KPMG

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements
and Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

LUMINIS HEALTH, INC. AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Trustees
Luminis Health, Inc.:

Opinion

We have audited the consolidated financial statements of Luminis Health, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of June 30, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Company for the year ended June 30, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on October 14, 2022.

As part of our audit of the 2023 consolidated financial statements, we also audited the adjustments described in Note 2(aa) that were applied to restate the 2022 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2022 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2022 consolidated financial statements as a whole.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 4, 2023

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

Assets		2023	2022
Current assets:			
Cash and cash equivalents	$	26,735	96,638
Short-term investments		535	5,279
Current portion of assets whose use is limited		19,015	15,766
Patient receivables		145,831	160,723
Inventories and supplies		13,972	13,580
Prepaid expenses and other current assets		21,386	25,496
Right-of-use assets – short term		1,239	—
Total current assets		228,713	317,482
Property and equipment		1,150,342	1,169,694
Less accumulated depreciation and amortization		(593,699)	(628,218)
Net property and equipment		556,643	541,476
Other assets:			
Investments		452,206	408,188
Investments in joint ventures		12,825	12,983
Assets whose use is limited		51,639	45,371
Restricted collateral for interest rate swap contract		5,818	10,193
Right-of-use assets – long term		43,372	43,997
Other assets		69,062	68,349
Total assets	$	1,420,278	1,448,039

(Continued)

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

Liabilities And Net Assets		2023	2022
Current liabilities:			
Accounts payable	$	74,104	57,745
Accrued salaries, wages, and benefits		75,894	76,529
Other accrued expenses		26,651	25,452
Current portion of long-term debt		22,457	21,699
Advances from third-party payors		40,616	73,515
Lease liability – short term		6,814	7,846
Total current liabilities		246,536	262,786
Long-term debt, less current portion and unamortized original issue premium		415,788	434,739
Interest rate swap contracts		36,886	51,922
Accrued pension liability		2,296	2,643
Lease liability – long term		39,230	41,580
Other long-term liabilities		63,200	50,088
Total liabilities		803,936	843,758
Net assets:			
Without donor restrictions – Luminis Health		590,362	578,649
Non-controlling interest		2,298	3,846
Total net assets without donor restrictions		592,660	582,495
With donor restrictions		23,682	21,786
Total net assets		616,342	604,281
Total liabilities and net assets	$	1,420,278	1,448,039

See accompanying notes to consolidated financial statements.

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Operating revenue:			
Net patient service revenue	$	1,071,122	1,086,322
Other operating revenue		36,833	47,404
Total operating revenue		1,107,955	1,133,726
Operating expenses:			
Salaries and wages		571,425	547,725
Employee benefits		90,937	87,225
Supplies		193,245	195,967
Purchased services		253,259	302,009
Depreciation and amortization		38,324	45,164
Interest		13,773	13,152
Total operating expenses		1,160,963	1,191,242
Operating loss		(53,008)	(57,516)
Other income (loss):			
Investment income, net		21,705	25,871
Income (loss) from joint ventures and other, net		1,529	(1,215)
Pension expense, net		(4,034)	(2,062)
Loss on advance refunding of debt		—	(2,320)
Change in unrealized gains (losses) on trading securities, net		17,787	(67,344)
Realized and unrealized gains on interest rate swap contracts, net		12,123	31,095
Total other income (loss), net		49,110	(15,975)
Deficit of revenues over expenses	$	(3,898)	(73,491)

See accompanying notes to consolidated financial statements.

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

(Dollars in thousands)

	Without donor restrictions		Total net assets without donor restrictions	With donor restrictions	Total net assets
	Luminis Health	Non-controlling interest			
Net assets, June 30, 2021	$ 654,877	2,842	657,719	26,412	684,131
Deficit of revenues over expenses	(73,491)	—	(73,491)	—	(73,491)
Pension liability adjustment	1,165	—	1,165	—	1,165
Transfers and other, net	(3,902)	1,004	(2,898)	(3,636)	(6,534)
Restricted gifts, bequests, and		—	—		—
contributions	—	—	—	4,139	4,139
Restricted investment income	—	—	—	(486)	(486)
Net assets released from restrictions	—	—	—	(4,643)	(4,643)
Changes in net assets	(76,228)	1,004	(75,224)	(4,626)	(79,850)
Net assets, June 30, 2022	578,649	3,846	582,495	21,786	604,281
Deficit of revenues over expenses	(3,898)	—	(3,898)	—	(3,898)
Pension liability adjustment	11,444	—	11,444	—	11,444
Transfers and other, net	2,398	(1,548)	850	(1,434)	(584)
Capital grants	1,500	—	1,500	—	1,500
Restricted gifts, bequests, and			—		—
contributions	—	—	—	5,914	5,914
Restricted investment income	—	—	—	1,510	1,510
Net assets released from restrictions	269	—	269	(4,094)	(3,825)
Changes in net assets	11,713	(1,548)	10,165	1,896	12,061
Net assets, June 30, 2023	$ 590,362	2,298	592,660	23,682	616,342

See accompanying notes to consolidated financial statements.

