,000	221,851,000	
Computers and software	3–5 years	128,752,000	96,079,000	
Construction-in-progress	–	8,744,000	22,120,000	
		<b><u>\$ 1,129,871,000</u></b>	<b><u>\$ 1,096,845,000</u></b>	

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

##### Investments in Joint Ventures

Luminis accounts for its investments in joint ventures using the equity method of accounting. During 2011, the Real Estate Company and another party formed West County, LLC, a joint venture that owns and operates a medical office building that opened in December 2012. The Real Estate Company has a 50% interest in this joint venture, with each owner's investment being \$6,789,000 and \$7,575,000 as of June 30, 2021 and 2020, respectively.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Doctors Community Health Ventures, Inc. (Health Ventures) has an equity method joint venture investment in Magnolia Gardens LLC of \$5,550,000 and \$5,388,000 as of June 30, 2021 and 2020, respectively. This investment is consistent with the mission and strategic plan of Doctors Community Medical Center. The investment in Magnolia Gardens LLC represents a 51% interest and is not consolidated with the financial statements of Luminis because Health Ventures does not control the investee.

Luminis has several other unconsolidated joint ventures for imaging, dialysis services, and ambulatory surgery centers, totaling approximately \$1,120,000 and \$1,061,000 as of June 30, 2021 and 2020, respectively.

#### **Net Assets**

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

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

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

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

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. This includes regulatory discounts allowed to Blue Cross, Medicare, Medicaid, and other third-party payors and charity care.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

During 2021 and 2020, approximately 37% and 39%, respectively, of net patient service revenue was received under the Medicare program, 24% and 25% from Blue Cross, 33% and 26% from contracts with other third parties, and 6% and 10% from other sources.

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Gross patient service revenue	<b>\$ 1,330,212,000</b>	\$ 1,262,664,000
Revenue deductions:		
Charity care	<b>(11,708,000)</b>	(15,409,000)
Contractual and other allowances	<b>(282,069,000)</b>	(278,148,000)
Net patient service revenue	<b><u>\$ 1,036,435,000</u></b>	<b><u>\$ 969,107,000</u></b>

The System recognizes revenue in accordance with ASC 606, which requires patient service revenue to be presented net of provisions for contractually and bad debts (implicit and explicit price concessions). Subsequent changes in the estimate of collectibility due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses, which is included in purchased services on the consolidated statements of operations.

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

Luminis employs physicians in several hospital-based specialties (including, but not limited to, obstetrics, intensive care, and hospitalists). Net physician revenue is recognized when the services are provided and recorded at the estimated net realizable amount based on the contractual arrangements with third-party payors and the expected payments from the third-party payors and the patients. The difference between the billed charges and the estimated net realizable amounts are recorded as a reduction in physician revenue when the services are provided. The System recognized net physician revenue of \$162,841,000 and \$149,933,000 for the years ended June 30, 2021 and 2020, respectively, which is included in net patient service revenue. At June 30, 2021 and 2020, \$22,126,000 and \$15,097,000, respectively, of net physician accounts receivable are included in patient receivables on the accompanying consolidated balance sheets.

#### **Charity Care**

LHAAMC provides charity care to patients who meet certain criteria established under its charity care guidelines. Because members of LHAAMC do not pursue the collection of amounts determined to qualify as charity care, they are not reported as revenue on the accompanying consolidated statements of operations. The direct and indirect costs associated with providing this care are \$4,932,000 and \$4,531,000 for the years ended June 30, 2021 and 2020, respectively. These costs are calculated by applying a ratio of operating expenses over gross patient charges to the charity care provided at established rates. The state of Maryland's rate system includes components within the rates to partially compensate hospitals for uncompensated care.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The cost of charity care provided by LHDCMC totaled \$6,776,000 and \$9,528,000 for the years ended June 30, 2021 and 2020, respectively. Rates charged by LHDCMC for regulated services are determined based on assessment of direct and indirect cost calculated pursuant to the methodology established by the Commission, and therefore the cost of charity services noted above for LHDCMC are equivalent to its established rates for those services. For any charity services rendered by subsidiaries other than from the LHDCMC, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the LHDCMC's non-Hospital affiliates. These charges are excluded from consolidated net patient service revenue.

#### **Other Operating Revenue**

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

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, the largest of which is the CARES Act that was enacted on March 27, 2020. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other health care providers. The CARES Act authorizes funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Relief Fund (Provider Relief Fund). Payments received from the Provider Relief Fund shall reimburse the recipient for health care-related expenses or lost revenues attributable to the COVID-19 pandemic and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The System has received and recognized approximately \$36,524,000 and \$45,472,000 in stimulus funding for the years ended June 30, 2021 and 2020, respectively, that has been recorded within other revenue on the accompanying consolidated statements of operations. The System recognized these amounts based on its evaluation of the terms and conditions prescribed by the U.S. Department of Health and Human Services. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be impacted. The System believes that it meets all the requirements for recognition.



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Advances From Third-Party Payors

On April 10, 2020, the System received \$151,767,000 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. This program provides hospitals with working capital advances that begin to become payable 120 days from the date of receipt of the funds and must be fully repaid within 14 months, starting in April 2021 through an automatic reduction of claims receipts from CMS. These funds, which represent contract liabilities as defined in ASC 606, have been recorded within advances from third-party payors on the accompanying consolidated balance sheets. The balance due to Medicare was \$135,178,000 and \$151,767,000 as of June 30, 2021 and 2020, respectively. The remaining amount of advances from third-party payors are in the ordinary course of business and due to various payors on demand.

##### Donations and Bequests

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

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

2022	\$ 1,312,000
2023	629,000
2024 and thereafter	1,810,000
Less:	
Impact of discounting pledges receivable to net present value	376,000
Allowance for uncollectible pledges	401,000
Net pledges receivable	<u>\$ 2,974,000</u>

Pledges receivable are discounted using rates between 1.2% and 2.5%.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

##### **Group Purchasing Organization Initial Public Offering**

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

The System received 309,580 Class B units that are earned in seven separate tranches over an 85-month period ending October 31, 2020. At June 30, 2021 and 2020, this investment was \$10,770,000 and \$10,388,000, respectively, and is reflected in other assets on the consolidated balance sheets. The opportunity will exist in the future for these Class B units to be converted to the Premier public company stock. Prior to vesting, the Class B units may be transferred or sold with the approval of Premier. During the years ended June 30, 2021 and 2020, the System recognized approximately \$409,000 and \$1,216,000, respectively, of income related to tranches 6 and 7 of the Class B units, which is included as a reduction of supplies expense on the consolidated statement of operations. The value of the Class B units is tied to the group purchasing contract and is considered a vendor incentive.

##### **Income Tax Status**

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Mc New is organized and operated as a tax-exempt organization and has applied for IRS recognition of exemption from federal income tax under Section 501(c)(3) of the Code, but has not yet received IRS recognition of exemption.

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

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

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

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

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

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

Doctors Community Healthcare Programs (CHP) is a Maryland limited liability company that has not elected to be taxed as a corporation under current treasury regulations. CHP is a wholly owned by LHDCMC. As such, CHP is considered a “disregarded entity” under current IRC regulations.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Under the requirements of ASC 740, *Income Taxes*, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Luminis has determined that it does not have any uncertain tax positions through June 30, 2021.

#### **Use of Estimates**

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

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

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. The System is evaluating the impact of this guidance, which will be effective in 2022.

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

LHAAMC and LHDCMC's rate structure for all hospital-based services is subject to review and approval by the HSCRC. Under the HSCRC rate-setting system, the Hospital's inpatient and outpatient charges are the same for all patients, regardless of payor, including Medicare and Medicaid.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **3. Regulatory Environment (continued)**

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

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

The Commission's rate-setting methodology compares Global Budget Revenue to actual revenue. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The System was undercharged by \$59,965,000 and \$54,399,000 for the years ended June 30, 2021 and 2020, respectively. The undercharges do not include amounts recognized in CARES Act funding discussed in the other operating revenue section in Note 2. The System expects the HSCRC to allow for the recovery of undercharges net of CARES Act funding over the next two years. Changes in rates over the next two fiscal years may result in a material change in rates; however the extent of such changes in each year are uncertain.

