Consolidated Financial Statements and Supplementary Information

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

Ernst & Young LLP

Building a better working world

Frederick Health, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2022 and 2021

Contents

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Building a better working world

Report of Independent Auditors

The Board of Directors
Frederick Health, Inc. and Subsidiaries

Opinion

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

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the System at June 30, 2022 and 2021, and the results of its operations, net assets, and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Monocacy Insurance, Ltd., a wholly-owned subsidiary, which statements reflect total assets of $25,658,623 in 2022 and $28,844,034 in 2021 and net loss after elimination of intercompany revenues of $4,607,499 in 2022 and $4,295,423 in 2021 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 Monocacy Insurance, Ltd., is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Ernst & Young LLP

October 12, 2022

Frederick Health, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	**$ 32,267**	$ 95,758
Patient receivables	**70,954**	68,918
Other receivables	**2,629**	2,541
Inventory	**10,993**	9,693
Prepaid expenses	**5,890**	5,016
Assets limited as to use	**6,409**	18,725
Promises to give, net	**730**	781
Total current assets	**129,872**	201,432
Net property and equipment	**287,076**	271,031
Right-of-use assets, net	**28,261**	25,561
Other assets:		
Assets limited as to use	**3,047**	2,549
Investments – donor restricted	**6,378**	4,699
Promises to give, net	**5,196**	4,304
Long-term investments	**184,844**	210,969
Other investments	**21,744**	9,512
Other assets	**9,146**	9,067
Total other assets	**230,355**	241,100
Total assets	**$ 675,564**	$ 739,124

	June 30	
	2022	**2021**
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 6,095**	$ 4,875
Accounts payable	**33,432**	30,371
Accrued expenses	**33,715**	34,064
Advances from third-party payors	**22,189**	64,040
Leases, current	**3,258**	3,505
Other current liabilities	**8,297**	6,875
Total current liabilities	**106,986**	143,730
Long-term liabilities, net of current portion:		
Long-term debt	**196,363**	202,910
Interest rate swap contract	**3,515**	7,666
Accrued pension expense	**–**	360
Other long-term liabilities	**34,763**	27,970
Leases, long term	**29,780**	26,952
Total long-term liabilities, net of current portion	**264,421**	265,858
Total liabilities	**371,407**	409,588
Net assets:		
Without donor restrictions	**291,854**	319,753
With donor restrictions	**12,303**	9,783
Total net assets	**304,157**	329,536
Total liabilities and net assets	**$ 675,564**	$ 739,124

See accompanying notes.

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2022	**2021**
Net assets without donor restrictions:		
Unrestricted revenues:		
Net patient service revenue	**$ 477,343**	$ 469,508
Other revenue	**19,221**	28,271
Total unrestricted revenues	**496,564**	497,779
Operating expenses:		
Salaries and wages	**238,232**	207,057
Employee benefits	**53,099**	43,481
Professional fees	**10,957**	14,047
Cost of goods sold	**81,661**	80,866
Supplies	**16,590**	18,327
Contract services	**58,187**	63,532
Other	**15,721**	12,644
Utilities	**6,294**	5,684
Insurance	**2,203**	5,632
Depreciation and amortization	**29,672**	28,099
Interest	**4,728**	5,260
Total operating expenses	**517,344**	484,629
(Loss) income from operations	**(20,780)**	13,150
Other income (loss), net:		
Gain on sale of assets	**6**	4,987
Investment gain, net	**8,236**	19,689
Change in unrealized (losses) gains on trading securities, net	**(31,418)**	25,349
Realized losses and unrealized gains on interest rate swap contract, net	**2,601**	995
Periodic pension credit (cost)	**1,829**	(1,196)
Other nonoperating gains (losses), net	**6,560**	(578)
Total other (loss) income, net	**(12,186)**	49,246
(Deficit) excess of revenue over expenses	**$ (32,966)**	$ 62,396

Continued on page 7.

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2020	$ 244,974	$ 7,677	$ 252,651
Excess of revenue over expenses	62,396	–	62,396
Pension adjustment	12,355	–	12,355
Other changes in unrestricted net assets	19	–	19
Released from restriction used to purchase capital	9	(9)	–
Assets released from restrictions	–	(12,347)	(12,347)
Restricted gifts, bequests, and contributions	–	14,462	14,462
Changes in net assets	74,779	2,106	76,885
Net assets, June 30, 2021	319,753	9,783	329,536
Deficit of revenue over expenses	**(32,966)**	**–**	**(32,966)**
Pension adjustment	**220**	**–**	**220**
Released from restriction used to purchase capital	**4,847**	**(4,847)**	**–**
Assets released from restrictions	**–**	**(4,320)**	**(4,320)**
Restricted gifts, bequests, and contributions	**–**	**11,687**	**11,687**
Changes in net assets	**(27,899)**	**2,520**	**(25,379)**
Net assets, June 30, 2022	**$ 291,854**	**$ 12,303**	**$ 304,157**

See accompanying notes.

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2022	**2021**
Operating activities		
Changes in net assets	**$ (25,379)**	$ 76,885
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation of property and equipment	**29,672**	28,099
Noncash pension adjustment	**(220)**	(12,355)
Amortization of premium and deferred financing	**(368)**	(43)
Equity in earnings of joint ventures	**(6,070)**	(940)
Gain on sale of property and equipment	**–**	(4,987)
Unrealized losses (gains) and realized losses (gains) on unrestricted investments	**28,464**	(45,208)
Proceeds from restricted contributions	**(7,530)**	(1,447)
Change in fair value of interest rate swap, net of realized losses	**(2,601)**	(2,738)
Increase (decrease) in:		
Receivables, patient, and other	**(2,124)**	(13,717)
Inventories and prepaids	**(2,174)**	(819)
Pledges receivable	**(841)**	(659)
Other assets	**(340)**	(1,223)
Accounts payable	**3,061**	4,043
Accrued expenses	**(349)**	5,892
Accrued pension expense	**–**	(2,804)
Advances from third-party payors	**(41,851)**	(3,696)
Other short-term liabilities	**60**	1,577
Other long-term liabilities	**(221)**	4,959
Net cash (used in) provided by operating activities	**(28,811)**	30,819
Investing activities		
Realized losses on interest rate swap contract	**(1,550)**	(1,743)
Other investments	**38**	–
Purchases of property and equipment	**(51,915)**	(37,927)
Net (purchases) sales of long term investments and assets limited as to use	**(4,516)**	28,965
Net cash used in investing activities	**(57,943)**	(10,705)

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	Year Ended June 30	
	2022	**2021**
Fundraising and financing activities		
Proceeds from restricted contributions	**$ 7,530**	$ 1,447
Repayments of long-term debt	**(4,875)**	(24,630)
Proceeds from equipment borrowings	**10,000**	–
Repayments of leases and equipment	**(1,624)**	(1,041)
Deferred financing costs paid	**(84)**	(257)
Net cash provided by (used in) fundraising and financing activities	**10,947**	(24,481)
Net decrease in cash, cash equivalents, and restricted cash	**(75,807)**	(4,367)
Cash, cash equivalents, and restricted cash at the beginning of the year	**114,483**	118,850
Cash, cash equivalents, and restricted cash at the end of the year	**$ 38,676**	$ 114,483
Cash and cash equivalents	**$ 32,267**	$ 95,758
Restricted cash, included in assets limited as to use	**6,409**	18,725
	$ 38,676	$ 114,483
Supplemental disclosures		
Cash paid for interest	**$ 4,728**	$ 5,324

See accompanying notes.

1. Organization and Mission

Frederick Health, Inc. (the System) is a not-for-profit parent corporation formed on June 23, 2011, exempt from income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code is subject to federal income tax. The System has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income taxes under Section 501(c) of the Code.

Frederick Health Hospital, Inc. (Hospital) is a not-for-profit hospital, exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code is subject to federal income tax. The Hospital is located in Frederick, Maryland, and provides health care services primarily to residents of Frederick County. The Hospital has received a determination letter from the IRS stating that it is exempt from federal income taxes under Section 501(c) of the Code.