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Operating activities:			
Increase (decrease) in net assets	$	12,061	(79,850)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Net realized and unrealized (gains) losses on investments		(30,851)	47,476
Realized and unrealized gains on interest rate swap contracts, net		(12,123)	(31,094)
Loss on defeasance of debt		—	2,320
Pension liability adjustment		(11,444)	(1,290)
Equity in earnings of joint ventures		1,934	(672)
Restricted contributions and pledges, net		(5,914)	(4,139)
Depreciation and amortization		36,524	45,683
Forgiveness of refundable advance		(1,000)	—
Restricted investment income		(1,510)	(674)
Net change in operating assets and liabilities		12,963	(119,244)
Net cash provided by (used in) operating activities		640	(141,484)
Investing activities:			
Purchases of property and equipment		(50,421)	(40,038)
Purchases of alternative investments		(3,315)	(5,629)
Sales of alternative investments		20,506	1,815
Purchases of securities		(91,867)	(55,037)
Sales of securities		64,307	50,205
Increase in assets whose use is limited, net		(27,181)	(10,034)
Payments on interest rate swaps		(2,913)	(6,994)
Return of collateral on swap		4,375	15,506
Acquisition		(1,944)	—
Distributions received from joint ventures		1,031	1,148
Net cash used in investing activities		(87,422)	(49,058)
Financing and fundraising activities:			
Repayments of long-term debt		(17,192)	(16,120)
Retirement of long-term debt		—	(218,654)
Proceeds from refinancing of long-term debt		—	221,560
Borrowings on line of credit		—	17,000
Repayments of line of credit		—	(17,000)
Payment of deferred financing costs		—	(655)
Payments for financing leases		(997)	—
Proceeds from capital lease		1,463	2,137
Proceeds from refundable advance		8,034	—
Restricted contributions received and other		5,914	5,132
Restricted income received		1,510	674
Net cash used in financing and fundraising activities		(1,268)	(5,926)
Net decrease in cash and cash equivalents		(88,050)	(196,468)
Cash, cash equivalents, and restricted cash at beginning of year		124,495	320,963
Cash, cash equivalents, and restricted cash at end of year	$	36,445	124,495
Cash and cash equivalents	$	26,735	96,638
Restricted cash, included in restricted collateral and assets whose use is limited		9,710	27,857
Cash, cash equivalents, and restricted cash at end of year	$	36,445	124,495

(Continued)

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Patient receivables	$	14,892	(16,168)
Inventories and supplies		(392)	10,062
Prepaid expenses and other		4,110	(4,914)
Other assets and right-of-use leases		6,523	2,529
		25,133	(8,491)
(Decrease) increase in operating liabilities:			
Accounts payable		14,086	2,052
Accrued salaries, wages, and benefits		(635)	(164)
Other accrued expenses		1,199	(3,955)
Advances from third-party payors		(32,899)	(104,640)
Other long-term liabilities		6,079	(4,046)
		(12,170)	(110,753)
Net change in operating assets and liabilities	$	12,963	(119,244)
Supplemental disclosure of noncash activities:			
Financing leases		5,194	—
Amount included in accounts payable for construction in process		2,272	1,624

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

Luminis Health, Inc. (Luminis Health or the System), formerly known as Anne Arundel Health System, Inc. (AAHS), is a Maryland not-for-profit corporation. Luminis Health has the following wholly owned subsidiaries:

- Luminis Health Anne Arundel Medical Center, Inc. (LHAAMC), and its subsidiaries; Luminis Health Pathways, Inc. (Pathways), J. Kent McNew Family Medical Center, Inc. (McNew), and Luminis Health Anne Arundel Medical Center Foundation, Inc. (the Foundation);
- Luminis Health Clinical Enterprise, Inc. and its subsidiaries; Luminis Health Imaging, Inc. (LHI), Luminis Health Research Institute, Inc. (RI), Physician Enterprise, LLC (PE) and its subsidiaries; Luminis Health Medical Group, LLC, Orthopedic Physicians of Annapolis, LLC, LHMG Physical Therapy, LLC, Luminis Health Care Services, Inc. (LHCS), and Luminis Health Community Clinics, LLC;
- Anne Arundel Medical Center Collaborative Care Network, LLC, and AAMC Collaborative Care Network, LLC;
- Luminis Health Ventures, LLC and its subsidiaries; Cottage Insurance Company, Ltd. (Cottage), Luminis Heath Real Estate Holding Company, Inc. (the Real Estate Company), and its subsidiaries; Pavilion Park, Inc. (PPI); Annapolis Exchange, LLC; and Blue Building, LLC; and
- Luminis Health Doctors Community Medical Center, Inc. (LHDCMC) and its subsidiaries: Doctor's Community Medical Center Foundation, Inc. and Doctor's Community Health Ventures, Inc.

LHAAMC is a private, not-for-profit corporation that operates a 397-licensed bed acute care hospital.

LHDCMC is a nonprofit corporation wholly owned that operates an acute care general hospital facility licensed for 200 beds.

On July 1, 2019, Luminis Health and LHDCMC, formerly known as Doctors Community Hospital and subsidiaries executed an affiliation agreement (the Agreement) providing for an affiliation between Luminis Health and LHDCMC and subsidiaries.

As part of the Agreement, Luminis Health committed approximately $138,000 over a five-year period in strategic investments to LHDCMC to expand healthcare services. As of June 30, 2023, Luminis Health has contributed approximately $106,790 to LHDCMC to meet the capital commitment.

The accompanying consolidated financial statements include non-controlling interests held by third parties in less than wholly owned subsidiaries.