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

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Investments**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Assets whose use is limited:		
Endowment assets:		
Cash and cash equivalents	\$ 2,206,000	\$ 1,145,000
Equity mutual funds	13,139,000	9,279,000
Fixed income mutual funds	5,079,000	5,058,000
	<u>20,424,000</u>	<u>15,482,000</u>
Amounts held by trustee:		
Cash and cash equivalents	12,538,000	12,382,000
U.S. Government obligations	7,000	7,000
	<u>12,545,000</u>	<u>12,389,000</u>
Amounts held by Cottage:		
Cash and cash equivalents	3,703,000	3,504,000
Equity mutual funds	14,353,000	11,334,000
Fixed income mutual funds	18,249,000	14,223,000
	<u>36,305,000</u>	<u>29,061,000</u>
Total assets whose use is limited	<u>69,274,000</u>	<u>56,932,000</u>
Less current portion	<u>16,241,000</u>	<u>15,912,000</u>
	<u>\$ 53,033,000</u>	<u>\$ 41,020,000</u>

Amounts held by the trustee are broken down as follows:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Bond indenture	<u>\$ 12,545,000</u>	<u>\$ 12,389,000</u>

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments (continued)

Other investments:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 24,277,000	\$ 14,388,000
Equity mutual funds	230,711,000	173,069,000
Fixed income mutual funds	129,989,000	100,475,000
Alternative investments	67,320,000	52,418,000
	452,297,000	340,350,000
Less short-term investments	3,447,000	1,365,000
Investments	\$ 448,850,000	\$ 338,985,000

The components of investment income (loss), net are as follows:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Interest and dividend income, net	\$ 767,000	\$ 132,000
Realized gains (losses), net	12,700,000	(9,832,000)
	\$ 13,467,000	\$ (9,700,000)

#### 5. Fair Value Measurements

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

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



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

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

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<b>June 30, 2021</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Trading securities and assets whose use is limited:				
Cash and cash equivalents	\$ 42,739,000	\$ 42,739,000	\$ —	\$ —
Equity securities	260,811,000	250,798,000	10,013,000	—
Fixed income securities	149,362,000	134,726,000	14,636,000	—
U.S. Government obligation securities	7,000	7,000	—	—
Total	<u>452,919,000</u>	<u>428,270,000</u>	<u>24,649,000</u>	<u>—</u>
Collateral for interest rate swap:				
Cash and cash equivalents	25,699,000	25,699,000	—	—
Less investments included in other assets	4,200,000	4,200,000	—	—
Total assets at fair value	<u>474,418,000</u>	<u>\$ 449,769,000</u>	<u>\$ 24,649,000</u>	<u>\$ —</u>
Assets at NAV	<u>67,320,000</u>			
Total assets	<u><u>\$ 541,738,000</u></u>			
<b>Liabilities</b>				
Derivative instruments	\$ (90,010,000)	\$ —	\$ (90,010,000)	\$ —
Total liabilities at fair value	<u>\$ (90,010,000)</u>	<u>\$ —</u>	<u>\$ (90,010,000)</u>	<u>\$ —</u>

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	June 30, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Trading securities and assets whose use is limited:				
Cash and cash equivalents	\$ 31,296,000	\$ 18,257,000	\$ 13,039,000	\$ –
Equity securities	194,977,000	194,977,000	–	–
Fixed income securities	122,785,000	119,753,000	3,032,000	–
U.S. Government obligation securities	6,000	6,000	–	–
Total	349,064,000	332,993,000	16,071,000	–
Collateral for interest rate swap:				
Cash and cash equivalents	110,002,000	110,002,000	–	–
Less investments included in other assets	4,200,000	4,200,000	–	–
Total assets at fair value	454,866,000	\$ 438,795,000	\$ 16,071,000	\$ –
Assets at NAV	52,418,000			
Total assets	\$ 507,284,000			
<b>Liabilities</b>				
Derivative instruments	\$ (117,037,000)	\$ –	\$ (117,037,000)	\$ –
Total liabilities at fair value	\$ (117,037,000)	\$ –	\$ (117,037,000)	\$ –

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

Luminis' Level 2 securities primarily consist of cash and cash equivalents. Luminis determines the estimated fair value for these Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time),

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curve volatilities, default rates), and inputs that are derived principally from or corroborated by other observable market data.

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

Part of LHAAMC's alternative investments, approximately \$17,082,000 and \$22,663,000 at June 30, 2021 and 2020, respectively, are invested in international equity funds. The majority of the remaining alternative investments \$50,238,000 and \$24,489,000 at June 30, 2021 and 2020, respectfully are invested in a fund focused on energy infrastructure. Alternative investments are measured using NAV as the practical expedient. Certain alternative investments require written notification over a certain period prior to redemption.

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at July 1	<b>\$ 4,137,000</b>	\$ 3,296,000
New pledges	<b>342,000</b>	2,967,000
Collections of pledges	<b>(1,451,000)</b>	(2,028,000)
Write-off of pledges	<b>(5,000)</b>	(160,000)
Change in reserves	<b>(49,000)</b>	62,000
Balance at June 30	<b><u>\$ 2,974,000</u></b>	<b><u>\$ 4,137,000</u></b>

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

For LHAAMC and affiliates, long-term debt consists of the following:

	Interest Rate	Maturity Dates	June 30	
			2021	2020
Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2017	2.0%–5.0%	2018–2043	\$ 54,690,000	\$ 56,905,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2014	2.0%–5.0%	2015–2040	111,463,000	113,817,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2012	2.0%–5.0%	2013–2035	54,137,000	56,991,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds – Series 2009B	Variable	2041–2044	60,000,000	60,000,000
Kent Island term loan from a bank	Variable	2021	5,217,000	5,617,000
Real estate loan	Variable	2028	52,215,000	55,850,000
			<b>337,722,000</b>	<b>349,180,000</b>
Less current portion of long-term debt			16,552,000	11,461,000
Less deferred debt issue costs			3,249,000	3,531,000
Unamortized original issue premium, net			12,411,000	13,354,000
Long-term debt			<b>\$ 330,332,000</b>	<b>\$ 347,542,000</b>

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

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

For LHAAMC and affiliates, principal payments due under all debt instruments as of June 30, 2021, are as follows:

2022	\$ 16,552,000
2023	11,667,000
2024	11,987,000
2025	12,332,000
2026	12,722,000
Thereafter	272,462,000
	<u>\$ 337,722,000</u>

#### Series 2017 Revenue Bonds

In November 2017, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of Series 2017 Revenue Bonds (referred to as the 2017 Bonds). The proceeds of the 2017 Bonds were used to advance refund the Series 2010 Bonds previously provided by MHHEFA. The bonds being refunded were originally obtained to finance the expansion of the parking garage for LHAAMC's acute care pavilion, and costs related to the issuance. The 2017 Bonds provide for annual principal payments each July 1 from 2018 through 2043. Interest is payable annually each July 1 starting in July 2018. The 2017 Bonds bear stated interest rates between 2.00% and 5.00% and were issued at a premium of \$4,590,000, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The effective annual interest rate for the 2017 Bonds for the years ended June 30, 2021 and 2020, was 3.89% and 3.64%, respectively.

#### Series 2014 Revenue Bonds

In November 2014, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of Series 2014 Revenue Bonds (referred to as the 2014 Bonds). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously provided by MHHEFA. The bonds being refunded were originally obtained to finance a portion of the costs of construction for an eight-story patient care building, two parking garages, and costs related to the issuance. The 2014 Bonds provide for annual principal payments each July 1 from 2015 through 2040. Interest is payable semiannually each July 1 and January 1, beginning in January 2015. The 2014 Bonds bear stated interest rates between 2.00% to 5.00% and were issued at a premium of \$7,520,000,

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The effective annual interest rate for the 2014 Bonds for the years ended June 30, 2021 and 2020, was 4.50% and 4.49%, respectively.

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

In October 2012, LHAAMC entered into a loan agreement with MHHEFA for the issuance of \$73,625,000 of Series 2012 Revenue Bonds (referred to as the 2012 Bonds). The proceeds of the 2012 Bonds were used to repay the Series 2004A Bonds and the Series 1998 Bonds previously provided by the Authority. The bonds being refinanced were originally obtained to finance a new replacement hospital (Series 1998 Bonds) and to finance major renovations to LHAAMC's Cancer Center and land acquisition (Series 2004A Bonds). The 2012 Bonds provide for annual principal payments each July 1 from 2013 through 2035. Interest is payable semiannually on each July 1 and January 1, beginning July 1, 2013. The 2012 Bonds bear stated interest at rates of 2.00% to 5.00% and were issued at a premium of \$6,746,000. The effective annual interest rates for the 2012 Bonds for the years ended June 30, 2021 and 2020, were 4.30% and 4.34%, respectively.

The provisions of the 2017, 2014, and 2012 Bonds, together with the Series 2009 Bonds, require Luminis and certain subsidiaries to comply with certain covenants on an annual basis, including a debt service coverage requirement, a debt-to-capitalization requirement, and a liquidity requirement. Luminis, LHAAMC, and HCS are members of the LHAAMC obligated group for all of the above stated revenue bonds issued by MHHEFA.