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

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

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

On March 25, 2014, Frederick Integrated Healthcare Network, LLC (FIHN) was formed and is operated exclusively as a charitable organization for charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Code and the Regulations thereunder as they now exist or as they may hereafter be amended. FIHN was formed to maintain and operate a program of clinical integration and an accountable care organization among health care providers.

1. Organization and Mission (continued)

On December 16, 2021, Frederick Health Community Enterprises, LLC (FHCE) was formed and is operated exclusively as a charitable organization for charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Code and the Regulations thereunder as they now exist or as they may hereafter be amended. FHCE was formed for the benefit of, and to advance the interests of, the System.

The Obligated Group, consisting of the Hospital, Medical Group and the System, is responsible for repayment of the Maryland Health and Higher Education Facilities (MHHEFA) Series 2012A, Series 2017B and Series 2020 Bonds, Promissory Note 2020 and any outstanding amount on the 2013 Line of Credit. Refer to Note 9 for additional information on long term debt.

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

Global Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenue for most services were significantly impacted beginning in mid-March 2020 through early May 2020 as various policies were implemented by federal, state, and local governments such as suspension of elective procedures. Since that time, gradual improvement in volumes and related revenue have been experienced and as COVID-19 volumes surge, the System monitors elective and non-emergent procedures based on COVID-19 volumes, available staffing, and capacity.

The impact of COVID-19 on future operations and financial results will depend upon many factors, many of which could be beyond the System's ability to control or predict. The System's future operations and financial results may be materially impacted by developments related to COVID-19 including, but not limited to, the potential impact on future COVID-19 patient volumes resulting from new variants of the virus, the length of time and severity of the spread of the pandemic; and the volume of cancelled or rescheduled elective procedures and the volume of COVID-19 patients treated at our hospital and other healthcare facilities.

1. Organization and Mission (continued)

The Maryland Health Services Cost Review Commission (HSCRC or the Commission) has publicly announced its intention to support Maryland hospitals during the state of emergency and catastrophic health emergency within the State of Maryland and its collaboration with other Maryland regulatory agencies to remove licensure, regulatory, and other barriers to hospitals in the provision of emergency healthcare services. Recognizing that hospitals experienced volume decline due to self-quarantining and cancelled elective surgeries, the HSCRC permitted Maryland hospitals to increase rate corridors up to the 10% threshold or by an additional 5% from their current charging position, whichever is greater, for periods in both fiscal year 2021 and 2022 in order to make up for lost revenue.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the relief fund are to be used to prevent, prepare for, and respond to Coronavirus, and shall reimburse the recipient for healthcare related expenses or lost revenues attributable to Coronavirus and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions. In addition to the relief funding, the CARES Act provided for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care hospitals and other eligible providers were able to request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments. The Company’s accounting policies for the recognition of CARES funding received are discussed within Note 2.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of the System and its wholly owned subsidiaries: Hospital, MIL, FHSC, Medical Group, FIHN, FHCE and the Village.

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

2. Significant Accounting Policies (continued)

FHSC has two wholly owned subsidiaries: Rosehill of Frederick, LLC and Frederick Health Employer Solutions, LLC, both of which are for-profit limited liability companies that have been consolidated with FHSC into the System in the accompanying consolidated financial statements.

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

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 purpose restriction is accomplished, the asset is reclassified to without donor restrictions if restricted for capital or reported in the statements of operations as net assets released from restrictions if restricted for operating purposes. Donations received are reported as unrestricted contributions in the accompanying consolidated statements of operations as other operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with an original maturity of three months or less, excluding assets limited as to use and those classified as long-term investments.

Other Revenue

Other revenue consists primarily of other operating revenue as well as gifts, bequests and contributions.

2. Significant Accounting Policies (continued)

On December 16, 2021, July 20, 2020, April 9, 2020 and, the System received $2,478, $10,100 and $11,922, respectively, in provider relief funds authorized in the CARES Act from the U.S. Department of Health and Human Services (HHS). The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues, as defined by HHS, that are attributable to coronavirus, as well as receipt of the funds. The System follows grant accounting to recognize the stimulus funding as other operating revenue based on guidance from the HHS. These CARES funds were reported as donor restricted when they were received and released when used for operating purposes to cover lost revenue and COVID-related expenditures and reported in the consolidated statement of operations and changes in net assets as other revenue.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Cost of Goods Sold

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

Investments and Assets Limited as to Use

The fair values of individual investments, excluding private equity investments and hedge fund investments, are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Private equity investments and hedge funds are recorded based on net asset value of these investments which is discussed further in Note 7, Fair Value Measurements. Realized and unrealized investment returns from all unrestricted investments and assets limited as to use are included in the consolidated statements of operations as part of nonoperating gains and losses. Long-term investments represent investments without donor restrictions and income earned on investments with and without donor restrictions. The cost of securities sold is based on the specific-identification method. Investments are classified as either current or noncurrent based on maturity dates and availability for current operations.

2. Significant Accounting Policies (continued)

Substantially all of the System's investment portfolio (excluding certain assets limited as to use) is classified as trading, with unrealized gains and losses included in (deficit) excess of revenue over expenses. Certain trusteed assets that are included in assets limited as to use are classified as other than trading. These assets primarily consist of funds held for payment of principal and interest on bonds and deferred compensation trusts.

Investment Risk and Liquidity Management

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

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

Property and Equipment

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

2. Significant Accounting Policies (continued)

Leases

Effective January 1, 2019, the System adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, using the modified retrospective approach. For the impact of adoption and other required disclosures, see Note 16. The System enters into lease agreements for equipment, office space and certain facilities in conducting its normal business operations. Operating leases are included in long-term right-of-use assets, current lease liability and long-term lease liability in the accompanying consolidated balance sheets. Finance leases are included in net property and equipment, other current liabilities, and other long-term liabilities in the accompanying consolidated balance sheets.

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

Topic 842 includes an accounting policy election for non-public business entities to use the risk-free rate for the measurement of lease liabilities. The System elected to utilize the risk-free rate for the measurement of lease liabilities for initial transition and going forward. This rate will be applied to all leases using a period comparable to the lease. The System also elected the practical expedient which allows the System to treat the lease and non-lease components of a contract as a single component and account for as a lease.

2. Significant Accounting Policies (continued)

Valuation of Long-Lived Assets

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

Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Debt Issuance Costs

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

Net Patient Service Revenue and Patient Accounts Receivable

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

2. Significant Accounting Policies (continued)

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

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

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

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

Performance Indicator

The performance indicator is the (deficit) excess of revenue over expenses. Other changes in net assets, consistent with industry practice, include pension adjustments and net assets released from restriction for capital purposes.

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Advances From Third-Party Payors

On May 4, 2020, the System received $60,014 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program, which allowed inpatient acute care hospitals to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. Consistent with the terms and conditions of the program repayments began in April 2021. As of June 30, 2022, CMS has recovered $46,982, with the remaining $13,032 representing contract liabilities as defined in ASC 606, which have been recorded within advances from third-party payors in the accompanying consolidated balance sheet at June 30, 2022.

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

Net Assets

Net resources that are not restricted by donors are included in net assets without donor restrictions. Gifts of long-lived operating assets, such as property, plant or equipment, are reported as net assets with donor restrictions and excluded from 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 in the statement of operations and 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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (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 experiences, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those fiscal years, 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.

3. Patient Receivables and Patient Service Revenue

Patient receivables consist of the following at June 30:

	2022	2021
Gross patient receivables	**$ 107,266**	$ 111,524
Less estimated uncollectible accounts and contractual allowances	**(36,312)**	(42,606)
Net patient receivables	**$ 70,954**	$ 68,918

(Dollars in Thousands)

3. Patient Receivables and Patient Service Revenue (continued)

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

	2022	2021
Inpatient charges	**$ 256,061**	$ 247,870
Outpatient charges	**380,206**	374,969
Gross charges	**$636,267**	622,839
Less contractual and other allowances	**(158,924)**	(153,331)
Net patient service revenue	**$ 477,343**	$ 469,508

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

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

The System does not pursue collection of amounts determined to qualify as charity care, therefore these revenues are not reported as net patient service revenue. Using the cost to charge ratio to approximate cost, charity care provided for the years ended June 30, 2022 and 2021, was $8,758 and $5,762, respectively. The state of Maryland rate system includes components within the rates to partially compensate hospitals for uncompensated care.