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. In response to the pandemic, the Governor of the State of Maryland proclaimed a state of emergency and catastrophic health emergency on March 5, 2020, and effective March 16, 2020, all Maryland hospitals were ordered by the Maryland Department of Health to cease all elective and non-urgent medical procedures for the duration of the catastrophic health emergency. Effective May 7, 2020, the Maryland Department of Health allowed resumption of elective and non-urgent medical procedures, and effective May 15, 2020, major provisions of the Governor's stay-at-home order were rescinded.

As of June 30, 2023 and 2022, the System has reactivated all aspects of its healthcare operations. The success of such reactivation is subject to many factors external to Luminis Health, including potential new government-mandated prohibitions of non-essential healthcare procedures; the willingness of patients to resume preventive and elective care; availability of personal protection equipment and other supplies and drugs; and changes in clinical care and patient and caregiver safety protocols and processes required by the Centers for Disease Control and Prevention, the Occupational Health and Safety Administration, states' departments of public health and other government bodies.

Despite this, the pandemic had and continues to have an impact on Luminis Health's patient volumes and revenues for most services.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for healthcare-related expenses or lost revenues/margins attributable to coronavirus and are not required to be repaid, except where Provider Relief Funds received exceed the actual amounts of eligible healthcare-related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions.

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of healthcare providers generally. Due to the evolving nature of the pandemic, the ultimate impact to Luminis Health's operating results, including costs that may be incurred in the future and the level of utilization of services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking and savings accounts with large well-known financial institutions, money market accounts, and short-term certificates of deposit with original maturities of 90 days or less, excluding those held in short-term investments and those classified as long-term investments. Cash balances are principally uninsured and are subject to normal credit risks. At June 30, 2023 and 2022, and at various times during the year, the System maintained cash-in-bank balances in excess of the $250 federally insured limits. The System believes it is not exposed to any significant credit risk on its cash deposits.

(Dollars in thousands)

(c) Derivative Instruments

On May 10, 2006, LHAAMC entered into a forward variable-to-fixed interest rate swap agreement with an effective date of November 1, 2008. This contract was entered into in an effort to reduce the risk of variable interest rate debt and has a term through July 1, 2048. Under Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, LHAAMC has recognized its derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. As these derivative instruments are not designated as hedges, the realized and unrealized gain or loss on these contracts has been recognized on the accompanying consolidated statements of operations as realized and unrealized gains on interest rate swap contracts, net. The fair market values of the derivative instruments include a credit valuation adjustment (CVA) as required by ASC 820, *Fair Value Measurement*. When applying the CVA, the valuation of the variable-to-fixed interest rate swap contract was decreased by $3,767 and $3,424 as of June 30, 2023 and 2022, respectively.

In an effort to reduce the amount of restricted cash pledged as collateral with the original counterparty, LHAAMC entered into a new novation agreement with another counterparty on February 10, 2021. Immediately prior to the novation agreement, the System modified the existing swap to bifurcate the remaining swap into a 10-year swap with the remainder into a 2031 through 2048 swap. The terms of the bifurcated swap remain identical to the original swap other than a modification of the London Interbank Offered Rate (LIBOR).

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

		Fair value liability	
Description of derivative instrument		**2023**	**2022**
Variable-to-fixed interest rate swap contract (maturity date March 2031)	$	(17,098)	(30,064)
Variable-to-fixed interest rate swap contract (maturity date July 2048)		(19,788)	(21,858)
	$	(36,886)	(51,922)

The change in unrealized gains recognized in the deficit of revenues over expenses for the years ended June 30, 2023 and 2022, were $15,036 and $38,089, respectively.

At June 30, 2023 and 2022, the net terminal value (i.e., mark-to-market value) of the derivative instruments totaled $41,862 and $58,192, respectively. LHAAMC may be exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreements, the risk of which is reflected in the fair value of the instruments under ASC 820. However, LHAAMC does not anticipate nonperformance by the counterparty.

During fiscal year 2023 and 2022, LHAAMC paid net payments under its interest rate swap program of $2,913 and $6,994, respectively. These amounts are included within realized and unrealized gains on interest rate swap contracts, net on the accompanying consolidated statements of operations and within investing activities on the accompanying consolidated statements of cash flows.

Under the derivative contracts, LHAAMC must transfer collateral for the benefit of the counterparty, to the extent that the termination values exceed certain limits. LHAAMC's collateral requirement for the benefit of the counterparty was approximately $5,818 and $10,193 at June 30, 2023 and 2022, respectively. The ongoing mark-to-market values and resulting collateral requirements of LHAAMC's interest rate swap contracts are subject to variability based on market factors (primarily changes in interest rates). Collateral requirements under this interest rate swap contract are excluded from unrestricted cash and investments for purposes of determining the System's compliance with its liquidity covenants under its Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) revenue bond agreements and its derivative agreements. Collateral amounts are included in noncurrent assets on the accompanying consolidated balance sheets.

(d) Assets Whose Use is Limited and Investments

Assets whose use is limited are principally composed of funds which related to the issuance of the Luminis Health's revenue bonds, investments held at Cottage, and certain permanently restricted endowment assets.