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

In January 2009, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of \$120,000,000 of Series 2009A Revenue Bonds (the 2009A Bonds) and in February 2009, \$60,000,000 of Series 2009B Revenue Bonds (the 2009B Bonds) (collectively referred to as the 2009 Bonds). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously provided by the MHHEFA. The proceeds of the 2009 Bonds were used to finance a portion of the costs of construction of an eight-story patient care building, two new parking garages, and certain costs relating to the issuance. The 2009B Bonds provide for annual principal payments each July 1, from 2041 through 2044. Interest is payable semiannually on each July 1 and January 1, beginning July 1, 2009. The 2009B Bonds bear interest at variable rates, as set forth in the loan agreement. The maximum interest rate is 12% for the 2009B Bonds. The effective annual interest rates for the 2009B Bonds for the years ended June 30, 2021 and 2020,

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

were 0.09% and 1.18%, respectively. The principal and interest payments on the Series 2009B Bonds are secured by a letter of credit equal to the original principal of the bonds plus an amount equal to 40 days' interest thereon, calculated at the maximum rate. The current letter of credit, which was extended on May 1, 2019, expires on July 1, 2024. Under certain circumstances, LHAAMC would need to fully redeem the 2009B Bonds upon expiration of the letter of credit, unless a conforming replacement letter of credit was secured prior to such expiration.

The related balances are included in assets whose use is limited and consist of the following:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Debt service funds	<b>\$ 12,538,000</b>	\$ 12,382,000
Construction fund and capitalized interest fund	<b>7,000</b>	7,000
	<b><u>\$ 12,545,000</u></b>	<u>\$ 12,389,000</u>

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

LHAAMC maintains a line of credit with a bank providing available credit of \$50,000,000, which is reviewed for renewal on February 28 of each year. Interest on any borrowings accrues at the one-month LIBOR plus 0.75%. At June 30, 2021 and 2020, LHAAMC had no balance outstanding on the line of credit.

On October 23, 2008, the Real Estate Company secured a term loan in the amount of \$55,000,000 with a bank. The proceeds from the term loan were used to refinance line of credit proceeds and fund certain construction costs related to a medical office building. The loan bore interest at a variable rate, based on the LIBOR market index rate plus 1.25%. The term loan required monthly payments of \$235,000 with all remaining amounts due upon final maturity on November 5, 2018. This loan was subsequently refinanced on October 17, 2018.

On October 23, 2008, the Real Estate Company entered into a construction loan in the amount of \$30,000,000 with a bank to fund the construction of a medical office building. The loan was issued under the same loan agreement as the term loan discussed in the preceding paragraph. The debt is secured by the medical office building. Interest only was due during the construction period at a rate equal to the LIBOR market index rate plus 1.25%. The loan converted to a term loan after the



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

completion of the construction in July 2009. The term loan provided for monthly principal and interest payments and has a final maturity of November 5, 2018. This loan was subsequently refinanced on October 17, 2018.

On October 17, 2018, the Real Estate Company secured a real estate loan from the bank through a wholly owned subsidiary and the proceeds were used to pay off the 2008 Term Loan and 2008 Construction Loan previously provided by the bank. The loans being refinanced were originally obtained to finance certain medical office buildings owned by the Real Estate Company. The new loan requires flat monthly principal payments (amortized over 17 years) plus interest at one-month LIBOR plus 1.10% from 2018 through 2028 with a balloon payment due October 5, 2028, of \$25,800,000. The effective interest rates for the years ended June 30, 2021 and 2020, were 1.25% and 2.65%, respectively.

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

In August 2007, KIMA entered into a construction loan agreement with a bank in the amount of \$9,000,000 that would convert to a term loan after the completion of the construction. The proceeds were used to construct a medical office building. The debt was secured by the medical office building. Interest only was due during the construction period at a rate of the 30-day LIBOR plus 1.0%. The construction was completed in June 2008.

On May 9, 2017, KIMA refinanced the term loan with a \$6,567,000 promissory note. The promissory note provides for monthly principal and interest payments and has a final maturity of December 2021. The promissory note bears interest at a variable rate, based on the 30-day LIBOR plus 1.20%. The effective annual interest rates for the years ended June 30, 2021 and 2020, were 1.38% and 2.88%, respectively.

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

For LHDCMC, long-term debt consists of the following:

	Interest Rate	Maturity Dates	June 30	
			2021	2020
<b>Maryland Health and Higher Education Facilities</b>				
Authority Revenue Bonds, Series 2017B Bond	2.18%	2024	\$ 19,645,000	\$ 24,165,000
Authority Revenue Bonds, Series 2016 Bond:				
Series 2016A – Tax-Exempt Private Placement	2.57%	2030	31,560,000	31,945,000
Authority Revenue Bonds, Series 2017A:				
Term bond	5.00%	2031	6,720,000	6,720,000
Term bond	5.00%	2032	7,055,000	7,055,000
Term bond	5.00%	2033	7,410,000	7,410,000
Term bond	5.00%	2034	7,780,000	7,780,000
Term bond	5.00%	2038	35,200,000	35,234,000
			<b>115,370,000</b>	120,309,000
Less current portion of long-term debt			<b>5,070,000</b>	4,979,000
Less deferred debt issue costs			–	1,340,000
Premium, net of accumulated amortization			<b>8,543,000</b>	8,776,000
Long-term debt			<b>\$ 118,843,000</b>	\$ 122,766,000

For LHDCMC, principal payments due under all debt instruments as of June 30, 2021, are as follows:

2022	\$ 5,070,000
2023	5,195,000
2024	5,265,000
2025	5,965,000
2026	5,610,000
Thereafter	88,265,000
	<b>\$ 115,370,000</b>

On June 28, 2016, MHHEFA issued \$73,445,000 principal amount of Revenue Bonds, Series 2016A (\$31,945,000), and Series 2016B (\$41,500,000). The proceeds of this issue were used to retire the Series 2007A Bonds and Series 2010 Bonds (partial) previously provided by the Authority. In 2017, the Series 2016B taxable note was converted as planned to Series 2017B. On March 23, 2017, the Series 2016 were converted to Series 2017B bonds as planned when the 2016B bonds were issued in June 2016.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

On February 8, 2017, MHHEFA issued \$64,165,000 principal amount of Revenue Bonds, Series 2017A. The proceeds of this issue were used to retire the remainder of the Series 2010 Bonds previously provided by the Authority.

The obligated group for MHHEFA bond issuances issued to Luminis Health Doctors Community Medical Center includes Doctors Community Hospital, CHP, Luminis Health Doctor's Community Medical Center Foundation, Sleep Center, Doctors Community Medical Group and Doctors Integrated Healthcare Network and Health Ventures excluding the MAUI, Magnolia Gardens, DI LLC, ACO, and STM. The Series 2017A, Series 2017B, and Series 2016 Bonds are secured by the revenue and accounts receivable of the obligated group, and certain other property secured by a deed of trust. The obligated group is required to maintain certain compliance ratios and covenants as defined under the bond documents.

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

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

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

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Accumulated benefit obligation	<b>\$ 126,360,000</b>	\$ 138,148,000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	<b>\$ 138,148,000</b>	\$ 124,331,000
Service cost		—
Interest cost	<b>3,147,000</b>	4,047,000
Actuarial loss	<b>(3,989,000)</b>	16,039,000
Benefits paid	<b>(2,503,000)</b>	(2,446,000)
Settlements paid	<b>(8,443,000)</b>	(3,823,000)
Projected benefit obligation at end of year	<b>126,360,000</b>	138,148,000
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>115,397,000</b>	118,255,000
Actual return on plan assets	<b>25,828,000</b>	(1,421,000)
Employer contribution	<b>10,509,000</b>	4,832,000
Benefits paid	<b>(2,503,000)</b>	(2,446,000)
Settlements paid	<b>(8,443,000)</b>	(3,823,000)
Fair value of plan assets at end of year	<b>140,788,000</b>	115,397,000
Net asset (liability) recognized	<b>\$ 14,428,000</b>	\$ (22,751,000)
Net amounts recognized on the consolidated balance sheets consist of:		
Prepaid (accrued) pension costs	<b>\$ 14,428,000</b>	\$ (22,751,000)
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:		
Net actuarial loss	<b>\$ 65,689,000</b>	\$ 95,271,000

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Discount rate	<b>2.50%</b>	2.45%
Rate of compensation increase	N/A	N/A

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Discount rate	<b>2.38%</b>	3.35%
Expected return on plan assets	<b>6.00%</b>	6.25%
Rate of compensation increase	N/A	N/A

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Service cost	\$ —	\$ —
Interest cost	<b>3,147,000</b>	4,047,000
Expected return on plan assets	<b>(7,425,000)</b>	(7,533,000)
Recognized net actuarial loss	<b>2,260,000</b>	1,709,000
Loss recognized from partial settlement of projected benefit obligation	<b>4,931,000</b>	—
Net periodic cost (credit)	<b>\$ 2,913,000</b>	<b>\$ (1,777,000)</b>

The estimated net loss of the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year for LHAAMC is \$2,071,000.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

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

LHAAMC's target asset allocation percentages as of June 30, 2021, were as follows: 60% investment grade bonds, 16% international equity, 13% large cap domestic stocks, 4% small cap domestic stocks, and 7% alternative investments and exchange-traded notes.