(Dollars in Thousands)

4. Assets Limited as to Use

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

	2022	2021
Current:		
Principal, interest, and other – bonds	**$ 2,612**	$ 2,523
Construction funds	**–**	16,177
Other	**3,797**	25
	$ 6,409	$ 18,725
Noncurrent:		
Deferred compensation trusts	**$ 3,047**	$ 2,549
	$ 3,047	$ 2,549

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

	2022	2021
Current:		
Cash and money market accounts	**$ 6,409**	$ 18,725
	$ 6,409	$ 18,725
Noncurrent:		
Mutual funds	**$ 3,047**	$ 2,549
	$ 3,047	$ 2,549

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

(Dollars in Thousands)

5. Promises to Give

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

	2022	2021
Less than one year	**$ 859**	$ 918
One to five years	**2,839**	2,843
More than five years	**3,859**	2,953
	7,557	6,714
Less discounting and allowance for uncollectible promises	**1,631**	1,629
Total promises to give, net	**5,926**	5,085
Less current portion of promises to give, net	**730**	781
	$ 5,196	$ 4,304

Promises to give include $2,491 and $1,611 for the years ended June 30, 2022 and 2021, respectively, related to charitable remainder trusts. This net amount represents the excess of the fair value of the related trust accounts over the net present value of the annuities to be paid out of the trust to the named beneficiaries over their estimated life expectancy.

6. Investments

Investments reported as a component of other long-term assets are summarized as follows:

	2022	2021
Investments – donor restricted	**$ 6,378**	$ 4,699
Long-term investments	**184,844**	210,969
	$ 191,222	$ 215,668

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

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

(Dollars in Thousands)

6. Investments (continued)

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

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

	2022		**2021**	
	Cost	**Fair Value/ NAV***	**Cost**	**Fair Value/ NAV***
Cash and cash equivalents	**$ 7,779**	**$ 7,779**	$ 6,493	$ 6,493
U.S. government obligations	**4,653**	**4,629**	6,054	5,954
Corporate obligations	**6,583**	**6,562**	7,002	7,167
Mortgage-backed securities	**4,434**	**4,070**	3,854	3,892
Equity securities	**42,780**	**54,818**	44,926	69,531
Mutual funds	**66,292**	**69,495**	68,273	81,761
Private equity investments	**9,702**	**16,550**	11,472	13,515
Hedge funds	**21,425**	**27,319**	27,154	27,355
	$ 163,648	**$ 191,222**	$ 175,228	$ 215,668

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

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

	2022	**2021**
Unrestricted:		
Net realized gains	**$ 6,795**	$ 15,398
Interest and dividends, net of investment expense	**3,406**	3,590
Gains from joint ventures	**626**	701
	$ 10,827	$ 19,689

(Dollars in Thousands)

6. Investments (continued)

Investment expense was $399 and $485 for the years ended June 30, 2022 and 2021, respectively.

Other investments consist of the following at June 30:

	Carrying Value		Income (Loss)	
	2022	**2021**	**2022**	**2021**
Joint ventures	**$ 19,064**	$ 6,909	**$ 1,341**	$ 508
Other	**2,680**	2,603	**–**	–
	$ 21,744	$ 9,512	**$ 1,341**	$ 508

Investments in joint ventures are accounted for using the equity method at June 30 and are as follows:

	Entity	Interest %	2022	2021
Mt. Airy Health Services, LLC	Hospital	50	**$ 1,209**	$ 987
Frederick County Radiology, LLC	Hospital	35	**11,398**	–
Emmitsburg Wellness Pavilion, LLC	FH	50	**700**	–
Mt. Airy Med-Services, LLC	FHSC	50	**3,402**	3,613
Frederick Surgical Center, LLC	FHSC	40.6	**936**	1,150
MNR of Frederick, LLC	FHSC	22.5	**1,062**	845
Other	Multiple	6–50	**357**	314
			$ 19,064	$ 6,909

The fair value of these joint ventures is not readily determinable.

7. Fair Value Measurements

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

7. Fair Value Measurements (continued)

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

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

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

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

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

In addition to amounts recorded at fair value, certain investments are recorded at net asset value.

Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values (NAV) for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, and other business and market sector factors.

(Dollars in Thousands)

7. Fair Value Measurements (continued)

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

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

		Fair Value Measurements at Reporting Date Using			
	Fair Value at June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	NAV
Assets					
Cash and cash equivalents	$ 46,419	$ 46,419	$ –	$ –	$ –
Equity securities	54,818	54,818	–	–	–
U.S. government obligations	4,448	–	4,448	–	–
Agency securities	182	–	182	–	–
Corporate and other bonds	6,562	–	6,562	–	–
Mutual funds	72,578	72,578	–	–	–
Mortgage-backed securities	4,070	–	4,070	–	–
Private equity investments	16,550	–	–	–	16,550
Hedge funds	27,319	–	–	–	27,319
Total assets	$ 232,946	$ 173,815	$ 15,262	$ –	$ 43,869
Liabilities					
Interest rate swap liability	$ (3,515)	$ —	$ —	$ (3,515)	$ —
Total liabilities	$ (3,515)	$ —	$ —	$ (3,515)	$ —

(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Fair Value at June 30, 2021	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	NAV
Assets					
Cash and cash equivalents	$ 120,948	$ 120,948	$ –	$ –	$ –
Equity securities	69,531	69,531	–	–	–
U.S. government obligations	5,875	–	5,875	–	–
Agency securities	79	–	79	–	–
Corporate and other bonds	7,167	–	7,167	–	–
Mutual funds	84,338	84,338	–	–	–
Mortgage-backed securities	3,892	–	3,892	–	–
Private equity investments	13,515	–	–	–	13,515
Hedge funds	27,355	–	–	–	27,355
Total assets	$ 332,700	$ 274,817	$ 17,013	$ –	$ 40,870
Liabilities					
Interest rate swap liability	$ (7,666)	$ –	$ –	$ (7,666)	$ –
Total liabilities	$ (7,666)	$ –	$ –	$ (7,666)	$ –

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

7. Fair Value Measurements (continued)

Private equity investments and hedge funds are recorded at NAV. These amounts are not required to be categorized in the fair value hierarchy. The recorded value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally as of the balance sheet date. It is expected that NAV approximates fair value.

Interest Rate Swap

The System entered into an interest rate swap agreement in conjunction with the issuance of variable rate bonds. The swap contract is valued using models based on readily observable market parameters for all substantial terms of the contract. The change in the fair market value of the swap agreement is included in (deficit) excess of revenue over expenses, as the swap is not designated as an effective hedge.

Credit exposure associated with nonperformance by the counterparty to the derivative instrument is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the balance sheets.

(Dollars in Thousands)

8. Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2022	2021
Land	–	**$ 10,967**	$ 10,967
Land improvements	8–20 years	**4,625**	4,512
Buildings	20–40 years	**290,705**	283,509
Fixed equipment	10–20 years	**29,452**	29,372
Movable equipment	3–20 years	**286,355**	274,321
Leasehold improvements	5–20 years	**22,886**	32,671
		644,990	635,352
Less accumulated depreciation		**403,530**	392,054
		241,460	243,298
Construction in process, renovations, and deposits		**45,616**	27,733
		$ 287,076	$ 271,031

Construction in progress consists of the System's building construction and renovations. As these projects are completed, the related assets are transferred out of construction in progress and into the appropriate asset category and are depreciated over the applicable useful lives.

Capitalized computer software, net of accumulated amortization, as of June 30, 2022 and 2021, was $10,258 and $10,600, respectively. Amortization of computer software was $3,469 and $2,427 for fiscal years 2022 and 2021, respectively.

The net book value of assets under financing lease arrangements totaled $10,420 and $2,064 as of June 30, 2022 and 2021, respectively. Depreciation expense related to assets under financing lease arrangements was $1,194 and $1,039 for the years ended June 30, 2022 and 2021, respectively.