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

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

All investment balances are principally uninsured and subject to normal credit risk. Investments are classified as either current or noncurrent based on the maturity dates and the availability for current operations. Investments included in noncurrent assets consist of board-designated investment funds of $452,206 and $408,188 as of June 30, 2023 and 2022, respectively. Based on the System's investment policy, such amounts could be liquidated, at the discretion of the board, to satisfy short-term requirements.

Substantially all investments, other than borrowed funds required to be expended for capital projects, are classified as trading securities, with unrealized gains and losses included in deficit of revenues over expenses. Borrowed funds required to be expended for capital projects are classified as other-than-trading and are included in assets whose use is limited.

(e) Patient Receivables

Patient receivables are recorded at net realizable value and include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid, and other insurers. The provision for price concessions is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare 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 results of this review are then used to make any modifications to the provision for price concessions. During the year ended June 30, 2023, the System experienced a decline in collections compared to historical amounts. As a result, the System recorded a change in estimate that reduced the fiscal year 2023 revenues by approximately $22,000, which related to the prior year accounts receivables. Patient accounts receivable is written off after collection efforts have been followed in accordance with System policies. See note 2(j) for revenue recognition policies.

(f) Inventories and Supplies

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

(g) Property and Equipment

Property and equipment are stated at cost; or fair value as of the acquisition date for LHDCMC property and equipment. Included in computers and software are capitalized labor costs of $17,196 and $16,722 as of June 30, 2023 and 2022, respectively. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight- line method. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization on the accompanying consolidated statements of operations. Depreciation expense is $37,106 and $45,164 for the years ended June 30, 2023 and 2022, respectively.

(Dollars in thousands)

The following is a summary of property and equipment:

	Estimated useful lives		June 30 2023	2022
Land		$	22,823	22,823
Land improvements	5–50 years		23,392	24,054
Buildings and improvements	10–80 years		650,226	620,324
Fixed equipment	5–20 years		24,737	32,206
Leasehold improvements	Life of lease or asset category		54,247	62,462
Movable equipment	5–20 years		245,678	254,007
Computers and software	3–12 years		118,461	135,157
Construction-in-progress			10,778	18,661
		$	1,150,342	1,169,694

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

(h) Investments in Joint Ventures

Luminis Health accounts for its investments in joint ventures using either the cost method or equity method, as appropriate. Earnings on the joint ventures are included in other income (loss) in the consolidated statements of operations.

During 2011, the Real Estate Company and another party formed West County, LLC, a joint venture that owns and operates a medical office building that opened in December 2012. The Real Estate Company has a 50% interest in this joint venture, with each owner’s investment being $6,096 and $6,491 as of June 30, 2023 and 2022, respectively. The investment in West County is not consolidated into the financial statements of Luminis Health, because Luminis Health does not control the investee.

DCHV has an equity method joint venture investment in Magnolia Gardens LLC of $5,357 and $5,364 as of June 30, 2023 and 2022, respectively. This investment is consistent with the mission and strategic plan of LHDCMC. The investment in Magnolia Gardens LLC represents a 51% interest and is not consolidated with the financial statements of Luminis Health because DCHV does not control the investee.

Luminis Health has several other unconsolidated joint ventures for dialysis services, ambulatory surgery centers, and hospice services accounted for using the equity method, totaling approximately $1,372 and $1,128 as of June 30, 2023 and 2022, respectively.

(i) Net Assets

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

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

Investment income related to net assets with donor restrictions is classified as net assets with donor restrictions based on the intent of the donor.

(j) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. This includes regulatory discounts allowed to Blue Cross, Medicare, Medicaid, and other third-party payors and charity care. Revenues are recorded during the period the obligations to provide healthcare services are satisfied. The majority of the System’s healthcare services that are not capable of being distinct and as such, are treated as a single performance obligation satisfied over time as services are rendered. The System also provides certain ancillary services that are not included in the bundle of services, and as such, are treated as separate performance obligations satisfied at a point in time, if and when, those services are rendered. The contractual relationship with patients, in most cases, also involve a third- party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third- party payors. The payment arrangements with third-party payors for services provided to patients typically specify payments at amounts less than standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

Luminis Health’s net patient service revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements and are recognized as explicit price concessions. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have healthcare coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect. Subsequent changes in the estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses, which is included in purchased services on the consolidated statements of operations.

(Dollars in thousands)

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

Except as noted above, LHAAMC and LHDCMC's policy is to recognize revenue based on actual charges for services to patients in the year in which the services are performed.

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

	Year ended June 30	
	2023	**2022**
Gross patient service revenue	$ 1,496,499	1,419,534
Revenue deductions:		
Charity care	(22,387)	(14,873)
Price concessions	(402,990)	(318,339)
Net patient service revenue	$ 1,071,122	1,086,322

During 2023 and 2022, approximately 33% and 30%, respectively, of net patient service revenue was received under the Medicare program, 22% and 25% from Blue Cross, 37% and 35% from contracts with other third parties, 3% and 6% from Medicaid, and 5% and 4% from other sources, including self-pay.

The System's revenues also may be subject to adjustment as a result of examination by government agencies or contractors and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections; business and economic conditions; trends in federal, state, and private employer healthcare coverage; and other collection indicators. Management uses the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of the System's revenues and patient receivable as a primary source of information in estimating the collectability of patient receivable.