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

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

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

	<b>June 30, 2020</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 669,000	\$ —	\$ 669,000	\$ —
Mutual funds:				
Equity	20,127,000	20,127,000	—	—
Corporate bonds	57,830,000	57,830,000	—	—
International equity	12,520,000	12,520,000	—	—
International bonds	8,715,000	8,715,000	—	—
Closed-end funds ETF	5,512,000	5,512,000	—	—
Assets measured at fair value	105,373,000	<u>\$ 104,704,000</u>	<u>\$ 669,000</u>	<u>\$ —</u>
Assets at NAV	10,024,000			
Total assets	<u>\$ 115,397,000</u>			

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

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

LHAAMC currently intends to make voluntary contributions to the defined benefit pension plan of \$2,400,000 in fiscal year 2022.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Retirement Plans (continued)

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

2022	\$ 6,994,000
2023	6,812,000
2024	6,770,000
2025	6,779,000
2026	8,103,000
2027–2031	34,272,000

In addition to the noncontributory defined benefit pension plan, LHAAMC also offers an employee defined contribution plan. Participation in the plan is voluntary. Substantially all full-time employees of LHAAMC are eligible to participate. Employees may elect to contribute a minimum of 1% of compensation, and a maximum amount as determined by Sections 403(b) and 415 of the Code. Any employee making contributions to the plan is entitled to a LHAAMC contribution that will match the employee contribution at the rate of 50% to 75%, depending on the number of years of service, up to a maximum of 5% of qualified compensation. Matching contributions under this defined contribution plan were \$0 and \$8,830,000 in fiscal years 2021 and 2020, respectively.

#### Doctors Community Hospital Plan

LHDCMC froze the defined benefit pension plan that it sponsors (the LHDCMC Plan) in 2011, which covered substantially all employees. The decision to terminate the LHDCMC Plan has not been made by the board of directors. The benefits are based on years of service and employee compensation during years of employment. LHDCMC's funding policy is to make sufficient contributions to the LHDCMC Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). LHDCMC expects to contribute \$250,000 to the LHDCMC Plan during 2021 to keep the funding levels at the ERISA requirements. The measurement date of the LHDCMC Plan is June 30.



Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Accumulated benefit obligation	<b>\$ 21,988,000</b>	<b>\$ 23,049,000</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	<b>\$ 23,049,000</b>	\$ 21,661,000
Service cost	—	—
Interest cost	<b>448,000</b>	636,000
Settlement loss	<b>(41,000)</b>	—
Actuarial loss	<b>(252,000)</b>	1,883,000
Benefits paid	<b>(137,000)</b>	(112,000)
Settlements paid	<b>(1,079,000)</b>	(1,019,000)
Projected benefit obligation at end of year	<b>21,988,000</b>	23,049,000
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>16,524,000</b>	16,660,000
Actual return on plan assets	<b>3,246,000</b>	294,000
Employer contribution	<b>1,233,000</b>	664,000
Benefits paid	<b>(137,000)</b>	(112,000)
Settlements paid	<b>(1,079,000)</b>	(982,000)
Fair value of plan assets at end of year	<b>19,787,000</b>	16,524,000
Net liability recognized	<b>\$ (2,201,000)</b>	<b>\$ (6,525,000)</b>
Net amounts recognized on the consolidated balance sheets consist of:		
Accrued pension costs	<b>\$ (2,201,000)</b>	<b>\$ (6,525,000)</b>
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:		
Net actuarial loss	<b>\$ 6,009,000</b>	<b>\$ 9,634,000</b>

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Discount rate	<b>2.30%</b>	2.05%
Rate of compensation increase	N/A	N/A

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Discount rate	<b>2.05%</b>	2.05%
Expected return on plan assets	<b>6.00%</b>	6.00%
Rate of compensation increase	N/A	N/A

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Interest cost	<b>\$ 448,000</b>	\$ 636,000
Expected return on plan assets	<b>(968,000)</b>	(956,000)
Recognized net actuarial loss	<b>758,000</b>	570,000
Effect of settlement	<b>295,000</b>	411,000
Net periodic cost	<b><u>\$ 533,000</u></b>	<u>\$ 661,000</u>

The estimated net loss of the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year for LHDCMC is \$419,000.

LHDCMC's target asset allocation percentages as of June 30, 2021, were as follows: 65% investment grade bonds, 5% international equity, 15% large cap domestic stocks, and 15% small cap domestic stocks.

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

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

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

	<b>June 30, 2020</b>			
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
Mutual funds:				
Equity	\$ 15,571,000	\$ 15,571,000	\$ —	\$ —
Assets measured at fair value	<u>15,571,000</u>	<u>\$ 15,571,000</u>	<u>\$ —</u>	<u>\$ —</u>
Assets at NAV	<u>953,000</u>			
Total assets	<u><u>\$ 16,524,000</u></u>			

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

2022	\$ 2,554,000
2023	1,188,000
2024	1,129,000
2025	1,478,000
2026	1,513,000
2027–2031	5,754,000

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Retirement Plans (continued)**

The combined pension asset (liability) of both entities is as follows:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
LHAAMC	<b>\$ 14,428,000</b>	\$ (22,751,000)
LHDCMC	<b>(2,201,000)</b>	(6,525,000)
Total	<b><u>\$ 12,227,000</u></b>	<b><u>\$ (29,276,000)</u></b>

LHDCMC has a 403(b) defined contribution plan (the contribution plan) covering substantially all its employees. The contribution plan is employee and employer contributory. LHDCMC contributed a match of \$0.50 for every \$1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to \$0 and \$1,266,000 for 2021 and 2020, respectively.

LHDCMC has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying consolidated balance sheets. The associated liability of an equal amount is included in other liabilities on the accompanying consolidated balance sheets. The liability recorded regarding the deferred compensation was \$3,832,000 as of June 30, 2021 and 2020.

LHDCMC is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by LHDCMC under the insurance contracts are approximately \$9,000,000 as of June 30, 2021 and 2020, are included in other assets on the consolidated balance sheets.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Concentrations of Credit Risk

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Medicare	<b>25%</b>	25%
Medicaid	<b>3</b>	4
Blue Cross	<b>21</b>	19
Commercial, HMO, PPO, and other	<b>39</b>	43
Patients	<b>12</b>	9
	<b>100%</b>	100%

The mix of receivables from patients and third-party payors was as follows for LHDCMC:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Medicare	<b>22%</b>	28%
Medicaid	<b>10</b>	21
Blue Cross	<b>9</b>	10
Commercial, HMO, PPO, and other	<b>34</b>	29
Patients	<b>25</b>	12
	<b>100%</b>	100%

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

Until August 1, 1998, LHAAMC and certain subsidiaries maintained insurance coverage for general and professional liability claims on a claims-made basis. The professional liability coverage included a per-case deductible of \$250,000, up to a maximum out-of-pocket amount of \$750,000 annually. Effective August 1, 1998, the group changed its professional liability coverage to a full coverage claims-made policy with no annual deductibles. This policy included tail coverage for claims incurred prior to August 1, 1998, but reported subsequently. Effective August 1, 2002, LHAAMC changed its professional liability coverage back to a claims-made

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

policy with a per-case deductible of \$250,000, up to a maximum out-of-pocket amount of \$750,000 annually. Also, LHAAMC did not purchase tail coverage for claims incurred prior to August 1, 2002, which were not yet reported.

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

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

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

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

The provision for estimated professional liability claims, general liability claims, and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. As of June 30, 2021 and 2020, the balance for outstanding claims reserves recorded at Cottage is \$45,278,000 and \$32,444,000, respectively, which is included in

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

other long-term liabilities and reinsurance receivable is \$11,585,000 and \$9,884,000, respectively, which is included in other assets. The remaining tail liability for claims incurred but not reported is \$13,366,000 and \$11,667,000 as of June 30, 2021 and 2020, respectively, are included in other accrued expenses, with \$11,737,000 of the 2021 liability and \$10,163,000 of the 2020 liability recorded at the LHAAMC. The remainder of the liability is recorded at PE. The group has employed an independent actuary to estimate the ultimate settlement of such claims. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change by material amounts in the short term.

