GRACE MEDICAL CENTER, INC.

Financial Statement

August 31, 2021

(With Independent Auditors’ Report Thereon)

GRACE MEDICAL CENTER, INC.

Table of Contents

KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

Independent Auditors' Report

The Board of Directors
Grace Medical Center, Inc.:

We have audited the accompanying financial statements of Grace Medical Center, Inc,, which comprise the balance sheet as of August 31, 2021, and the related statement of operations, change in net assets and cash flows for the for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 auditors' 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, the financial statements referred to above present fairly, in all material respects, the financial position of Grace Medical Center, Inc, as of August 31, 2021, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Baltimore, Maryland
January 11, 2022

GRACE MEDICAL CENTER, INC.

Balance Sheet

August 31, 2021

(Dollars in thousands)

Assets

Current assets:		
Cash and cash equivalents	$	4,938
Assets limited as to use, current portion		15,788
Patient service receivables, net		5,253
Other receivables		363
Inventory		884
Prepaid expenses		167
Total current assets		27,393
Property and equipment, net		53,164
Assets limited to use, net of current portion		27,070
Operating lease right-of-use assets, net		1,251
Other assets, net		1,234
Total assets	$	110,112

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	$	11,002
Accrued salaries, wages and benefits		3,404
Advances from third-party payors		10,719
Current portion of long-term debt, net		7,143
Current portion of operating lease liabilities		282
Due to affiliates		28,154
Other current liabilities		613
Total current liabilities		61,317
Other long-term liabilities		1,200
Operating lease liabilities		970
Long-term debt, net		35,574
Total liabilities		99,061
Net assets:		
Net assets without donor restrictions		10,898
Net assets with donor restrictions		153
Total net assets		11,051
Total liabilities and net assets	$	110,112

See accompanying notes to financial statements.

GRACE MEDICAL CENTER, INC.

Statement of Operations

Year ended August 31, 2021

(Dollars in thousands)

Unrestricted revenues, gains and other support:	
Patient service revenue	$ 33,918
Other operating revenue	4,279
Total operating revenues	38,197
Expenses:	
Salaries and employee benefits	33,309
Supplies	6,193
Purchased services	17,872
Depreciation, amortization and gain/loss on sale of assets	7,476
Repairs and maintenance	699
Interest	877
Total expenses	66,426
Operating loss	(28,229)
Other income (loss), net:	
Other	(78)
Total other income, net	(78)
Deficit of revenues over expenses	$ (28,307)

See accompanying notes to financial statements.

GRACE MEDICAL CENTER, INC.

Statement of Changes in Net Assets

Year ended August 31, 2021

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total net assets
Net assets at August 31, 2020	$	15,062	38	15,100
Deficit of revenues over expenses		(28,307)		(28,307)
Restricted gifts and bequests		—	153	153
Net assets released from restrictions used for operations		—	(38)	(38)
Transfers from affiliates and other		24,143	—	24,143
Change in net assets		(4,164)	115	(4,049)
Net assets at August 31, 2021	$	10,898	153	11,051

See accompanying notes to financial statements.

GRACE MEDICAL CENTER, INC.

Statement of Cash Flows

Year ended August 31, 2021

(Dollars in thousands)

Cash flows from operating activities:		
Change in net assets	$	(4,049)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and gain/loss on sale of assets		7,476
Amortization of deferred financing fees		51
Transfers from affiliates and other		(24,143)
Restricted gifts and bequests		(153)
Change in operating assets and liabilities:		
Decrease in patient service receivables, net		543
Decrease in other receivables		180
Decrease in inventory		347
Decrease in prepaid expenses		124
Decrease in other assets		113
Increase in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits		3,316
Decrease in advances from third-party payors		(464)
Increase in due to affiliates		27,386
Decrease in other current and long-term liabilities		(7,898)
Net cash provided by operating activities		2,829
Cash flows from investing activities:		
Change in investments and assets limited as to use		6,933
Purchases of property and equipment		(27,484)
Net cash used in investing activities		(20,551)
Cash flows from financing activities:		
Payment on debt obligations		(7,144)
Proceeds from affiliates for capital expenditures, and debt payments		27,695
Restricted gifts and bequests		153
Net cash provided by financing activities		20,704
Net increase in cash and cash equivalents		2,982
Cash and cash equivalents:		
Beginning of period		1,956
End of period	$	4,938
Supplemental cash flow disclosures:		
Cash paid during the year for interest	$	823
Accounts payable related to purchase of property and equipment		1,766

See accompanying notes to financial statements.