Luminis Health employs physicians in several hospital-based specialties (including, but not limited to, obstetrics, intensive care, and hospitalists). Net physician revenue is recognized when the services are provided and recorded at the estimated net realizable amount based on the contractual arrangements with third-party payors and the expected payments from the third-party payors and the patients. The difference between the billed charges and the estimated net realizable amounts are recorded as a reduction in physician revenue when the services are provided. The System recognized net physician revenue of $177,594 and $176,656 for the years ended June 30, 2023 and 2022, respectively, which is included in net patient service revenue. At June 30, 2023 and 2022, $15,578 and $14,997, respectively, of net physician accounts receivable are included in patient receivables on the accompanying consolidated balance sheets.

(k) Maryland Health Services Cost Review Commission

LHAAMC and LHDCMC's rate structure for all hospital-based services is subject to review and approval by the HSCRC. Under the HSCRC rate-setting system, the Hospital's inpatient and outpatient charges are the same for all patients, regardless of payor, including Medicare and Medicaid. Beginning in fiscal year 2014, LHAAMC and LHDCMC entered into an agreement with the HSCRC to participate in the Global Budget Revenue (GBR) program. The GBR model is a revenue constraint and quality improvement system to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. Under the GBR, total revenue is capped at a predetermined fixed amount. The annual approved revenue is calculated using a permanent base revenue with positive or negative adjustments for inflation, assessments, performance in quality-based programs, infrastructure requirements, and population. Revenue may also be adjusted annually for market share levels and shifts of regulated services to unregulated settings.

Starting in January 2019, Maryland's hospitals began operating under a new 10-year contract with the federal government titled Medicare Performance Adjustment (MPA). The MPA is designed to test whether the improvements hospitals have made under the previous modernized waiver can be expanded to all healthcare providers. The GBR methodology will remain in place for hospital rate setting under the MPA. In addition, programs aimed to measure and reduce total healthcare spending for attributed Medicare patients, including pre- and post-acute care by all providers, are being introduced during this contract period.

The Commission's rate-setting methodology compares Global Budget Revenue to actual revenue. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

(l) Charity Care

Luminis Health provides charity care to patients who meet certain criteria established under its charity care guidelines. The amounts reported as charity care represent the costs of rendering such services and are calculated by applying a ratio of operating expenses over gross patient charges to the charity care provided at established rates. Because members of Luminis Health do not pursue the collection of amounts determined to qualify as charity care, these amounts are deducted from gross revenues on the accompanying consolidated statements of operations. The total benefits associated with providing this care, at cost, are $22,387 and $14,873 for the years ended June 30, 2023 and 2022, respectively.

(m) Other Operating Revenue

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

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, including the Provider Relief Fund (PRF) under the CARES Act discussed previously. Payments received from the Provider Relief Fund shall reimburse the recipient for healthcare-related expenses or lost revenues attributable to the COVID-19 pandemic and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The System has received and recognized approximately $0 and $7,056 in PRF stimulus funding for the years ended June 30, 2023 and 2022, respectively, that has been recorded within other revenue in the accompanying consolidated statements of operations. The System recognized these amounts based on its evaluation of the terms and conditions prescribed by the U.S. Department of Health and Human Services. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be impacted. The System believes that it meets all the requirements for recognition.

In addition, the System has received and recognized approximately $930 and $6,100 of funds from Federal Emergency Management Agency (FEMA) for the years ended June 30, 2023 and 2022, respectively, that has been recorded in other revenue in the accompanying consolidated statements of operations.

(n) Advances From Third-Party Payors

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers.

(Continued)

(Dollars in thousands)

On April 10, 2020, the System received $151,767 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. This program provides hospitals with working capital advances that begin to become payable 120 days from the date of receipt of the funds, starting in April 2021 through an automatic reduction of claims receipts from CMS. The funds were repaid by October 2022. These funds, which represent contract liabilities as defined in ASC 606, have been recorded within advances from third-party payors on the accompanying consolidated balance sheets. The balance due to Medicare was $0 and $34,916 as of June 30, 2023 and 2022, respectively. The remaining amount of advances from third-party payors are in the ordinary course of business and due to various payors on demand.

(o) Donations and Bequests

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

Pledges receivable are discounted using rates between approximately 4% to 5% and are included in prepaids and other current assets and other assets.

(p) Deficit of Revenues Over Expenses

The accompanying consolidated statements of operations include deficit of revenues over expenses, the performance indicator. Changes in net assets without donor restrictions that are excluded from deficit of revenues over expenses, consistent with industry practice, include contributions received and used for additions of long-lived assets, capital grants, transfers and other activity, and certain changes in pension liabilities.

(q) Other Assets

Other assets consists of the following:

		June 30	
		2023	2022
Investment in Premier	$	9,165	11,972
LHAAMC pension assets		23,223	16,160
Deferred compensation plans		12,332	13,595
Insurance recoverable		15,111	18,434
Other		9,231	8,188
	$	69,062	68,349

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

The investment in Premier is based upon the fair value of the publicly traded stock as the Class B units can be converted to Class A publicly traded shares at the System's option.

(r) Goodwill and Intangibles

Other assets includes goodwill and other intangibles related to practice acquisitions, notes receivable, and the cash surrender value of split-dollar life insurance.

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. ASC Topic 350, *Intangibles – Goodwill and Other,* requires that tangible and indefinite-lived assets as well as goodwill must be analyzed in order to determine whether their value has been impaired.