(Dollars in Thousands)

9. Long-Term Debt

Long-term debt consists of the following:

	Interest Rate	June 30 2022	2020
MHHEFA Series 2020 Bonds	3.25% to 4.00%	**$ 62,645**	$ 62,645
Promissory Note 2020	2.32%	**93,550**	93,875
MHHEFA Series 2017B Bonds	Variable	**43,535**	47,230
MHHEFA Series 2012 Bonds	3.00% to 5.00%	**1,295**	2,475
		201,025	206,225
Less: current maturities		**(6,095)**	(4,875)
Plus: unamortized premiums, net		**3,178**	3,292
Less: deferred financing costs, net		**(1,745)**	(1,732)
		$ 196,363	$ 202,910

Series 2020 MHHEFA Revenue Bonds

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

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

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

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

9. Long-Term Debt (continued)

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

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

Promissory Note 2020

On June 25, 2020 the System's obligated group issued a promissory note in favor of a lending institution in the amount $93,875 facilitating legal defeasance of $86,290 of the Series 2012A MHHEFA Revenue Bonds, pay related finance costs and to fund an escrow account to provide for future Series 2012A interest and principal payments. In conjunction with the issuance of this note, MHHEFA issued a tax exempt bond on July 1, 2022 in the principal amount of the remaining balance on this promissory note, in what is often referred to as a Cinderella bond. The transaction resulted in the incurrence of $386 of deferred finance costs to be amortized over the life of the promissory note of 18 years.

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

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

The promissory note contains certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

9. Long-Term Debt (continued)

Series 2017B MHHEFA Revenue Bonds

In June 2017, the System obtained a loan of $60,645 in MHHEFA Revenue Bonds, Frederick Memorial Hospital Issue, Series 2017B. Upon settlement of the bonds, MHHEFA and the obligated group entered into a financing agreement with BB&T whereby BB&T became the initial purchaser of the Series 2017B Bonds. The interest rate on the bonds is based on an index floating rate determined by BB&T equal to the applicable percentage of LIBOR plus the applicable spread plus the TEFRA adjustment, if any. The average interest rate on the bond loan was 1.036% for the year ended June 30, 2022. The carrying value of the 2017B Bonds approximates fair value.

The proceeds of the Series 2017B Bonds were used to pay financing costs and for the refunding of the Series 2012B Bonds.

Series 2017B Bonds are subject mandatory tender at June 1, 2024 and a redemption at the option of the authority at the principal amount of the Series 2017B Bonds to be redeemed plus accrued interest to the date set for redemption. The Series 2017B Bonds mature on July 1, 2035.

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

The System is required to make annual payments to BB&T sufficient to meet the annual debt service requirements for the succeeding year. Annual sinking fund installments for the Series 2017B Bonds range from $3,155 on July 1, 2017, to $2,090 on July 1, 2035.

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

Series 2012A MHHEFA Revenue Bonds

On June 25, 2020 the obligated group members of the System issued a promissory note in favor of a lending institution in the amount $93,875, facilitating legal defeasance of $86,290 of the Series 2012A MHHEFA Revenue Bonds.

(Dollars in Thousands)

9. Long-Term Debt (continued)

Interest is payable semiannually on each January 1 and July 1, through July 1, 2038.

There is no debt service reserve requirement associated with the Series 2012A Bonds.

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

Debt service requirements on long-term debt, excluding original issue premium and deferred financing costs at June 30, 2022, of $3,178 and $1,745, respectively, are as follows:

	Principal
Years ending June 30:	
2023	$ 6,095
2024	6,400
2025	6,650
2026	6,920
2027	7,195
Thereafter	167,765
	$ 201,025

2013 Line of Credit

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

Under the provisions of this revolving line of credit, the System has granted a security interest in all receipts now owned and hereafter acquired. Any outstanding amounts on this line of credit are secured with a deed of trust and security agreement applicable to the main hospital campus of the System and are secured ratably with the Series 2012A Bonds, Series 2017B Bonds, Promissory Note 2020 and the Series 2020 Bonds. All outstanding principal and interest must be repaid on the maturity date.

This agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

9. Long-Term Debt (continued)

This line-of-credit agreement was amended on November 4, 2015, extending the maturity date to December 1, 2017, and decreased the revolving loan commitment from $20,000 to $15,000. A second amendment was made on January 1, 2017 reducing the variable interest rate to one-month LIBOR plus 1.25% per annum. A third amendment was made on November 30, 2017, extending the maturity date to January 31, 2020. A fourth amendment was made on October 29, 2019 reducing the variable interest rate to one-month LIBOR plus 1.05% and extending the maturity date to January 31, 2022. A fifth amendment was made on March 7, 2022, changing the interest rate to the secured overnight financing rate (SOFR) + 1.08% instead of LIBOR and extending the maturity date to January 31, 2024. The outstanding balance on this line of credit was $0 as of June 30, 2022 and 2021, respectively.

10. Interest Rate Swap Contract

The System records its derivatives as assets or liabilities at fair value. A derivative is typically defined as an instrument, whose value is derived from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment, and can be net settled. The System participates in an interest rate swap contract that is considered a derivative financial instrument.

The System has an interest rate swap contract with a third party with a notional amount of $43,250 on June 30, 2022, which reduces annually by an amount equal to the sinking fund installment due on bonds until maturity on July 1, 2036. The System is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap contract. However, the System does not anticipate nonperformance by the counterparty. Under the swap contract, the System pays interest at a fixed rate of 3.804% per annum and receives interest at a variable rate equal to 67% of the one-month LIBOR of 0.16% as of June 29, 2022. The swap contract requires payments to be made or received monthly. The fair value of the swap contract was a liability of $3,515 and $7,666 at June 30, 2022 and 2021, respectively.

The System accrued net payments under its interest rate swap program of $1,550 and $1,743 during fiscal years 2022 and 2021, respectively. These amounts are included within realized and unrealized losses on interest rate swap contract, net, in the accompanying consolidated statements of operations and investing activities in the accompanying consolidated statements of cash flows.

10. Interest Rate Swap Contract (continued)

The interest rate swap contract is not designated as an effective cash flow hedge. The System's objectives of entering into the interest rate swap contract include limiting or hedging variable interest rate payments to achieve lower overall borrowing costs than a comparable unhedged fixed rate borrowing, to alter the pattern of debt service payments, and to improve asset/liability matching. Changes in the fair value of the derivative financial instrument are recognized in realized and unrealized losses on interest rate swap contract, net, in the accompanying consolidated statements of operations and investing activities in the accompanying consolidated statements of cash flows. The carrying value of the System's derivative financial instrument approximates fair value. The interest rate swap contract is valued using models based on readily observable market parameters for all substantial terms of the contract.

Credit exposure associated with nonperformance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the consolidated balance sheets. The System attempts to mitigate the risk of nonperformance by selecting counterparties with high credit ratings and monitoring their creditworthiness.

The System's derivative agreements do not contain any credit support provisions that require it to post collateral if there are declines in the derivative value or its credit rating.

	Fair Value	
Balance Sheet location	**2022**	**2021**
Liability derivatives		
Interest rate swap contract	**$ 3,515**	$ 7,666
Total derivatives not designated as hedging instruments	**$ 3,515**	$ 7,666

(Dollars in Thousands)

10. Interest Rate Swap Contract (continued)

A summary of the effect of the non-hedging derivatives on the System's consolidated statements of operations is as follows:

Type of Non-hedging Derivatives	Statement of Operations Location of Loss Recognized	Derivative Loss Recognized
Year ended June 30, 2022		
Interest rate swap contract – realized loss	Other loss	**$ (1,550)**
Interest rate swap contract – unrealized gain	Other gain	**4,151**
Total		**$ 2,601**
Year ended June 30, 2021		
Interest rate swap contract – realized loss	Other loss	$ (1,743)
Interest rate swap contract – unrealized gain	Other gain	2,738
Total		$ 995

11. Employee Benefit Plans

The System has a defined benefit pension plan (the Plan) that was curtailed on June 30, 2007. The System uses a measurement date of June 30 to determine plan assets and benefit obligations. The curtailment is such that participants will no longer accrue benefits under the Plan and no new participants will be accepted. Current participant accounts will not receive any service credits or increases in benefits for post-curtailment compensation increases beyond June 30, 2007; however, the System will make annual contributions to the Plan in accordance with actuarially determined amounts to meet future accumulated benefit obligations under the frozen Plan.