(1) Organization

On November 1, 2019, Grace Medical Center (the Corporation) became a subsidiary of LifeBridge Health, Inc. (LifeBridge). Grace is a not-for-profit, nonstock Maryland Corporation.

Grace (formerly Bon Secours Baltimore Hospital) is the first hospital built by the Sisters of Bon Secours in the United States. After 100 years of operation, the hospital is now a LifeBridge Health facility, along with a primary care practice and two behavioral health facilities in the West Baltimore community.

Grace Medical Center offers emergency care, inpatient and outpatient behavioral health, renal dialysis and diagnostic services. Offsite locations provide primary care, drug treatment and outpatient behavioral health services.

(2) Significant Accounting Policies

(a) Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements include the accounts of the Corporation.

(b) Cash and Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at the date of purchase. Cash equivalents within the statement of cash flows excludes assets that are limited as to use.

(c) Assets Limited as to Use

Assets limited as to use consists of assets held by trustees under bond indenture agreements.

(d) Inventory

Inventories, which consist primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (using the moving average cost method of valuation) or market.

(e) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Maintenance and repair costs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those

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long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(f) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC 360, *Property, Plant and Equipment*, if there is an indication that the carrying value of an asset is not recoverable, the Corporation estimates the projected undiscounted cash flows, excluding interest and taxes, of the related individual entities to determine if an impairment loss should be recognized. The amount of impairment loss was determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance of facilities using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives. In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. The Corporation did not record a loss on impairment during the year ended August 31, 2021.

(g) Advances from Third-Party Payors

Advances from third-party payors are comprised of advance funding from CareFirst BlueCross BlueShield, Medicaid and other commercial health insurance companies. The Corporation also received advance funding through the Cares Act and Medicare Accelerated and Advance Payment Program in response to the COVID-19 pandemic. See Note 4 for further information.

(h) Self-Insurance Programs

The Corporation through LifeBridge is self-insured for professional and general liability, workers' compensation, and employee health benefits.

(i) Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of externally imposed stipulations. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to externally imposed stipulations.

Net assets with donor restrictions – Net assets subject to externally imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time or they may be maintained by the Corporation in perpetuity.

(Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by externally imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless use of the related asset is limited by externally imposed restrictions or law. Expirations of temporary restrictions of net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as unrestricted operating revenues.

(j) Net Patient Service Revenues

Net patient service revenues for the Corporation is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects consideration expected to be received from patients based on rates in effect during the period in which the services are rendered over time and the Corporation's performance obligations are met. Generally, performance obligations satisfied over time relate to patients receiving acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided, and the Corporation does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation is utilizing the portfolio approach practical expedient in ASC 606, *Revenue from Contracts with Customers,* for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

In prior years, the Corporation and the HSCRC agreed to implement the Global Budget Revenue (GBR) methodology. The Agreement is updated annually and was renewed for the one-year period June 30, 2021. The GBR model is a revenue constraint and quality improvement system, designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Corporations' mission to provide the highest value of care possible to their patients and the communities they serve.