Goodwill is assessed annually for impairment at the reporting unit. As of June 30, 2023 and 2022, the System had one reporting unit, which included all subsidiaries. The System first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment tests as described in ASC Topic 350. The more-likely than-not threshold is defined as having a likelihood of more than 50%. The System determined that it was not more likely than not that the fair value of its reporting unit was less than its carrying amount. Accordingly, the System concluded that goodwill was not impaired as of June 30, 2023 and 2022 without having to perform the two-step impairment test.

(s) Self-Insurance Programs

The System maintains self-insurance programs for professional and general liability, workers' compensation, and employee health benefits. The provision for estimated self-insurance program claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimates are based on historical trends, claims asserted, and reported incidents.

(t) Other Long-Term Liabilities

Other long-term liabilities consist of self-insurance liabilities, pension plan liabilities, asset retirement obligations, and deferred compensation plan liabilities.

(u) Income Tax Status

The System and its not-for-profit subsidiaries have been recognized by the Internal Revenue Service as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The System's incorporated for-profit subsidiaries account for income taxes in accordance with FASB ASC Topic 740, *Income Taxes.* Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. The System accounts for uncertain tax positions in accordance with ASC Topic 740.

Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by the System. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of June 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken. Luminis Health has recognized no interest or penalties related to uncertain tax positions. Luminis Health is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(v) Use of Estimates

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

(w) Impairment of Long-Lived Assets

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

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives. In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the System groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. The System did not record a loss on impairment during the year ended June 30, 2023 or 2022.

(x) Management's Assessment and Plans

The System adopted Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15), which requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the System's ability to continue as a going concern, and the System will continue to meet its obligations through October 5, 2024.

(y) New Accounting Standards

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying Interactions between Topic 321, Topic 323, and Topic 815*. ASU 2020-01 addresses accounting for the transition into and out of the equity method. On such an event, a description of the change in accounting principle, transition method, and affected financial statement line items must be disclosed. The ASU also provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement. The Company adopted this ASU effective July 1, 2022 with no material impact.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance,* which requires businesses to disclose information about certain government assistance they receive. The related disclosure requirements include (1) the nature of the transactions and the related accounting policy used; (2) the line items on the balance sheet and income statement that are affected and the amounts applicable to each financial statement line item; and (3) significant terms and conditions of the transactions. The Company adopted the ASU on July 1, 2022 and will apply it to any government assistance received thereafter. See note 2(m).

(z) New Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the 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, 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.

(aa) Reclassifications

Over the past several years, the System has continued to evaluate the investment portfolio and related strategy. As of July 1, 2022, the System made certain modifications to its consolidated financial statement presentation to more consistently align its presentation with other large not-for-profit healthcare organizations. As a result, the System changed the presentation of the System's cash flows from the System's investments and assets whose use is limited in the amount of $18,680 from cash flows from operating activities to cash flows from investing activities on the statement of cash flows. Such changes have been applied to the consolidated financial statements as of and for the year ended June 30, 2022.

(3) Regulatory Environment

Medicare and Medicaid

The Medicare and Medicaid reimbursement programs represent a substantial portion of Luminis Health's revenues. Luminis Health's operations are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation. Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on Luminis Health.

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

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

(Dollars in thousands)

(4) Investments and assets whose use is limited

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

	June 30	
	2023	2022
Assets whose use is limited:		
Endowment assets:		
Cash and cash equivalents	$ 2,046	1,898
Equity mutual funds	10,730	10,347
Fixed income mutual funds	5,488	5,154
	18,264	17,399
Amounts held by trustee:		
Cash and cash equivalents	7,664	10,810
	7,664	10,810
Amounts held by Cottage:		
Cash and cash equivalents	12,748	4,956
Exchange traded funds	5,337	7,187
Equity mutual funds	12,017	7,862
Fixed income mutual funds	14,624	12,923
	44,726	32,928
Total assets whose use is limited	70,654	61,137
Less current portion	19,015	15,766
	$ 51,639	45,371

Amounts held by the trustee are broken down as follows:

	June 30	
	2023	2022
Lease escrow	$ —	1,463
Bond indenture	7,664	9,347
	$ 7,664	10,810

(Continued)

(Dollars in thousands)

Other investments:

		June 30	
		2023	**2022**
Cash and cash equivalents	$	28,539	22,317
Equity mutual funds		216,254	206,920
Fixed income mutual funds		137,188	114,781
Alternative investments		70,760	69,449
		452,741	413,467
Less short-term investments		535	5,279
Investments	$	452,206	408,188

The components of investment income, net are as follows:

		June 30	
		2023	**2022**
Interest and dividend income, net	$	8,641	6,003
Realized gains, net		13,064	19,868
	$	21,705	25,871

Environmental, social and governance (ESG) issues can impact investment risk and returns and therefore should be integrated into our investment decision processes. We integrate ESG consideration into our investment process and take steps to manage them appropriate to the asset class and the materiality of the investment. We review ESG integration of our external managers both on selection and as part of the regular review process. We monitor our portfolios for material ESG issues and take steps to manage them appropriate to each asset class.