The Hospital's Board of Directors approved a plan for terminating the Plan on August 26, 2020 and the System has notified participants of their options. In June 2022, the System completed its termination of the plan which converted remaining participants' benefit interests into an annuity or lump-sum distributions.

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The following provides a reconciliation of the changes in fair value of the Plan's assets and projected benefit obligations and the Plan's funded status based on a June 30, 2022 and 2021, measurement date:

	2022	2021
Accumulated benefit obligation	**$ N/A**	$ 53,278
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 53,278**	$ 61,007
Interest cost	**1,440**	1,625
Actuarial gain	**(1,393)**	(8,102)
Benefits paid and settlement	**(53,325)**	(1,252)
Projected benefit obligation at end of year	–	53,278
Change in plan assets:		
Fair value of plan assets at beginning of year	**52,918**	45,488
Actual return on plan assets	**2,108**	4,682
Employer contribution (receipt)	**(1,700)**	4,000
Benefits paid and settlement	**(53,325)**	(1,252)
Fair value of plan assets at end of year	–	52,918
Net amount recognized – funded status	**$** –	$ (360)

Net amounts recognized in net assets without donor restrictions that have not been recognized in net periodic cost are as follows at June 30:

	2022	**2021**
Net actuarial loss	**$ N/A**	$ 220
Total recognized in unrestricted net assets	**$ N/A**	$ 220

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

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

	June 30	
	2022	**2021**
Discount rate	**N/A**	2.75%
Interest crediting rate	**N/A**	4.00%
Rate of compensation increase	**N/A**	N/A

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

	Year Ended June 30	
	2022	**2021**
Discount rate	**2.75%**	2.70%
Expected return on plan assets	**3.50%**	3.75%
Interest crediting rate	**4.00%**	4.00%
Rate of compensation increase	**N/A**	N/A

Net periodic pension cost included the following components:

	2022	**2021**
Interest cost	**$ 1,440**	$ 1,625
Return on plan assets	**(1,604)**	(1,483)
Amortization of net loss	**-**	1,054
Effect of settlement	**(1,665)**	–
Net periodic pension (credit) cost	**$ (1,829)**	$ 1,196

11. Employee Benefit Plans (continued)

The System determines the expected long-term rate of return on plan assets by taking into consideration the historical returns of various asset classes and the types of investments the Plan is expected to hold.

The Plan's asset allocation as of the measurement date presented as a percentage of total plan assets for the year ended June 30, 2021 was as follows:

Equity securities	27%
Debt securities	57
Cash	10
Hedge funds	6
Total	100%

The Plan's assets are recorded at fair value and are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

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

11. Employee Benefit Plans (continued)

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

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

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

- Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In addition to amounts recorded at fair value, certain investments are recorded at net asset value.

Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values (NAV) for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, and other business and market sector factors.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the assets or liabilities. The following tables present the Plan's assets and liabilities measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of June 30, 2021:

		Fair Value Measurements at Reporting Date Using			
	Fair Value at June 30 2021	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**NAV**
Assets					
Cash and cash equivalents	$ 5,257	$ 5,257	$ –	$ –	$ –
Equity securities	14,367	14,367	–	–	–
Fixed income mutual funds	30,071	30,071	–	–	–
Hedge funds	3,223	–	–	–	3,223
Total assets	$ 52,918	$ 49,695	$ –	$ –	$ 3,223

The fair value of the Plan's assets is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include exchange-traded equity securities and equity and fixed income mutual funds.

Hedge funds are recorded at NAV. These amounts are not required to be categorized in the fair value hierarchy. The recorded value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally as of the balance sheet date. It is expected that NAV approximates fair value.

11. Employee Benefit Plans (continued)

Assets of the Plan are invested in a manner consistent with fiduciary standards of the Employee Retirement Income Security Act of 1974, namely: (a) the safeguards and diversity to which a prudent investor would adhere must be present and (b) all transactions undertaken on behalf of the Plan must be for the sole interest of plan participants and beneficiaries to provide benefits in a prudent manner. Investment objectives of the Plan also include the following:

- Achieve an annualized total return that equals or exceeds the actuarial target
- Preserve the value of the Plan's assets
- Diversify assets sufficiently and, in accordance with modern portfolio theory, avoid large specific risks (losses) and minimize the volatility of the portfolio
- Provide sufficient liquidity to plan benefit payment outflows and meet the Plan's requirements

The historical strategic target asset allocation for the Plan was 20% in equities, 62% in fixed income securities, 10% in hedge funds, 5% real estate, and 3% in cash.

The System also has a tax-deferred annuity savings (403(b)) plan available to substantially all employees. In conjunction with the curtailment of the defined benefit pension plan, the System modified the 403(b) plan effective July 1, 2007. Effective January 1, 2018, the plan was amended such that all new hires will be automatically enrolled in the 403(b) plan at 3% of employee earnings, which will be automatically increased 1% annually up to 10%. Employees can opt out of this automatic enrollment and annual increase. The System will match 100% on employee contributions up to 5.0% of employee earnings. Base contributions continue for employees with 5 to 10 years of service at 0.5% and 1.0% for employees with over 10 years of service. The System's contribution for base matching and transition credits totaled $8,988 and $7,962 for fiscal years 2022 and 2021, respectively.

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

In December 2005, the System adopted two nonqualified deferred compensation plans with an effective date of December 15, 2004, for certain members of executive management. Under these plans, participating employees may contribute amounts from their compensation to the plan and may receive a discretionary employer contribution. Employees are fully vested in all employee contributions to the plans. Vesting in employer contributions occurs in accordance with the underlying plan documents. All assets of the plans are held in separate trusts. Total contributions by the System to the plans were $498 and $439 for the years ended June 30, 2022 and 2021, respectively.

12. Concentration of Credit Risk

The System has funds on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors (in percentages) at June 30 was as follows:

	2022	**2021**
Medicare	**32%**	28%
Medicaid	**23**	25
Blue Cross	**16**	13
HMOs and PPOs	**17**	20
Commercial insurance and other third-party payors	**7**	8
Patients	**5**	6
	100%	100%

(Dollars in Thousands)

13. Functional Expenses

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

	Program	General and Administrative	Total
Year ended June 30, 2022			
Salaries and wages	**$ 202,624**	**$ 35,608**	**$ 238,232**
Employee benefits	**45,657**	**7,442**	**53,099**
Professional fees	**6,184**	**4,773**	**10,957**
Cost of goods sold	**81,386**	**275**	**81,661**
Supplies	**15,708**	**882**	**16,590**
Contract services	**49,764**	**8,423**	**58,187**
Other	**11,078**	**4,643**	**15,721**
Utilities	**4,371**	**1,923**	**6,294**
Insurance	**1,181**	**1,022**	**2,203**
Depreciation	**26,493**	**3,179**	**29,672**
Interest	**4,428**	**300**	**4,728**
	$ 448,874	**$ 68,470**	**$ 517,344**
Year ended June 30, 2021			
Salaries and wages	$ 171,270	$ 35,787	$ 207,057
Employee benefits	36,714	6,767	43,481
Professional fees	9,999	4,048	14,047
Cost of goods sold	80,830	36	80,866
Supplies	17,527	800	18,327
Contract services	54,476	9,056	63,532
Other	9,809	2,835	12,644
Utilities	4,197	1,487	5,684
Insurance	1,068	4,564	5,632
Depreciation	25,917	2,182	28,099
Interest	4,835	425	5,260
	$ 416,642	$ 67,987	$ 484,629

(Dollars in Thousands)

14. Net Assets

Net assets with temporary donor restrictions are available for the following purposes or periods at June 30:

	2022	2021
Health care services:		
Buildings and equipment	**$ 5,549**	$ 6,005
Restricted by time only	**2,491**	1,611
Specific health care services	**1,400**	–
Staff resiliency programs	**1,028**	–
Education programs	**418**	777
Indigent care and research	**441**	414
	$ 11,327	$ 8,807

Net assets with permanent donor restrictions consist of investments to be held in perpetuity, the income from which is expendable for:

	2022	2021
General health care services (reported as other operating revenue)	**$ 971**	$ 971
Specific health care services (reported as net assets released from restrictions)	**5**	5
	$ 976	$ 976

During 2022 and 2021, net assets were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes in the amounts of $6,853 and $12,356, respectively.