LHDCMC has coverage for professional and general liabilities on a claims-made basis from Freestate Healthcare Insurance Company, Ltd. (Freestate), a group captive formed by several Maryland hospitals. LHDCMC owns 20% interest in the captive and accounts for it using the cost method. The cost of \$15,000 is recorded in other noncurrent assets on the accompanying consolidated balance sheets as of June 30, 2021 and 2020. Premiums are expensed as incurred and are established based on the LHDCMC historical experience supplemented as necessary with industry experience. The total premium is allocated to each of the shareholders based on their experience. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment of credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2021. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals. The captive is responsible for claims up to \$1,000,000 for each and every loss event. Additional coverage has been purchased by the captive for all claims in excess of \$1,000,000 to a limit of \$6,000,000 effective March 1, 2006, \$10,000,000 effective March 1, 2012, and \$15,000,000 effective March 1, 2019. The estimated unpaid loss liability reserved by the captive for LHDCMC was \$8,664,000 and \$9,466,000 at June 30, 2021 and 2020, respectively. These amounts are included in long-term liabilities and the related anticipated insurance recoveries were reported in noncurrent assets on the accompanying consolidated balance sheets. The liability for all claims incurred but not reported for LHDCMC was \$916,000 and \$1,106,000 at June 30, 2021 and 2020, respectively. LHDCMC engages a consulting actuary to assist in the determination of all professional liability claims incurred but not reported.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Commitments and Contingencies

##### Leases

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

Component of Lease Balances	Classification in Consolidated Balance Sheet	June 30	
		2021	2020
<b>Assets</b>			
Operating lease assets	Right-of-use asset long term	\$ 37,528,000	\$ 44,995,000
Total leased assets		<u>\$ 37,528,000</u>	<u>\$ 44,995,000</u>
<b>Liabilities</b>			
Operating lease liabilities:			
Current	Lease liability short term	\$ 8,187,000	\$ 8,753,000
Long term	Lease liability long term	30,979,000	37,429,000
Total operating lease liabilities		<u>\$ 39,166,000</u>	<u>\$ 46,182,000</u>

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

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

Real estate leases may include one or more options to renew that can extend the lease term from five to ten years. The exercise of lease renewal options is at Luminis' sole discretion. In general, Luminis does not consider renewal options to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of Luminis' right-of-use assets and lease liabilities. Certain equipment leases also include options to purchase the leased equipment. The



## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

useful life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Luminis currently does not have any leases whereby there is a transfer of title or a purchase option that is reasonably certain to be exercised; hence, all of Luminis' leases are depreciated over the lease term.

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

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

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

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Operating lease expense	<b>\$ 11,600,000</b>	\$ 11,826,000
Finance lease expense:		
Amortization of leased assets	27,000	27,000
Interest on lease liabilities	1,000	2,000
Total finance lease expense	<b>28,000</b>	29,000
Variable lease expense	527,000	60,000
Short-term lease expense	–	5,000
Total lease expense	<b>\$ 12,155,000</b>	\$ 11,920,000

Luminis Health, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Weighted average remaining lease term (years):		
Operating leases	<b>8.0</b>	8.1
Finance leases	<b>1.0</b>	2.2
Weighted average discount rate:		
Operating leases	<b>3.0%</b>	3.2%
Finance leases	<b>1.8%</b>	1.8%

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	<b>\$ 21,854,000</b>	\$ 21,756,000
Operating cash outflows from finance leases	<b>1,000</b>	1,000
Financing cash outflows from finance leases	<b>27,000</b>	26,000

The following table summarizes the maturity lease obligations as of June 30, 2021:

	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2022	\$ 8,320,000	\$ 28,000	\$ 8,348,000
2023	6,225,000	5,000	6,230,000
2024	4,904,000	–	4,904,000
2025	3,059,000	–	3,059,000
2026	2,655,000	–	2,655,000
Thereafter	14,796,000	–	14,796,000
Total lease payments	39,959,000	33,000	39,992,000
Less: Imputed interest	825,000	1,000	826,000
Total lease liabilities	<b>\$ 39,134,000</b>	<b>\$ 32,000</b>	<b>\$ 39,166,000</b>

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Contingencies

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

Luminis' revenues may be subject to adjustment as a result of examination by government agencies or contractors, based upon differing interpretations of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered. Section 302 of the Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare overpayments and underpayments made to providers. Management has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, management will incur additional costs to respond to requests for records and pursue the reversal of payment denials. As of June 30, 2021 and 2020, Luminis has recorded an estimated reserve regarding the Medicare overpayments. In the opinion of the Luminis' management, the ultimate settlement of this matter will not have a material adverse effect on the consolidated financial position of Luminis.

During the year ended June 30, 2020, LHDCMC recorded an accrual related to a billing error that was self-reported to the Department of Health and Human Services. LHDCMC is working with the U.S. Government to come to a resolution on this matter. It is possible that other regulatory conditions may be part of the final resolution. Based on consultation with legal counsel, management believes the final resolution will not have a material adverse effect on the June 30, 2021 consolidated financial statements.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Functional Expenses

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

	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Total</b>
<b>Year ended June 30, 2021</b>			
Salaries and wages	\$ 436,725,000	\$ 71,998,000	\$ 508,723,000
Employee benefits	65,400,000	10,996,000	76,396,000
Supplies	182,201,000	7,016,000	189,217,000
Purchased services	114,908,000	132,768,000	247,676,000
Depreciation and amortization	19,885,000	26,998,000	46,883,000
Interest	14,404,000	–	14,404,000
Total operating expenses	<u>\$ 833,523,000</u>	<u>\$ 249,776,000</u>	<u>\$ 1,083,299,000</u>
<b>Year ended June 30, 2020</b>			
Salaries and wages	\$ 401,827,000	\$ 78,053,000	\$ 479,880,000
Employee benefits	63,580,000	12,350,000	75,930,000
Supplies	189,335,000	8,152,000	197,487,000
Purchased services	113,213,000	113,162,000	226,375,000
Depreciation and amortization	22,742,000	23,252,000	45,994,000
Interest	16,151,000	–	16,151,000
Total operating expenses	<u>\$ 806,848,000</u>	<u>\$ 234,969,000</u>	<u>\$ 1,041,817,000</u>

#### 12. Fair Value of Financial Instruments

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

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

Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 12. Fair Value of Financial Instruments (continued)

##### Pledges Receivable

Luminis estimates that the carrying value of pledges receivable approximates fair value, given the discount rates applied.

#### 13. Net Assets

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Hospital capital additions	\$ 7,057,000	\$ 7,248,000
Hospital operating programs	19,355,000	16,613,000
	<u>\$ 26,412,000</u>	<u>\$ 23,861,000</u>

#### 14. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following as of June 30, 2021:

##### Assets

##### Current assets:

Cash and cash equivalents	\$ 276,817,000
Short-term investments	3,447,000
Patient receivables, net	144,555,000
Investments*	448,850,000
Total financial assets	<u>\$ 873,669,000</u>

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

LHAAMC's bond covenant requires LHAAMC to maintain unrestricted cash and marketable securities on hand to meet 90 days of normal operating expenses. The LHAAMC obligated group was compliant with all financial covenants as of June 30, 2021 and 2020.

## Luminis Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **14. Liquidity and Availability (continued)**

LHDCMC's bond covenant requires LHDCMC to maintain unrestricted cash and marketable securities on hand to meet 60 days of normal operating expenses. The LHDCMC obligated group was compliant with all financial covenants as of June 30, 2021.

#### **15. Subsequent Events**

Luminis has evaluated the impact of subsequent events through October 28, 2021, representing the date at which the accompanying consolidated financial statements were issued.

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

# Supplementary Information

Luminis Health, Inc. and Subsidiaries  
Supplementary Consolidating Balance Sheet

June 30, 2021

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Imaging, Inc.	Luminis Health Care Services, Inc.	Luminis Health Real Estate Holding Company, Inc. and Subsidiaries	Luminis Health Research Institute, Inc.	Physician Enterprise, LLC	Anne Arundel Medical Center Collaborative Care Network LLC	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Eliminating Entries	Consolidated
<b>Assets</b>												
Current assets:												
Cash and cash equivalents	\$ (13,320,000)	\$ 129,331,000	\$ 390,000	\$ (19,000)	\$ 2,390,000	\$ 270,000	\$ 8,467,000	\$ 10,000	\$ 5,334,000	\$ 143,964,000	\$ –	\$ 276,817,000
Short-term investments	–	2,998,000	–	–	–	–	–	–	449,000	–	–	3,447,000
Current portion of assets whose use is limited	–	16,241,000	–	–	–	–	–	–	–	–	–	16,241,000
Patient receivables, net	(5,000)	81,844,000	3,411,000	–	–	1,274,000	20,672,000	–	–	37,359,000	–	144,555,000
Current portion of pledges receivable, net	–	–	–	–	–	–	–	–	1,312,000	–	–	1,312,000
Inventories	378,000	12,665,000	–	–	–	–	378,000	–	–	10,221,000	–	23,642,000
Prepaid expenses and other current assets	4,019,000	52,764,000	101,006,000	5,619,000	30,274,000	(182,000)	2,191,000	4,954,000	54,772,000	12,017,000	(248,436,000)	18,998,000
Total current assets	(8,928,000)	295,843,000	104,807,000	5,600,000	32,664,000	1,362,000	31,708,000	4,964,000	61,867,000	203,561,000	(248,436,000)	485,012,000
Property and equipment	666,000	794,145,000	28,970,000	3,789,000	139,187,000	95,000	26,820,000	–	2,013,000	134,186,000	–	1,129,871,000
Less accumulated depreciation and amortization	–	(447,245,000)	(27,176,000)	(1,984,000)	(69,927,000)	(77,000)	(16,639,000)	–	(173,000)	(20,048,000)	–	(583,269,000)
Net property and equipment	666,000	346,900,000	1,794,000	1,805,000	69,260,000	18,000	10,181,000	–	1,840,000	114,138,000	–	546,602,000
Other assets:												
Investments	–	425,984,000	–	–	–	–	–	–	1,960,000	20,906,000	–	448,850,000
Investments in joint ventures	–	–	–	481,000	6,789,000	–	–	–	–	6,189,000	–	13,459,000
Pledges receivable, net	–	–	–	–	–	–	–	–	1,662,000	–	–	1,662,000
Assets whose use is limited	–	32,609,000	–	–	–	–	–	–	20,424,000	–	–	53,033,000
Beneficial interest in net assets of LHAAMC Foundation, Inc.	–	27,071,000	–	–	–	–	–	–	–	–	(27,071,000)	–
Restricted collateral for interest rate swap contract	–	25,699,000	–	–	–	–	–	–	–	–	–	25,699,000
Right of use asset	–	5,696,000	755,000	335,000	10,252,000	–	16,540,000	–	–	3,950,000	–	37,528,000
Other assets	808,522,000	38,826,000	–	–	1,536,000	–	1,391,000	–	362,000	27,331,000	(809,407,000)	68,561,000
Total assets	\$ 800,260,000	\$ 1,198,628,000	\$ 107,356,000	\$ 8,221,000	\$ 120,501,000	\$ 1,380,000	\$ 59,820,000	\$ 4,964,000	\$ 88,115,000	\$ 376,075,000	\$ (1,084,914,000)	\$ 1,680,406,000