(5) Fair Value Measurements

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

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

(Dollars in thousands)

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

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

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

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

	June 30, 2023			
Assets	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 50,997	50,997	—	—
Equity securities	244,338	232,321	12,017	—
Fixed income securities	157,300	142,676	14,624	—
Total	452,635	425,994	26,641	—
Collateral for interest rate swap:				
Cash and cash equivalents	5,818	5,818	—	—
Total assets at fair value	458,453	$ 431,812	26,641	—
Assets at NAV	70,760			
Total assets	$ 529,213			
Liabilities				
Derivative instruments	$ (36,886)	—	(36,886)	—
Total liabilities at fair value	$ (36,886)	—	(36,886)	—

(Dollars in thousands)

	June 30, 2022			
Assets	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 39,975	39,975	—	—
Equity securities	232,317	224,455	7,862	—
Fixed income securities	132,858	119,935	12,923	—
Total	405,150	384,365	20,785	—
Pledges receivable	1,981	—	—	1,981
Collateral for interest rate swap:				
Cash and cash equivalents	10,193	10,193	—	—
Total assets at fair value	417,324	$ 394,558	20,785	1,981
Assets at NAV	69,449			
Total assets	$ 486,773			
Liabilities				
Derivative instruments	$ (51,922)	—	(51,922)	—
Total liabilities at fair value	$ (51,922)	—	(51,922)	—

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

Luminis Health’s Level 2 securities primarily consist of equity and fixed income securities. Luminis Health determines the estimated fair value for these Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curve volatilities, default rates), and inputs that are derived principally from or corroborated by other observable market data.

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

(Dollars in thousands)

LHAAMC's alternative investments consist of the following: a fund focused in North American midstream, listed and energy infrastructure and renewables markets, with a focus on income-oriented securities (30 day liquidity) venture capital fund-of-funds taking a globally diversified approach targeting multiple venture capital investment types, stages, sectors and geographies, a private equity fund-of-funds focused exclusively on the lower middle-market segment in the U.S. and consisting of both fund commitments and co-investments, a private equity fund with a focus on long-term fundamental value creation by investing in businesses that can grow profitably over time and sustain value through volatile conditions and strategic healthcare venture fund investing in healthcare information technology and services and medical devices and diagnostics. The private equity and venture capital funds totaling approximately $33,500 and $35,000 at June 30, 2023 and 2022, respectively, are subject to lock-up of greater than one year. Unfunded commitments as of June 30, 2023 are approximately $11,800.

Alternative investments are measured using NAV as the practical expedient. Certain alternative investments require written notification over a certain period prior to redemption.

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

	Year ended June 30	
	2023	**2022**
Balance at July 1	$ 1,981	2,974
New pledges	1,771	469
Collections of pledges	(1,203)	(970)
Write-off of pledges	(15)	(244)
Change in reserves	—	(248)
Balance at June 30	$ 2,534	1,981

(Dollars in thousands)

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

2024	$	1,927
2025		473
2026		429
2027		402
2028 and thereafter		434
Less:		
Impact of discounting pledges receivable to net present value		(376)
Allowance for uncollectible pledges		(755)
Net pledges receivable	$	2,534

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

Investments and Assets Whose Use is Limited

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

Pledges Receivable

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

(Continued)

(Dollars in thousands)

(6) Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	Interest rate	Maturity dates	June 30 2023	June 30 2022
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (MHHEFA) – Series 2022A	Variable	2040–2043	$ 60,220	60,220
Series 2022B	2.52 %	2024–2035	49,100	49,100
Series 2022C	2.27 %	2026–2040	108,895	108,895
Series 2017	2.0%–5.0%	2018–2043	50,370	52,595
Series 2014	2.0%–5.0%	2015–2040	5,825	8,475
Series 2012	2.0%–5.0%	2013–2035	—	3,150
Series 2017B	2.18 %	2024	10,735	15,020
Series 2016A	2.53 %	2030	30,240	31,141
Series 2017A	5.00 %	2031–2038	64,165	64,165
Kent Island bank term loan	Variable	2023	4,589	4,831
Real estate loan	Variable	2028	44,923	48,565
			429,062	446,157
Less current portion of long-term debt			22,457	21,699
Less deferred debt issue costs			1,219	1,369
Unamortized original issue premium, net			10,402	11,650
Long-term debt			$ 415,788	434,739

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

Principal payments due under all debt instruments as of June 30, 2023, are as follows:

2024	$ 22,457
2025	18,827
2026	19,602
2027	20,407
2028	20,747
Thereafter	327,022
	$ 429,062

(a) Series 2022 Bonds

In February 2022, Luminis Health entered into a loan agreement with MHHEFA supported by three financing agreements with commercial lenders. The proceeds of these direct placement bonds were utilized to refund certain prior Revenue Bonds as follows:

a) 2022A Variable Rate Tax-Exempt Bonds refunded $60,000 2009B Series Revenue Bonds and extended the committed period of this issuance to 2032. Interest, at Bloomberg Short-Term Bank Yield Index (BSBY) plus a credit spread, is payable monthly and principal is due annually on July 1.

b) 2022B Fixed Rate Taxable issuance, which refunded $49,100 of the 2012 Series Revenue Bonds. Interest is payable monthly at a stated rate of 2.52% and principal is due annually on July 1. On the call date, July 1, 2022, the issuance was converted to tax-exempt rate at 1.99%.

c) 2022C Fixed Rate Taxable issuance, which refunded $108,895 of the 2014 Series Revenue Bonds. Interest is payable semiannually at a stated rate of 2.27% and principal is due annually on July 1. On the call date, July 1, 2024, the issuance is expected to be converted to tax-exempt rate at 1.79%.