The GBR agreement establishes a prospective, fixed revenue base (the GBR cap) for each fiscal year. This includes both inpatient and outpatient regulated services. Under GBR, the Corporation's revenues for all HSCRC-regulated services is predetermined for the upcoming year, regardless of changes in volume (subject to certain limits), service mix intensity, or mix of inpatient or outpatient services that occur during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap, within established constraint parameters, is prospectively added to the subsequent year's GBR cap. The GBR is adjusted for changes in market share, with the market-shift adjustments made semi-annually, on January and July 1. The GBR cap is adjusted annually for inflation, changes in payor mix and uncompensated care, as well as changes in population and aging within the Corporation's service area. A hospital's GBR cap may also be adjusted based on the hospital's performance on various quality and utilization metrics established by the HSCRC. During the year ended August 31, 2021 the HSCRC issued regulations due to the impact of COVID-19 (see note 4) on all hospitals in Maryland that allows hospitals to carry over any undercharge less amount recouped from other federal programs, including funds received from programs under the CARES Act as described in note 4, to the following fiscal year GBR cap. The HSCRC also may impose various other revenue adjustments that could be significant in the future. Unique considerations to the GBR for Grace Medical Center were adopted by the HSCRC beginning November 1, 2019 with the transition to LifeBridge Health. As part of these considerations, $57.7 million of the $107.7 million annual GBR was added to the GBR of Sinai Hospital. At the same time, Grace Medical retained $50 million of GBR revenue on an annual basis. In addition, the normal application of both quality-based and market-shift methodologies have been modified for a defined period of time.

Contractual adjustments, which represent the difference between amounts billed as patient service revenue and amounts paid by third-party payors, are accrued in the period in which the related performance obligations are met. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Implicit price concessions represent differences between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market factors, and other factors. Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Corporation estimates that transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant during the year ended August 31, 2021.

All other patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

(k) Other Operating Revenue

Other operating revenue includes revenue from other support services, including grants as disclosed below such as the funding received under the CARES Act.

(l) Grants

Federal grants are accounted for either as an exchange transaction or as a contribution based on terms and conditions of the grant. If the grant is accounted for as an exchange transaction, then the revenue is recognized as other operating revenue when earned. If the grant is accounted for as a contribution, then the revenues are recognized as either other operating revenue or restricted contributions depending on the restrictions within the grant.

(m) Charity Care and Bad Debt Accounts

The Corporation provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided based on patient charges forgone and total direct and indirect costs to provide the care, for the year ended August 31, 2021 was approximately $545.

All patient accounts are handled consistently and appropriately to maximize cash flow and to identify bad debt accounts timely. Active accounts are considered bad debt accounts when they met specific collection activity guidelines and/or are reviewed by the appropriate management and deemed to be uncollectible. Every effort is made to identify and pursue all account balance liquidation options, including but not limited to third party payor reimbursement, patient payment arrangements, Medicaid eligibility and financial assistance. Third party receivable management agencies provide extended business office services and insurance outsource services to ensure maximum effort is taken to recover insurance and self-pay dollars before transfer to bad debt. Contractual arrangements with third party collection agencies were used to assist in the recovery of bad debt after all internal collection efforts have been exhausted. In so doing, the collection agencies must operate consistently with the goal of maximum bad debt recovery and strict adherence with Fair Debt Collections Practices Act (FDCPA) rules and regulations, while maintaining positive patient relations.

(n) Income Taxes

The Corporation has been recognized by the Internal Revenue Service as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*.

(o) Use of Estimates

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

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(p) Excess of Revenues over Expenses

The accompanying statements of operations include a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include changes in restricted gifts received and transfers from affiliates.

(q) Management's Assessment and Plans

The Corporation adopted Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, (ASU 2014-15), which requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). The Corporation incurred a net loss during the year ended August 31, 2021. LifeBridge has committed to fund the operations of the Corporation to January 11, 2023 by funding operating cash deficits, required debt payments, and capital expenditures.

(r) New Accounting Pronouncements

The FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which required lessees to recognize most leases on-balance sheets, increasing their reported assets and liabilities. This update was developed to provide financial statement users with more information about an entity's leasing activities and required changes in processes and internal controls. The Corporation adopted ASU 2016-02 on September 1, 2020, using a modified retrospective approach. The Corporation also elected the package of practical expedients permitted under the new standard that allowed the Corporation to carry forward historical lease classification. The impact of adoption on the consolidated financial statements was an increase on September 1, 2020 in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record lease obligations for current operating leases of approximately $1,250, representing the present value of remaining lease payments for operating leases.