Luminis Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

June 30, 2021

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Imaging, Inc.	Luminis Health Care Services, Inc.	Luminis Health Real Estate Holding Company, Inc. and Subsidiaries	Luminis Health Research Institute, Inc.	Physician Enterprise, LLC	Anne Arundel Medical Center Collaborative Care Network LLC	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Eliminating Entries	Consolidated
<b>Liabilities and net assets</b>												
Current liabilities:												
Accounts payable	\$ 100,526,000	\$ 39,590,000	\$ 1,790,000	\$ 1,263,000	\$ 677,000	\$ 1,141,000	\$ 21,891,000	\$ 236,000	\$ 8,042,000	\$ 77,288,000	\$ (196,748,000)	\$ 55,696,000
Accrued salaries, wages, and benefits	16,113,000	31,128,000	382,000	2,026,000	–	153,000	6,928,000	17,000	69,000	19,877,000	–	76,693,000
Other accrued expenses	1,351,000	13,588,000	–	4,000	3,070,000	–	2,007,000	–	52,933,000	9,174,000	(52,720,000)	29,407,000
Current portion of long-term debt	–	7,685,000	–	–	8,868,000	–	–	–	–	5,085,000	–	21,638,000
Advances from third-party payors	10,000	116,708,000	306,000	–	545,000	–	9,024,000	1,782,000	–	49,780,000	–	178,155,000
Current portion of lease liability	1,000	2,704,000	32,000	273,000	1,342,000	–	2,716,000	–	–	1,119,000	–	8,187,000
Total current liabilities	118,001,000	211,403,000	2,510,000	3,566,000	14,502,000	1,294,000	42,566,000	2,035,000	61,044,000	162,323,000	(249,468,000)	369,776,000
Long-term debt, less current portion and unamortized original issue premium												
	–	281,879,000	–	–	48,453,000	–	–	–	–	118,843,000	–	449,175,000
Interest rate swap contract	–	90,010,000	–	–	–	–	–	–	–	–	–	90,010,000
Accrued pension liability	–	–	–	–	–	–	–	–	–	2,291,000	–	2,291,000
Lease liability, less current portion	2,000	3,069,000	737,000	62,000	9,169,000	–	14,229,000	–	–	3,711,000	–	30,979,000
Other long-term liabilities	(1,000)	45,203,000	–	–	–	–	167,000	–	–	8,675,000	–	54,044,000
Total liabilities	118,002,000	631,564,000	3,247,000	3,628,000	72,124,000	1,294,000	56,962,000	2,035,000	61,044,000	295,843,000	(249,468,000)	996,275,000
Net assets:												
Without donor restrictions	659,548,000	540,814,000	104,109,000	4,593,000	48,377,000	86,000	2,858,000	2,929,000	462,000	76,923,000	(785,822,000)	654,877,000
With donor restrictions	22,710,000	26,250,000	–	–	–	–	–	–	26,609,000	467,000	(49,624,000)	26,412,000
Non-controlling interest	–	–	–	–	–	–	–	–	–	2,842,000	–	2,842,000
Total net assets	682,258,000	567,064,000	104,109,000	4,593,000	48,377,000	86,000	2,858,000	2,929,000	27,071,000	80,232,000	(835,446,000)	684,131,000
Total liabilities and net assets	\$ 800,260,000	\$ 1,198,628,000	\$ 107,356,000	\$ 8,221,000	\$ 120,501,000	\$ 1,380,000	\$ 59,820,000	\$ 4,964,000	\$ 88,115,000	\$ 376,075,000	\$ (1,084,914,000)	\$ 1,680,406,000

Luminis Health, Inc. and Subsidiaries  
Supplementary Consolidating Statement of Operations

Year Ended June 30, 2021

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Imaging, Inc.	Luminis Health Care Services, Inc.	Luminis Health Holding Company, Inc. and Subsidiaries	Luminis Health Research Institute, Inc.	Physician Enterprise, LLC	Anne Arundel Medical Center Collaborative Care Network LLC	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Eliminating Entries	Consolidated
Operating revenue:												
Net patient service revenue	\$ –	\$ 623,084,000	\$ 31,767,000	\$ –	\$ –	\$ (36,000)	\$ 162,841,000	\$ –	\$ –	\$ 218,779,000	\$ –	\$ 1,036,435,000
Other operating revenue	89,000	27,313,000	–	23,596,000	23,711,000	2,539,000	39,896,000	2,967,000	5,571,000	20,189,000	(76,416,000)	69,455,000
Total operating revenue	89,000	650,397,000	31,767,000	23,596,000	23,711,000	2,503,000	202,737,000	2,967,000	5,571,000	238,968,000	(76,416,000)	1,105,890,000
Operating expenses:												
Salaries and wages	48,307,000	208,743,000	6,132,000	15,027,000	–	1,661,000	141,997,000	560,000	1,407,000	84,888,000	–	508,722,000
Employee benefits	5,579,000	37,647,000	1,101,000	2,416,000	–	300,000	13,059,000	73,000	183,000	16,038,000	–	76,396,000
Supplies	622,000	127,658,000	1,317,000	356,000	120,000	11,000	21,231,000	–	18,000	37,884,000	–	189,217,000
Purchased services	52,837,000	117,189,000	14,919,000	7,007,000	10,307,000	1,195,000	55,001,000	2,549,000	682,000	61,792,000	(75,802,000)	247,676,000
Foundation transfer to LHAAMC and subsidiaries	–	(3,654,000)	–	–	–	–	–	–	4,390,000	–	(736,000)	–
Depreciation and amortization	–	27,378,000	839,000	79,000	3,409,000	–	2,116,000	–	27,000	13,036,000	–	46,884,000
Interest	43,000	9,098,000	–	–	772,000	–	–	–	–	4,512,000	(21,000)	14,404,000
Shared services	(107,034,000)	85,022,000	–	–	–	–	–	–	–	22,012,000	–	–
Total operating expenses	354,000	609,081,000	24,308,000	24,885,000	14,608,000	3,167,000	233,404,000	3,182,000	6,707,000	240,162,000	(76,559,000)	1,083,299,000
Operating (loss) income	(265,000)	41,316,000	7,459,000	(1,289,000)	9,103,000	(664,000)	(30,667,000)	(215,000)	(1,136,000)	(1,194,000)	143,000	22,591,000
Other income (loss):												
Investment income, net	–	13,157,000	–	–	1,000	–	–	–	85,000	224,000	–	13,467,000
Loss from joint ventures and other, net	162,088,000	(298,000)	–	227,000	346,000	–	–	–	–	(367,000)	(162,089,000)	(93,000)
Pension expense, net	–	(2,913,000)	–	–	–	–	–	–	–	(533,000)	–	(3,446,000)
Change in unrealized gains on trading securities, net	–	103,270,000	–	–	255,000	–	–	–	300,000	681,000	–	104,506,000
Realized and unrealized gains on interest rate swap contracts, net	–	20,165,000	–	–	–	–	–	–	–	–	–	–
Total other income (loss), net	162,088,000	133,381,000	–	227,000	602,000	–	–	–	385,000	5,000	(162,089,000)	134,599,000
Excess (deficit) of revenue over expenses	\$ 161,823,000	\$ 174,697,000	\$ 7,459,000	\$ (1,062,000)	\$ 9,705,000	\$ (664,000)	\$ (30,667,000)	\$ (215,000)	\$ (751,000)	\$ (1,189,000)	\$ (161,946,000)	\$ 157,190,000