15. Commitments and Contingencies

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

15. Commitments and Contingencies (continued)

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

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

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

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

15. Commitments and Contingencies (continued)

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

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

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

Through MIL, a wholly owned subsidiary, the System maintains reserves, including excess coverage, in the amount of $19,001 and $19,898 at June 30, 2022 and 2021, respectively, and a related reinsurance receivable of $7,639 and $8,791 at June 30, 2022 and 2021, respectively. In addition, the System has also estimated a tail liability for claims incurred but not reported under the claims made policy totaling $4,046 and $3,710 as of June 30, 2022 and 2021, respectively. The System employs an independent actuary to estimate the ultimate settlement of such claims.

These reserves are recorded on an undiscounted basis at June 30, 2022 and 2021. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change upon final resolution of such matters.

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. The System had approximately $8.3 million of unfunded commitments in alternative investments as of June 30, 2022.

(Dollars in Thousands)

16. Leases

The System leases equipment, office space, and certain facilities. Included in the accompanying consolidated statement of operations and changes in net assets are lease expenses of approximately $5,774 million and $5,089 million in 2022 and 2021, respectively. The following table summarizes the components of lease expense for the year ended June 30:

	2022	2021
Finance lease cost:		
Amortization	**$ 1,647**	$ 1,040
Interest	**163**	72
Total finance lease cost	**1,810**	1,112
Operating lease cost	**3,616**	3,658
Short-term lease cost	**348**	312
Total lease cost	**$ 5,774**	$ 5,082

As of June 30, 2022, the System recognized $28,261 and $10,440 of operating and financing right-of-use assets, respectively. As of June 30, 2021, the System recognized $25,561 and $2,064 of operating and financing right-of-use assets, respectively.

A summary of the components of operating and finance lease liabilities classified as current and noncurrent on the accompanying consolidated balance sheets are as follows:

	Operating Leases	**Finance Leases**	**Total**
June 30, 2022			
Leases, current	**$ 3,258**	**$ –**	**$ 3,258**
Leases, long term	**29,780**	**–**	**29,780**
Other current liabilities	**–**	**2,029**	**2,029**
Other long-term liabilities	**–**	**8,411**	**8,411**
Total lease liabilities	**$ 33,038**	**$ 10,440**	**$ 43,478**
June 30, 2021			
Leases, current	$ 3,505	$ –	$ 3,505
Leases, long term	26,952	–	26,952
Other current liabilities	–	667	667
Other long-term liabilities	–	1,397	1,397
Total lease liabilities	$ 30,457	$ 2,064	$ 32,521

(Dollars in Thousands)

16. Leases (continued)

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

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	**$ 3,615**	$ 3,658
Operating cash flows paid for interest portion of finance leases	**163**	72
Financing cash flows paid for principal portion of finance leases	**1,624**	1,041
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**5,392**	610
Finance leases	**6,239**	719

The weighted average discount rates and our weighted remaining lease terms as of June 30 is as follows:

	2022	2021
Weighted average discount rate:		
Operating leases	**2.18%**	2.13%
Financing leases	**1.89%**	2.98%
Weighted average lease term		
Operating leases	**11.16**	11.83
Financing leases	**5.78**	3.10

(Dollars in Thousands)

16. Leases (continued)

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of June 30, 2022, to lease obligation recorded on the consolidated balance sheet at June 30, 2022:

	Operating Leases	Finance Leases	Total
Years ended June 30:			
2023	$ 3,865	$ 2,237	$ 6,102
2024	3,563	2,066	5,629
2025	3,324	1,695	5,019
2026	3,297	1,517	4,814
2027	3,240	1,517	4,757
Thereafter	20,639	2,022	22,661
Total future undiscounted lease obligations	37,928	11,054	48,982
Less: lease payment representing interest	(4,890)	(614)	(5,504)
Present value of future lease payments	33,038	10,440	43,478
Less: current portion of future lease payments	(3,258)	(2,029)	(5,287)
Long-term lease obligations	$ 29,780	$ 8,411	$ 38,191

Workers' Compensation

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

Letter of Credit

The System has a letter of credit issued by a lending institution in the amount of $1,340. This letter of credit is renewed on an annual basis and is required by the state of Maryland as collateral for unemployment benefits.

(Dollars in Thousands)

17. Liquidity and Availability

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

Cash and cash equivalents	$	32,267
Patient accounts receivable, net		70,954
Promises to give, net		730
Other receivables		2,629
Investments with daily and weekly liquidity		142,658
Total	$	249,238

The System's most restrictive bond covenant requires the obligated group to maintain unrestricted cash and marketable securities on hand to meet 75 days of normal operating expenses, which would be approximately $100,265 as of June 30, 2022.

18. Regulatory Environment

Medicare and Medicaid

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

Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation.

Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on the System.

18. Regulatory Environment (continued)

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

State of Maryland Health Services Cost Review Commission

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

Through June 2022, the current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between CMS and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the state of Maryland under Section 1814(b) of the Social Security Act. As of January 2014, CMS approved a modernized waiver that will be in place as long as Maryland hospitals commit to achieving significant quality improvements, limits on all-payor per capita hospital growth, and limits on annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate.

Starting in January 2019, Maryland's hospitals began operating under a new ten-year contract with the federal government entitled Maryland Total Cost of Care Model (TCOC). TCOC is designed to test whether the improvements hospitals have made under the previous modernized waiver can be expanded to all health care providers. The GBR methodology will remain in place for hospital rate setting under the TCOC model. In addition, programs aimed to measure and reduce total health care spending for attributed Medicare patients, including pre- and post-acute care by all providers, are being introduced and will be further defined in the next fiscal year.

18. Regulatory Environment (continued)

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

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

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

Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The System was undercharged by $1,781 and $2,104 for the years ended June 30, 2022 and 2021, respectively.

While the System is expecting the HSCRC to allow for recovery in future periods of the undercharge experienced during the year, mainly due to lower volume as the result of the COVID-19 pandemic, uncertainty exists as to the final outcome of HSCRC rate setting decision making.

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

HSCRC established an uncompensated care fund whereby certain hospitals are required to contribute to the fund to help cover the costs associated with uncompensated care for all Maryland hospitals equitably. The System received from the fund $1,428 and $2,395 for the years ended June 30, 2022 and 2021, respectively.

19. Subsequent Events

The System has evaluated subsequent events through October 12, 2022, the date of issuance of these consolidated financial statements. The system is unaware of any subsequent events that would require recognition or disclosure at this time except as noted below.

Series 2022 MHHEFA Revenue Bonds

On June 25, 2020 the System's obligated group issued a promissory note in favor of a lending institution in the amount $93,875 facilitating legal defeasance of $86,290 of the Series 2012A MHHEFA Revenue Bonds, pay related finance costs and to fund an escrow account to provide for future Series 2012A interest and principal payments. As planned, on July 1, 2022 the remaining principal balance of Promissory Note 2020 was converted to tax-exempt Series 2022 MHHEFA Revenue Bonds in the amount of $93,550.

The interest rate on the Series 2022 MHHEFA Revenue Bonds is a fixed rate of 1.83% and is payable along with principal payments monthly through July 1, 2028. There is no debt service reserve requirements.

Under the provisions of the financing agreement, the System has granted a security interest in all receipts now owned and hereafter acquired.

The Series 2022 MHHEFA Revenue Bonds are also secured with a deed of trust and security agreement applicable to the main hospital campus of the System and are also secured ratably with the Series 2012A Bonds, Series 2017B Bonds, the Series 2020 Bonds, and any outstanding amounts on the 2013 Line of Credit and contain certain financial covenants, all of which the System was in compliance with as of June 30, 2022.

2013 Line of Credit

On July 27, 2022 the System requested and received a $15,000 maximum advance according to the 2013 Line of Credit agreement, as amended. The funds were used to meet short term operating cash flows needs. The maturity date on the 2013 Line of Credit is January 31, 2024 and the variable interest rate is the secured overnight financing rate (SOFR) plus 1.08%, but not less than 1.08%, adjusted daily. On the date of issuance of these statements, October 12, 2022, the outstanding balance is $15,000.