In August 2018, the FASB issued ASU No. 2018-15*, Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.* This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the Corporation for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021 with early adoption permitted. The Corporation is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Corporation as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Corporation has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

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(3) COVID-19

The CARES Act, which was enacted on March 27, 2020, authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the "PHSSEF"), which was subsequently increased to $175 billion. Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The U.S. Department of Health and Human Services (the "HHS") initially distributed $30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019, but announced that $50 billion in CARES Act funding (including the $30 billion already distributed) will be allocated proportional to providers' share of 2018 net patient revenue. HHS indicated that distributions of the remaining $50 billion were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. The Corporation received approximately $12,188 in payments from the initial PHSSEF payments of which $2,713 were recognized as revenue and included within other operating revenue for the year ended August 31, 2021, in the accompanying statement of operations.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals may request accelerated payments of up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments). CMS based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 12 months, and the program initially required CMS to recoup the payments beginning 120 days after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. On October 1, 2020, new legislation was signed that delayed the timing of the recoupments of these advances by CMS, which will now begin in April 2021. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity's customers. Therefore, they are accounted for under Topic 606 as revenue. In April 2020, the Corporation received approximately $8,764 of accelerated payments, some of which have been accrued on the consolidated balance sheet as of August 31, 2021 as a contract liability, in accordance with ASC 606 and is included within advances from third-party payors on the accompanying balance sheets. Beginning in April 2021, Medicare began to retract money from normal payments to reduce this contract liability. As of August 31, 2021 a total of $465 was recouped by Medicare related to the accelerated payments received.

The Corporation continues to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

(4) Investments

Investments, which consist of assets limited as to use in the accompanying balance sheets are stated at fair value or under the equity method, as appropriate, as of August 31, 2021, and consist of the following:

Assets limited as to use:		
Construction funds:		
Cash equivalents	$	42,858
Total assets limited as to use	$	42,858

(5) Liquidity and Availability

Financial assets available for general expenditure within one year of August 31, 2021 include the following (in thousands):

Cash and cash equivalents	$	4,938
Patient receivables		5,253
Other receivables		363
	$	10,554

The Corporation has assets limited to use held by trustees, set aside for the Corporation's future construction projects. These investments are not reflected in the amounts above.

(6) Property and Equipment

Property and equipment are classified as follows at August 31:

	Estimated useful life		2021
Land		$	1,370
Land improvements	8 to 20 years		2,581
Building and improvements	10 to 40 years		56,198
Fixed equipment	8 to 20 years		12,180
Movable equipment	3 to 15 years		40,278
			112,607
Less accumulated depreciation			(61,989)
			50,618
Construction in progress			2,546
Property and equipment, net		$	53,164

(Continued)

(Dollars in thousands)

Depreciation and amortization in the year ended August 31, 2021 was $4,248. Of this, depreciation expense for the year ended August 31, 2021 was $3,838.

During the year ended August 31, 2021, the Corporation incurred a loss on the disposal of assets of approximately $3,228 due to the write off of certain property and equipment.

(7) Long-Term Debt

As of August 31, 2021, long-term debt consists of the following:

Maryland Health and Higher Educational Facilities Authority (MHEFFA):		
Revenue Bonds Series 2021	$	42,857
Less current portion		(7,143)
Less deferred financing costs		(140)
Long-term debt, net	$	35,574

A single obligated group (the Obligated Group), consisting of LifeBridge, Sinai, Northwest, Grace, Levindale, BJHF, CHSF, CCHS, Carroll, CCMS, CHG, CH, and CRCCP, has been formed with respect to certain bonds issued by the Maryland Health and Higher Educational Facilities Authority (MHHEFA) and certain other obligations. Members of the Obligated Group are jointly and severally liable for all of the outstanding bonds issued by MHHEFA on behalf of LifeBridge and CCHS and their respective affiliates, together with other obligations issued on parity with such bonds.