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

## Supplementary Consolidating Balance Sheet

June 30, 2021

	<b>Luminis Health Anne Arundel Medical Center Inc.</b>	<b>Luminis Health Pathways Inc.</b>	<b>Luminis Health McNew Family Medical Center Inc.</b>	<b>Cottage Insurance Company Ltd.</b>	<b>Consolidating and Eliminating Entries</b>	<b>Consolidated</b>
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 129,229,000	\$ (23,000)	\$ 125,000	\$ –	\$ –	\$ 129,331,000
Short-term investments	2,998,000	–	–	–	–	2,998,000
Current portion of assets whose use is limited	12,538,000	–	–	3,703,000	–	16,241,000
Patient receivables, net	80,280,000	12,000	1,552,000	–	–	81,844,000
Inventories	12,665,000	–	–	–	–	12,665,000
Due from affiliates, net	74,776,000	1,505,000	–	–	(28,902,000)	47,379,000
Prepaid expenses and other current assets	5,334,000	4,000	14,000	33,000	–	5,385,000
<b>Total current assets</b>	<b>317,820,000</b>	<b>1,498,000</b>	<b>1,691,000</b>	<b>3,736,000</b>	<b>(28,902,000)</b>	<b>295,843,000</b>
Property and equipment	756,140,000	9,574,000	28,431,000	–	–	794,145,000
Less accumulated depreciation and amortization	(440,834,000)	(5,154,000)	(1,257,000)	–	–	(447,245,000)
<b>Net property and equipment</b>	<b>315,306,000</b>	<b>4,420,000</b>	<b>27,174,000</b>	<b>–</b>	<b>–</b>	<b>346,900,000</b>
Other assets:						
Investments	425,984,000	–	–	–	–	425,984,000
Investments in joint ventures	–	–	–	–	–	–
Assets whose use is limited	7,000	–	–	32,602,000	–	32,609,000
Beneficial interest in net assets of LHAAMC Foundation, Inc.	27,071,000	–	–	–	–	27,071,000
Notes receivable from affiliate	1,040,000	–	–	–	–	1,040,000
Restricted collateral for interest rate swap contract	25,699,000	–	–	–	–	25,699,000
Right-of-use asset	5,696,000	–	–	–	–	5,696,000
Other assets	34,506,000	–	–	11,585,000	(8,305,000)	37,786,000
<b>Total assets</b>	<b>\$ 1,153,129,000</b>	<b>\$ 5,918,000</b>	<b>\$ 28,865,000</b>	<b>\$ 47,923,000</b>	<b>\$ (37,207,000)</b>	<b>\$ 1,198,628,000</b>

Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

June 30, 2021

	<b>Luminis Health Anne Arundel Medical Center Inc.</b>	<b>Luminis Health Pathways Inc.</b>	<b>Luminis Health McNew Family Medical Center Inc.</b>	<b>Cottage Insurance Company Ltd.</b>	<b>Consolidating and Eliminating Entries</b>	<b>Consolidated</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable	\$ 39,234,000	\$ 39,000	\$ 75,000	\$ 55,000	\$ –	\$ 39,403,000
Accrued salaries, wages, and benefits	30,751,000	195,000	182,000	–	–	31,128,000
Other accrued expenses	17,493,000	1,000	–	–	–	17,494,000
Current portion of long-term debt	7,685,000	–	–	–	–	7,685,000
Intercompany payables	(3,512,000)	(32,000)	28,608,000	–	(28,783,000)	(3,719,000)
Advances from third-party payors	116,708,000	–	–	–	–	116,708,000
Current portion of lease liability	2,704,000	–	–	–	–	2,704,000
<b>Total current liabilities</b>	<b>211,063,000</b>	<b>203,000</b>	<b>28,865,000</b>	<b>55,000</b>	<b>(28,783,000)</b>	<b>211,403,000</b>
Long-term debt, less current portion and unamortized original issue premium						
	281,879,000	–	–	–	–	281,879,000
Interest rate swap contracts	90,010,000	–	–	–	–	90,010,000
Accrued pension liability	–	–	–	–	–	–
Lease liability, less current portion	3,069,000	–	–	–	–	3,069,000
Other long-term liabilities	(76,000)	–	–	45,279,000	–	45,203,000
<b>Total liabilities</b>	<b>585,945,000</b>	<b>203,000</b>	<b>28,865,000</b>	<b>45,334,000</b>	<b>(28,783,000)</b>	<b>631,564,000</b>
Net assets:						
Without donor restrictions	540,934,000	5,715,000	–	2,589,000	(8,424,000)	540,814,000
With donor restrictions	26,250,000	–	–	–	–	26,250,000
<b>Total net assets</b>	<b>567,184,000</b>	<b>5,715,000</b>	<b>–</b>	<b>2,589,000</b>	<b>(8,424,000)</b>	<b>567,064,000</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,153,129,000</b>	<b>\$ 5,918,000</b>	<b>\$ 28,865,000</b>	<b>\$ 47,923,000</b>	<b>\$ (37,207,000)</b>	<b>\$ 1,198,628,000</b>

Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations

Year Ended June 30, 2021

	<b>Luminis Health Anne Arundel Medical Center Inc.</b>	<b>Luminis Health Pathways Inc.</b>	<b>Luminis Health McNew Family Medical Center Inc.</b>	<b>Cottage Insurance Company Ltd.</b>	<b>Consolidating and Eliminating Entries</b>	<b>Consolidated</b>
Operating revenue:						
Net patient service revenue	\$ 611,873,000	\$ 4,077,000	\$ 7,134,000	\$ –	\$ –	\$ 623,084,000
Other operating revenue	30,041,000	728,000	732,000	8,965,000	(13,153,000)	27,313,000
Total operating revenue	<u>641,914,000</u>	<u>4,805,000</u>	<u>7,866,000</u>	<u>8,965,000</u>	<u>(13,153,000)</u>	<u>650,397,000</u>
Operating expenses:						
Salaries and wages	200,495,000	4,146,000	4,102,000	–	–	208,743,000
Employee benefits	36,416,000	599,000	632,000	–	–	37,647,000
Supplies	127,068,000	471,000	359,000	–	(240,000)	127,658,000
Purchased services	105,470,000	729,000	2,335,000	17,795,000	(9,140,000)	117,189,000
Foundation transfer to LHAAMC Foundation, Inc. and subsidiaries	–	–	–	–	(3,654,000)	(3,654,000)
Depreciation and amortization	25,937,000	410,000	1,031,000	–	–	27,378,000
Interest	9,098,000	–	–	–	–	9,098,000
Shared Services	85,022,000	–	–	–	–	85,022,000
Total operating expenses	<u>589,506,000</u>	<u>6,355,000</u>	<u>8,459,000</u>	<u>17,795,000</u>	<u>(13,034,000)</u>	<u>609,081,000</u>
Operating income (loss)	<u>52,408,000</u>	<u>(1,550,000)</u>	<u>(593,000)</u>	<u>(8,830,000)</u>	<u>(119,000)</u>	<u>41,316,000</u>
Other income (loss):						
Investment income, (loss) net	7,985,000	–	–	5,172,000	–	13,157,000
Loss from joint ventures and other, net	(6,329,000)	–	–	–	6,031,000	(298,000)
Pension credit (expense), net	(2,913,000)	–	–	–	–	(2,913,000)
Change in unrealized gains (losses) on trading securities, net	103,497,000	–	–	(227,000)	–	103,270,000
Realized and unrealized gains (losses) on interest rate swap contracts, net	20,165,000	–	–	–	–	20,165,000
Total other gain (loss), net	<u>122,405,000</u>	<u>–</u>	<u>–</u>	<u>4,945,000</u>	<u>6,031,000</u>	<u>133,381,000</u>
Excess (deficit) of revenue over expenses	<u>\$ 174,813,000</u>	<u>\$ (1,550,000)</u>	<u>\$ (593,000)</u>	<u>\$ (3,885,000)</u>	<u>\$ 5,912,000</u>	<u>\$ 174,697,000</u>