Supplementary Information

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet

(In Thousands)

June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 71	$ 29,122	$ 154	$ 1,996	$ 711	$ 203	$ 10	$	$ 32,267
Patient receivables	–	60,959	–	8,733	1,262	–	–	–	70,954
Other receivables	–	2,388	4,736	241	–	–	–	(4,736)	2,629
Inventory	–	9,037	–	1,956	–	–	–	–	10,993
Prepaid expenses	–	5,367	6	283	175	–	59	–	5,890
Assets limited as to use	–	6,373	36	–	–	–	–	–	6,409
Promises to give, net	–	730	–	–	–	–	–	–	730
Total current assets	71	113,976	4,932	13,209	2,148	203	69	(4,736)	129,872
Net property and equipment	–	256,834	–	2,164	3,871	–	24,207	–	287,076
Right-of-use assets	–	17,929	–	7,261	3,071	–	–	–	28,261
Other assets:									
Assets limited as to use	–	3,047	–	–	–	–	–	–	3,047
Investments – donor restricted	–	6,378	–	–	–	–	–	–	6,378
Promises to give, net	–	5,196	–	–	–	–	–	–	5,196
Long-term investments	–	171,757	13,087	–	–	–	–	–	184,844
Other investments	320,567	31,785	–	–	5,427	–	–	(336,035)	21,744
Other assets	–	10,218	7,639	–	1,433	–	–	(10,144)	9,146
Intercompany receivables	–	29,948	–	–	–	230	–	(30,178)	–
Total other assets	320,567	258,329	20,726	–	6,860	230	–	(376,357)	230,355
Total assets	$ 320,638	$ 647,068	$ 25,658	$ 22,634	$ 15,950	$ 433	$ 24,276	$ (381,093)	$ 675,564

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

(In Thousands)

June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Liabilities and net assets									
Current liabilities:									
Current maturities of long-term debt	$ –	$ 6,095	$ –	$ –	$ –	$ –	$ –	$ –	$ 6,095
Accounts payable	–	36,981	–	579	88	233	287	(4,736)	33,432
Accrued expenses	–	26,438	44	6,965	268	–	–	–	33,715
Advances from third-party payors	–	22,189	–	–	–	–	–	–	22,189
Loans payable, affiliates	–	–	–	–	2,265	–	–	(2,265)	–
Leases, current	–	2,583	–	390	285	–	–	–	3,258
Other current liabilities	–	6,714	6,493	1,567	–	–	–	(6,477)	8,297
Total current liabilities	–	101,000	6,537	9,501	2,906	233	287	(13,478)	106,986
Long-term liabilities, net of current portion:									
Long-term debt	–	196,363	–	–	–	–	–	–	196,363
Interest rate swap contract	–	3,515	–	–	–	–	–	–	3,515
Other long-term liabilities	–	15,773	19,001	–	1,391	–	–	(1,402)	34,763
Leases, long term	–	19,424	–	7,407	2,949	–	–	–	29,780
Intercompany liabilities	233	230	–	5,726			23,989	(30,178)	–
Total long-term liabilities, net of current portion	233	235,305	19,001	13,133	4,340	–	23,989	(31,580)	264,421
Total liabilities	233	336,305	25,538	22,634	7,246	233	24,276	(45,058)	371,407
Net assets:									
Without donor restrictions	320,405	298,460	120	–	8,704	200	–	(336,035)	291,854
With donor restrictions	–	12,303	–	–	–	–	–	–	12,303
Total net assets	320,405	310,763	120	–	8,704	200	–	(336,035)	304,157
Total liabilities and net assets	$ 320,638	$ 647,068	$ 25,658	$ 22,634	$ 15,950	$ 433	$ 24,276	$ (381,093)	$ 675,564

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Net patient service revenue	$ –	$ 399,976	$ –	$ 72,103	$ 5,801	$ –	$ –	$ (537)	$ 477,343
Other	–	12,279	3,312	4,222	2,481	2,278	1,129	(6,480)	19,221
Total unrestricted revenues	–	412,255	3,312	76,325	8,282	2,278	1,129	(7,017)	496,564
Operating expenses:									
Salaries and contract labor	–	188,517	–	44,183	3,966	1,566	–	–	238,232
Employee benefits	–	43,329	–	8,584	830	356	–	–	53,099
Professional fees	–	11,328		228	31	114	–	(744)	10,957
Cost of goods sold	–	43,084	–	37,711	866	–	–	–	81,661
Supplies	–	15,786	–	742	–	1	71	–	16,590
Contract services	–	53,269	–	3,923	530	14	866	(414)	58,187
Other	–	11,291	1,471	3,898	952	5	374	(2,271)	15,721
Utilities	–	5,192	–	193	129	15	759	–	6,294
Insurance	–	4,544	–	1,086	94	–	73	(3,596)	2,203
Depreciation and amortization	–	27,328	–	487	219	–	1,636	–	29,672
Interest	–	4,728	–	–	78	–	–	(78)	4,728
Total operating expenses	–	408,396	1,471	101,035	7,695	2,071	3,779	(7,103)	517,344
Income (loss) from operations	–	3,859	1,841	(24,710)	587	207	(2,650)	86	(20,780)
Other income (loss), net:									
Gain on sale of assets	–	6	–	–	–	–	–	–	6
Investment (loss) gain, net	(26,088)	9,817	(1,841)	–	338	–	–	26,010	8,236
Change in unrealized losses on trading securities, net	–	(31,418)	–	–	–	–	–	–	(31,418)
Realized losses and unrealized gains on interest rate swap contract, net	–	2,601	–	–	–	–	–	–	2,601
Periodic pension credit	–	1,829	–	–	–	–	–	–	1,829
Other nonoperating gains (losses), net	–	5,734	–	–	881	–	(55)	–	6,560
Total other income (loss), net	(26,088)	(11,431)	(1,841)	–	1,219	–	(55)	26,010	(12,186)
(Deficit) excess of revenue over expenses	(26,088)	(7,572)	–	(24,710)	1,806	207	(2,705)	26,096	(32,966)

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
(Deficit) excess of revenue over expenses (from previous page)	$ (26,088)	$ (7,572)	$ –	$ (24,710)	$ 1,806	$ 207	$ (2,705)	$ 26,096	$ (32,966)
Other changes in net assets without donor restrictions:									
Pension adjustment	–	220	–	–	–	–	–	–	220
Other changes in unrestricted net assets*	627	(28,110)	–	24,711	8	(8)	2,709	63	–
Released from restriction used to purchase capital	–	4,847	–	–	–	–	–	–	4,847
Total other changes in net assets without donor restrictions	627	(23,043)	–	24,711	8	(8)	2,709	63	5,067
(Decrease) increase in net assets without donor restrictions	(25,461)	(30,615)	–	1	1,814	199	4	26,159	(27,899)
Net assets with donor restrictions:									
Released from restriction used to purchase capital	–	(4,847)	–	–	–	–	–	–	(4,847)
Assets released from restrictions	–	(2,744)	–	(1,572)	–	(4)	–	–	(4,320)
Restricted gifts, bequests, and contributions	–	10,111	–	1,572	–	4	–	–	11,687
Increase in net assets with donor restrictions	–	2,520	–	–	–	–	–	–	2,520
(Decrease) increase in net assets	(25,461)	(28,095)	–	1	1,814	199	4	26,159	(25,379)
Net assets, beginning of year	345,866	338,858	120	(1)	6,890	1	(4)	(362,194)	329,536
Net assets, end of year	$ 320,405	$ 310,763	$ 120	$ –	$ 8,704	$ 200	$ –	$ (336,035)	$ 304,157

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Balance Sheet
(In Thousands)