On April 1, 2020, Bank of America issued a $50,000 note payable on behalf of the Obligated Group. The proceeds of the note payable have been used to finance the cost of demolition, construction, and renovation at Grace Medical Center. Accordingly, the debt has been pushed down to the Corporation's financial statements and the related interest expense since the proceeds were for the Corporation's benefit. The note payable has a maturity date of April 1, 2027 with an interest rate of 1.9%. In July 2021, a bond was issued by MHHEFA for the outstanding principal amount of the note payable.

The total future principal payments on long-term debt payments are as follows:

Years ending August 31:		
2022	$	7,143
2023		7,143
2024		7,143
2025		7,143
2026		7,143
Thereafter		7,142
	$	42,857

(Dollars in thousands)

(8) Net Assets With Donor Restrictions

Net assets without and with donor restrictions are available for the following purposes at August 31, 2021:

Without donor restrictions:		
Undesignated	$	10,898
With donor restrictions:		
Purpose restricted – operations		153
Net assets	$	11,051

(9) Employee Benefit Plans

The Corporation has a supplemental 403(b) retirement plan for eligible employees and has elected to match varying percentages of an employee's contribution up to a certain percentage of the employee's annual salary. The associated expense for the year ended August 31, 2021, was $4,268 and is included in salaries and employee benefits in the accompanying statements of operations.

(10) Regulation and Reimbursement

The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission (HSCRC);
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements, and it is reasonably possible that a change in such estimates may occur.

The Medicare and Medicaid programs represent a substantial portion of the Corporation's revenues, and the Corporation's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Corporation. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

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The current rate of reimbursement for hospital services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicaid and Medicare Services (CMS) and the State of Maryland. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland by CMS.

In January 2019, Maryland entered a newly negotiated phase of the waiver agreement with CMS. This subsequent phase is designed to last for 10 years, with two distinct five-year periods, the first five-year period ending December 31, 2023. While elements of the initial agreement pertaining to limits on hospital per capita growth and growth of total-cost-of-care per Medicare beneficiary of Maryland compared to the nation remain unchanged, the new agreement expands the scope of the waiver to focus more on a patient's total-cost-of-care. Most notably, Maryland will be required to generate annual Medicare total-cost-of-care savings of $300 million per year by the end of 2023, with all Maryland hospitals demonstrating total-cost-of-care savings through care redesign initiatives. In addition, Maryland will continue to maintain patient quality methodologies focused on readmissions, hospital acquired conditions and potentially avoidable utilization, but will also adopt statewide measures related to national measures such as falls prevention and opioid overdoses.

(11) Self-Insurance Programs

(a) Professional/General Liability

The Corporation is self-insured, through LifeBridge Insurance, for most professional and general liability claims arising out of the operations since November 1, 2019. Estimated liabilities have been recorded for both reported and incurred but not reported claims.

LifeBridge Insurance purchases reinsurance coverage from other highly rated insurance carriers to cover their liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance to fund professional and general liability claims are actuarially determined and are sufficient to cover expected liabilities. Management's estimate of the liability for professional and general liability claims, including incurred but not reported claims, is principally based on actuarial estimates performed by an independent third-party actuary. Amounts in excess of the self-insured limits are insured by highly rated commercial insurance companies. This estimated accrual is included in other long term liabilities and a related receivable in other assets in the accompanying consolidated balance sheets. Management believes these accruals are adequate to provide for all professional liability claims that have been incurred through August 31, 2021 but the ultimate liability may be more or less than the amount recorded.

(b) Workers' Compensation and Health Insurance

The Corporation is insured for workers' compensation liability through a combination of self-insurance and excess insurance policies since November 1, 2019. The Corporation is also self-insured for employee health claims. Losses for asserted and unasserted claims are accrued based on estimates derived from past experiences, as well as other considerations including the nature of each claim or incident, relevant trend factors, and estimates of incurred but not reported amounts.

The Corporation has accrued an immaterial liability for known and incurred but not reported claims. This amount is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. Management believes these accruals are adequate to provide for all workers' compensation and employee health claims that have been incurred through August 31, 2021 but the ultimate liability may be more or less than the amount recorded.

(Dollars in thousands)

LifeBridge maintains stop-loss policies on workers' compensation claims. The Corporation is insured for individual claims exceeding $450.