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet

June 30, 2021

	Luminis Health Doctors Community Medical Center Inc.	Doctors Community Healthcare Programs, LLC	Doctors Community Medical Center Foundation, Inc.	Doctors Community Health Ventures, LLC	Eliminations	Total Doctors Community Medical Center Obligated Group	Doctors Regional Cancer Center, Inc.	Magnolia Gardens, Metro Ambulatory Urologic Institute, LLC & Diagnostic Imaging, LLC	Spine Team of Maryland, LLC & DCH Integrated Healthcare Network, LLC	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
<b>Assets</b>											
Current assets:											
Cash and cash equivalents	\$ 136,392,000	\$ 1,907,000	\$ 664,000	\$ 631,000	\$ -	\$ 139,594,000	\$ 4,327,000	\$ -	\$ 43,000	\$ -	\$ 143,964,000
Short-term investments	-	-	-	-	-	-	-	-	-	-	-
Current portion of assets whose use is limited	-	-	-	-	-	-	-	-	-	-	-
Patient receivables, net	33,290,000	3,258,000	-	(284,000)	-	36,264,000	1,071,000	-	24,000	-	37,359,000
Inventories	10,202,000	-	-	19,000	-	10,221,000	-	-	-	-	10,221,000
Due from affiliates, net	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other current assets	39,699,000	1,060,000	466,000	952,000	(20,921,000)	21,256,000	183,000	-	88,000	(9,510,000)	12,017,000
Total current assets	219,583,000	6,225,000	1,130,000	1,318,000	(20,921,000)	207,335,000	5,581,000	-	155,000	(9,510,000)	203,561,000
Property and equipment	130,305,000	1,272,000	-	529,000	-	132,106,000	2,080,000	-	-	-	134,186,000
Less accumulated depreciation and amortization	(18,635,000)	(476,000)	-	(41,000)	-	(19,152,000)	(896,000)	-	-	-	(20,048,000)
Net property and equipment	111,670,000	796,000	-	488,000	-	112,954,000	1,184,000	-	-	-	114,138,000
Other assets:											
Investments	19,062,000	-	-	-	-	19,062,000	1,844,000	-	-	-	20,906,000
Investments in joint ventures	-	-	-	6,189,000	(6,189,000)	-	-	6,189,000	-	-	6,189,000
Assets whose use is limited	-	-	-	-	-	-	-	-	-	-	-
Beneficial interest in net assets of LHDCMC Foundation, Inc.	148,000	-	-	-	(148,000)	-	-	-	-	-	-
Notes receivable from affiliate	-	-	-	-	-	-	-	-	-	-	-
Restricted collateral for interest rate swap contract	-	-	-	-	-	-	-	-	-	-	-
Right of use asset	3,950,000	-	-	-	-	3,950,000	-	-	-	-	3,950,000
Other assets	(50,865,000)	-	-	7,000	78,182,000	27,324,000	-	7,000	-	-	27,331,000
Total assets	\$ 303,548,000	\$ 7,021,000	\$ 1,130,000	\$ 8,002,000	\$ 50,924,000	\$ 370,625,000	\$ 8,609,000	\$ 6,196,000	\$ 155,000	\$ (9,510,000)	\$ 376,075,000

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

June 30, 2021

	Luminis Health Doctors Community Medical Center Inc.	Doctors Community Healthcare Programs, LLC	Doctors Community Medical Center Foundation, Inc.	Doctors Community Health Ventures, LLC	Eliminations	Total Doctors Community Medical Center Obligated Group	Doctors Regional Cancer Center, Inc.	Magnolia Gardens, Metro Ambulatory Urologic Institute, LLC & Diagnostic Imaging, LLC	Spine Team of Maryland, LLC & DCH Integrated Healthcare Network, LLC	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
<b>Liabilities and net assets</b>											
Current liabilities:											
Accounts payable	\$ 7,967,000	\$ 50,830,000	\$ 665,000	\$ 4,495,000	\$ 12,672,000	\$ 76,629,000	\$ 1,505,000	\$ –	\$ 8,664,000	\$ (9,510,000)	\$ 77,288,000
Accrued salaries, wages, and benefits	20,183,000	(114,000)	–	(192,000)	–	19,877,000	–	–	–	–	19,877,000
Other accrued expenses	9,174,000	–	–	33,560,000	(33,560,000)	9,174,000	–	–	–	–	9,174,000
Current portion of long-term debt	5,085,000	–	–	–	–	5,085,000	–	–	–	–	5,085,000
Advances from third-party payors	48,192,000	1,017,000	–	571,000	–	49,780,000	–	–	–	–	49,780,000
Current portion of lease liability	1,119,000	–	–	–	–	1,119,000	–	–	–	–	1,119,000
Total current liabilities	91,720,000	51,733,000	665,000	38,434,000	(20,888,000)	161,664,000	1,505,000	–	8,664,000	(9,510,000)	162,323,000
Long-term debt, less current portion and unamortized original issue premium											
	118,843,000	–	–	–	–	118,843,000	–	–	–	–	118,843,000
Accrued pension liability	2,201,000	–	–	90,000	–	2,291,000	–	–	–	–	2,291,000
Lease liability, less current portion	3,711,000	–	–	–	–	3,711,000	–	–	–	–	3,711,000
Other long-term liabilities	8,675,000	–	–	–	–	8,675,000	–	–	–	–	8,675,000
Total liabilities	225,150,000	51,733,000	665,000	38,524,000	(20,888,000)	295,184,000	1,505,000	–	8,664,000	(9,510,000)	295,843,000
Net assets:											
Without donor restrictions	78,304,000	(44,712,000)	140,000	(30,522,000)	68,922,000	72,132,000	7,104,000	6,196,000	(8,509,000)	–	76,923,000
With donor restrictions	94,000	–	325,000	–	48,000	467,000	–	–	–	–	467,000
Non-controlling interest	–	–	–	–	2,842,000	2,842,000	–	–	–	–	2,842,000
Total net assets	78,398,000	(44,712,000)	465,000	(30,522,000)	71,812,000	75,441,000	7,104,000	6,196,000	(8,509,000)	–	80,232,000
Total liabilities and net assets	\$ 303,548,000	\$ 7,021,000	\$ 1,130,000	\$ 8,002,000	\$ 50,924,000	\$ 370,625,000	\$ 8,609,000	\$ 6,196,000	\$ 155,000	\$ (9,510,000)	\$ 376,075,000

Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations

Year Ended June 30, 2021

	Luminis Health Doctors Community Medical Center Inc.	Doctors Community Healthcare Programs, LLC	Doctors Community Medical Center Foundation, Inc.	Doctors Community Health Ventures, LLC	Eliminations	Total Doctors Community Medical Center Obligated Group	Doctors Regional Cancer Center, Inc.	Magnolia Gardens, Metro Ambulatory Urologic Institute, LLC & Diagnostic Imaging, LLC	Spine Team of Maryland, LLC & DCH Integrated Healthcare Network, LLC	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
Operating revenue:											
Net patient service revenue	\$ 210,799,000	\$ -	\$ -	\$ -	\$ -	\$ 210,799,000	\$ 7,980,000	\$ -	\$ -	\$ -	\$ 218,779,000
Other operating revenue	18,563,000	774,000	730,000	155,000	(33,000)	20,189,000	-	-	-	-	20,189,000
Total operating revenue	229,362,000	774,000	730,000	155,000	(33,000)	230,988,000	7,980,000	-	-	-	238,968,000
Operating expenses:											
Salaries and wages	82,472,000	481,000	394,000	209,000	-	83,556,000	1,332,000	-	-	-	84,888,000
Employee benefits	15,540,000	62,000	79,000	56,000	-	15,737,000	301,000	-	-	-	16,038,000
Supplies	37,762,000	8,000	36,000	(19,000)	-	37,787,000	97,000	-	-	-	37,884,000
Purchased services	55,532,000	260,000	129,000	123,000	-	56,044,000	5,762,000	-	(14,000)	-	61,792,000
Depreciation and amortization	12,571,000	19,000	-	2,000	-	12,592,000	444,000	-	-	-	13,036,000
Interest	4,512,000	-	-	-	-	4,512,000	-	-	-	-	4,512,000
Shared services	22,012,000	-	-	-	-	22,012,000	-	-	-	-	22,012,000
Total operating expenses	230,401,000	830,000	638,000	371,000	-	232,240,000	7,936,000	-	(14,000)	-	240,162,000
Operating income (loss)	(1,039,000)	(56,000)	92,000	(216,000)	(33,000)	(1,252,000)	44,000	-	14,000	-	(1,194,000)
Other income (loss):											
Investment income, (loss) net	386,000	-	-	(162,000)	-	224,000	-	-	-	-	224,000
Loss from joint ventures and other, net	(544,000)	10,000	-	70,000	107,000	(357,000)	(10,000)	-	-	-	(367,000)
Pension credit (expense), net	(533,000)	-	-	-	-	(533,000)	-	-	-	-	(533,000)
Change in unrealized gains (losses) on trading securities, net	681,000	-	-	-	-	681,000	-	-	-	-	681,000
Realized and unrealized gains (losses) on interest rate swap contracts, net	-	-	-	-	-	-	-	-	-	-	-
Total other gain (loss), net	(10,000)	10,000	-	(92,000)	107,000	15,000	(10,000)	-	-	-	5,000
Excess (deficit) of revenue over expenses	\$ (1,049,000)	\$ (46,000)	\$ 92,000	\$ (308,000)	\$ 74,000	\$ (1,237,000)	\$ 34,000	\$ -	\$ 14,000	\$ -	\$ (1,189,000)



## Luminis Health, Inc. and Subsidiaries

### Supplementary Description of Consolidating and Eliminating Entries

June 30, 2021

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

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