June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Assets					
Current assets:					
Cash and cash equivalents	$ 71	$ 26,230	$ 1,996	$	$ 28,297
Patient receivables	–	60,959	8,733	–	69,692
Other receivables	–	2,388	241	–	2,629
Inventory	–	9,037	1,956	–	10,993
Prepaid expenses	–	5,366	283	–	5,649
Assets limited as to use	–	6,373	–	–	6,373
Promises to give, net	–	730	–	–	730
Total current assets	71	111,083	13,209	–	124,363
Net property and equipment	–	256,308	2,164	–	258,472
Right-of-use assets	–	17,928	7,261	–	25,189
Other assets:					
Assets limited as to use	–	3,047	–	–	3,047
Investments – donor restricted	–	6,378	–	–	6,378
Promises to give, net	–	5,196	–	–	5,196
Long-term investments	–	163,438	–	–	163,438
Other investments	320,567	43,465	–	(327,011)	37,021
Other assets	–	10,219	–	–	10,219
Intercompany receivables		29,952		(5,959)	23,993
Total other assets	320,567	261,695	–	(332,970)	249,292
Total assets	$ 320,638	$ 647,014	$ 22,634	$ (332,970)	$ 657,316

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Balance Sheet (continued)
(In Thousands)

June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Liabilities and net assets					
Current liabilities:					
Current maturities of long-term debt	$ –	$ 6,095	$ –	$ –	$ 6,095
Accounts payable	–	36,977	579	–	37,556
Accrued expenses	–	26,423	6,965	–	33,388
Advances from third-party payors	–	22,189	–	–	22,189
Leases, current	–	2,583	390	–	2,973
Other current liabilities	–	6,679	1,567	–	8,246
Total current liabilities	–	100,946	9,501	–	110,447
Long-term liabilities, net of current portion:					
Long-term debt	–	196,363	–	–	196,363
Interest rate swap contract	–	3,515	–	–	3,515
Other long-term liabilities	–	15,773	–	–	15,773
Leases, long term	–	19,424	7,407	–	26,831
Intercompany liabilities	233	230	5,726	(5,959)	230
Total long-term liabilities, net of current portion	233	235,305	13,133	(5,959)	242,712
Total liabilities	233	336,251	22,634	(5,959)	353,159
Net assets:					
Without donor restrictions	320,405	298,460	–	(327,011)	291,854
With donor restrictions	–	12,303	–	–	12,303
Total net assets	320,405	310,763	–	(327,011)	304,157
Total liabilities and net assets	$ 320,638	$ 647,014	$ 22,634	$ (332,970)	$ 657,316

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Net patient service revenue	$ –	$ 399,977	$ 72,103	$ (545)	$ 471,535
Other	–	10,648	4,222	(6,480)	8,390
Total unrestricted revenues	–	410,625	76,325	(7,025)	479,925
Operating expenses:					
Salaries and contract labor	–	188,516	44,183	–	232,699
Employee benefits	–	43,330	8,584	–	51,914
Professional fees	–	11,329	228	(744)	10,813
Cost of goods sold	–	43,085	37,711	–	80,796
Supplies	–	15,672	742	–	16,414
Contract services	–	52,920	3,923	(414)	56,429
Other	–	11,127	3,898	(2,271)	12,754
Utilities	–	5,170	193	–	5,363
Insurance	–	4,543	1,086	(3,596)	2,033
Depreciation and amortization	–	27,270	487	–	27,757
Interest	–	4,728	–	–	4,728
Total operating expenses	–	407,690	101,035	(7,025)	501,700
Income (loss) from operations	–	2,935	(24,710)	–	(21,775)
Other income, net:					
Gain on sale of assets	–	5	–	–	5
Investment (loss) gain, net	(26,161)	9,443	–	28,178	11,460
Change in unrealized losses on trading securities, net	–	(30,124)	–	–	(30,124)
Realized losses and unrealized gains on interest rate swap contract, net	–	2,602	–	–	2,602
Periodic pension credit	–	1,829	–	–	1,829
Other nonoperating income	–	5,734	–	–	5,734
Total other (loss) income, net	(26,161)	(10,511)	–	28,178	(8,494)
(Deficit) excess of revenue over expenses	(26,161)	(7,576)	(24,710)	28,178	(30,269)

Continued on page 62.

Frederick Health, Inc. Obligated Group

Supplementary Combining Statement of Operations
and Changes in Net Assets (continued)
(In Thousands)

Year Ended June 30, 2022

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
(Deficit) excess of revenue over expenses (from previous page)	$ (26,161)	$ (7,576)	$ (24,710)	$ 28,178	$ (30,269)
Other changes in net assets without donor restrictions:					
Pension adjustment	–	220	–	–	220
Other changes in unrestricted net assets*	700	(28,107)	24,710	–	(2,697)
Released from restriction used to purchase capital	–	4,847	–	–	4,847
Total other changes in net assets without donor restrictions	700	(23,040)	24,710	–	2,370
(Decrease) increase in net assets without donor restrictions	(25,461)	(30,616)	–	28,178	(27,899)
Net assets with donor restrictions:					
Released from restriction used to purchase capital	–	(4,847)	–	–	(4,847)
Assets released from restrictions	–	(2,744)	(1,572)	–	(4,316)
Restricted gifts, bequests, and contributions	–	10,111	1,572	–	11,683
Increase in net assets with donor restrictions	–	2,520	–	–	2,520
(Decrease) increase in net assets	(25,461)	(28,096)	–	28,178	(25,379)
Net assets, beginning of year	345,866	338,859	–	(355,189)	329,536
Net assets, end of year	$ 320,405	$ 310,763	$ –	$ (327,011)	$ 304,157

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

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

Frederick Health, Inc. Obligated Group

Supplementary Combined Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2022	**2021**
Operating activities		
Changes in net assets	**$ (25,379)**	$ 76,885
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation of property and equipment	**27,758**	27,092
Noncash pension adjustment	**(220)**	(12,355)
Noncash changes in net assets	**(2,007)**	–
Amortization of original issue discount, premium, and bond issue costs	**(368)**	(43)
Equity in earnings and gain on joint ventures	**(5,536)**	(4,308)
Gain on sale of property and equipment	**–**	(4,987)
Unrealized losses (gains) and realized losses (gains) on unrestricted investments	**26,980**	(40,857)
Increase in investments – trading	**–**	(373)
Proceeds from restricted contributions	**(7,530)**	(1,447)
Change in fair value of interest rate swap	**(2,601)**	(2,738)
Changes in operating assets and liabilities:		
Receivables, patient, and other	**(1,950)**	(13,415)
Other assets	**1,928**	570
Inventories and prepaids	**(2,139)**	(901)
Pledges receivable	**(841)**	(659)
Accounts payable	**5,356**	5,607
Accrued expenses	**(244)**	6,004
Accrued pension expense	**–**	(2,804)
Change in ROU assets and liabilities	**–**	45
Advances from third-party payors	**(41,851)**	(3,696)
Intercompany receivable, net	**514**	(3,353)
Other short-term liabilities	**29**	1,567
Other long-term liabilities	**780**	1,104
Net cash (used in) provided by operating activities	**(27,321)**	26,938
Investing activities		
Net purchases of long term investments and assets limited as to use	**(6,852)**	26,757
Realized losses on interest rate swap contract	**(1,550)**	(1,743)
Other investments in subsidiaries	**(700)**	–
Purchases of property and equipment	**(47,244)**	(35,201)
Net cash used in investing activities	**(56,346)**	(10,187)

Frederick Health, Inc. Obligated Group

Supplementary Combined Statements of Cash Flows (continued)

(In Thousands)

	Year Ended June 30	
	2022	**2021**
Fundraising and financing activities		
Proceeds from restricted contributions	**$ 7,530**	$ 1,447
Repayments of long-term debt	**(4,875)**	(24,630)
Proceeds from equipment borrowings	**10,000**	–
Other	**(5)**	–
Payments for leases and equipment	**(1,624)**	(1,041)
Deferred financing costs paid	**(84)**	(257)
Net cash provided by (used in) fundraising and financing activities	**10,942**	(24,481)
Net decrease in cash, cash equivalents, and restricted cash	**(72,725)**	(7,730)
Cash, cash equivalents, and restricted cash at the beginning of the year	**107,395**	115,125
Cash, cash equivalents, and restricted cash at the end of the year	**$ 34,670**	$ 107,395
Cash and cash equivalents	**$ 28,297**	$ 88,695
Restricted cash, included in assets limited as to use	**6,373**	18,725
	$ 34,670	$ 107,420
Supplemental disclosures		
Cash paid for interest	**$ 4,728**	$ 5,334

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

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