(12) Net Patient Service Revenue and Patient Receivables

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	August 31, 2021
Medicare	47 %
Medicaid	43
BlueCross	2
Commercial and other	5
Self-pay	3
	100 %

The mix of net patient service revenue for the Corporation is as follows:

	Year ended August 31, 2021
Medicare	46 %
Medicaid	45
BlueCross	2
Commercial and other	4
Self-pay	3
	100 %

(13) Commitments and Contingencies

(a) Litigation

The Corporation is subject to numerous laws and regulations of federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Corporation's financial position.

(b) Operating Leases

The Corporation has operating leases for real estate, personal property and equipment. The Corporation determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

The Corporation has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the Corporation elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets represent the Corporation's right to use an underlying asset during the lease term, and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The Corporation's lease term includes options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of the Corporation's operating leases do not provide an implicit rate, the Corporation uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Corporation considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Variable lease costs consistent primarily of common area maintenance and are not significant to total lease expense.

Operating and finance right-of-use assets and liabilities as of August 31, 2021 were as follows:

	Balance sheet classification		2021
Assets:			
Operating leases	Operating lease right-of-use assets, net	$	1,251
Liabilities:			
Current:			
Operating leases	Current portion of operating lease liabilities	$	282
Noncurrent:			
Operating leases	Operating lease liabilities		970
Total lease liabilities		$	1,252
Weighted average remaining term – operating leases			4 years
Weighted average discount rate – operating leases			4%

(Dollars in thousands)

The following table presents certain information related to lease expenses for operating leases at August 31, 2021. All expenses related to operating leases and short term and variable lease expense are included in other operating expenses:

Operating leases	$	417
Short term and variable lease expenses		323
Total expenses	$	740

The following table presents supplemental cash flow information for the year ending August 31, 2021:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows for operating leases	$	417

The following table reconciles the undiscounted cash flows to the operating lease liabilities recorded on the balance sheet at August 31, 2021:

		Operating leases
2022	$	282
2023		295
2024		318
2025		342
2026		15
Total minimum lease payments		1,252
Less current obligations under leases		(282)
Long-term lease obligations	$	970

(Dollars in thousands)

(14) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses related to providing these services are as follows:

	Year ended August 31, 2021		
	Healthcare Services	General and administrative	Total
Salaries and benefits	$ 26,454	6,855	33,309
Supplies	5,973	220	6,193
Purchased services	12,156	5,716	17,872
Depreciation and amortization	5,021	2,455	7,476
Repairs and maintenance	107	592	699
Interest	—	877	877
	$ 49,711	16,715	66,426

The financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages and benefits, and purchased services, which include allocations on the basis of estimates of time and effort.

(15) Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

(a) Assets and Liabilities

Cash and cash equivalents, patient service receivables, other receivables, inventory, prepaid expenses, accounts payable and accrued liabilities, advances to third-party payors, and other current liabilities – The carrying amounts reported in the balance sheets approximate the related fair values.

Investments (assets limited as to use) – Fair values are based on quoted market prices of individual securities or investments if available, or are estimated using quoted market prices for similar securities or investment managers' best estimate of underlying fair value. The Corporation believes that all of its investments are level 1 securities as of August 31, 2021.

(16) Related Party Transactions

During the year ended August 31, 2021 LifeBridge and other LifeBridge subsidiaries transferred funds to the Corporation. Such amounts have been reflected in the accompanying balance sheet as a liability to affiliates and these amounts are non-interest bearing and do not have a stated maturity date. In addition, certain affiliates forgave approximately $24,000 which is recorded as transfers from affiliates during the year ended August 31, 2021.

(Continued)

(17) Subsequent Events

Management evaluated all events and transactions that occurred after August 31, 2021 and through January 11, 2022, the date the consolidated financial statements were issued. In addition to what has been described in note 4, the Corporation will be transitioning to a free-standing medical center over the next twelve months. All regulated services will be billed under the Sinai Hospital of Baltimore, Inc.'s federal tax identification number. The Corporation did not have any other material recognizable subsequent events during the period.