In connection with the issuance of the 2022 Bonds, deferred financing costs and premiums related to the 2009B, 2012 and 2014 Series Bonds were written off as loss on early extinguishment of bonds in the amount of $2,320.

(b) Series 2017 Revenue Bonds

In November 2017, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of the Series 2017 A&B Revenue Bonds (the "2017 A&B Bonds"). The proceeds of the 2017 A&B Bonds were used to advance refund the Series 2010 Bonds previously issued by MHHEFA. The refunded Series 2010 Bonds were originally issued to finance the expansion of the parking garage for LHAAMC's acute care pavilion, and costs related to the issuance. The 2017 A&B Bonds provide for annual principal payments each July 1 from 2022 through 2043. Interest is payable semi-annually on each January 1 and July 1. The 2017 A&B Bonds bear interest at rates between 2.00% and 5.00% and were originally issued at a premium of $4,590, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

(c) Series 2014 Revenue Bonds

In November 2014, LHAAMC entered into a loan agreement with the MHHEFA for the issuance of the Series 2014 Revenue Bonds (the "2014 Bonds"). The proceeds of the 2014 Bonds were used to advance refund the Series 2009A Bonds previously issued by MHHEFA. The refunded Series 2009A Bonds were originally issued to finance a portion of the costs of construction for an eight-story patient care building, two parking garages, and costs related to the issuance. The 2014 Bonds provide for annual principal payments each July 1 from 2022 through 2024. Interest is payable semiannually each January 1 and July 1. The 2014 Bonds bear interest at rates of 2.00–5.00% and were originally issued at a premium of $7,520, which is amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The amount outstanding of the Series 2014 Revenue Bonds was reduced to $8,475 through the issuance of the Series 2022C Bonds.

(d) Series 2012 Revenue Bonds

In October 2012, LHAAMC entered into a loan agreement with MHHEFA for the issuance of the Series 2012 Revenue Bonds (the ”2012 Bonds”). The proceeds of the 2012 Bonds were used to refund the Series 2004A Bonds and 1998 Bonds previously issued by the Authority. The refunded bonds were originally issued to finance a new replacement hospital (Series 1998 Bonds) and to finance major renovations to LHAAMC's Cancer Center and land acquisition (Series 2004A Bonds). The 2012 Bonds provide for annual principal payments each July 1 through 2022. Interest is payable semiannually on each January 1 and July 1. The 2012 Bonds bear interest at rates of 2.00–5.00% and were originally issued at a premium of $6,746. The remaining outstanding amount of the 2012 Revenue Bonds was repaid on July 1, 2022.

(e) Series 2016A and 2017B Revenue Bonds

On June 28, 2016, MHHEFA issued $73,445 principal amount of Revenue Bonds, Doctor's Community Hospital Series 2016A Bonds ($31,945), and Series 2016B Taxable Bonds ($41,500). The proceeds of these bonds were used to retire the Series 2007A Bonds and Series 2010 Bonds (partial) previously issued by the Authority. On March 23, 2017, the Series 2016B Bonds were converted to Series 2017B Bonds as planned. The 2016A Bonds provide for monthly principal and interest payments through July 1, 2030. The 2017B Bonds provide for monthly principal and interest payments through October 1, 2024. The 2016A Bonds and 2017B Bonds bear interest at a rates of 2.53% and 2.18%, respectively.

(f) Series 2017A Revenue Bonds

On February 8, 2017, MHHEFA issued $64,165 principal amount of Revenue Bonds, Doctor's Community Hospital Series 2017A. The proceeds of these bonds were used to retire the remainder of the Series 2010 Bonds previously issued by the Authority. The 2017A Bonds provide for annual principal payments each July 1 from 2031 through 2038. Interest is payable semiannually on each January 1 and July 1. The 2012 Bonds bear stated interest rates of 5.00% and were issued at a premium of $4,144.

The provisions of the Master Loan Agreement with MHHEFA, require Luminis Health and certain subsidiaries to comply with certain covenants on an annual basis, including a debt service coverage requirement. Luminis Health, LHAAMC, LHI and LHDCMC are members of the Luminis Health Obligated Group for all of the above stated revenue bonds issued by MHHEFA.

(g) Bank Lines of Credit

LHAAMC maintains a line of credit with a bank providing available credit of $50,000 (raised to $70,000 during 2023), which is reviewed annually for renewal. Interest on any borrowings accrues at the one-month LIBOR plus 0.75%. At June 30, 2023 and 2022, LHAAMC had no balance outstanding on the line of credit.

In February 2022, LHDCMC entered into a $17,000 line of credit agreement and immediately drew upon this line to accomplish certain purposes related to the 2022 Series Bond issuance. Interest on any borrowing accrues at the Secured Overnight Financing Rate (SOFR) plus 0.80%. At June 30, 2023 and 2022, LHDCMC had no outstanding balance on this line of credit and this was subsequently terminated.

(h) Real Estate Loan

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

(i) Kent Island Term Loan

In August 2007, Kent Island Medical Arts (KIMA) entered into a construction loan agreement with a bank in the amount of $9,000 that would convert to a term loan after the completion of the construction. The proceeds were used to construct a medical office building. The debt was secured by the medical office building.

On May 9, 2017, KIMA refinanced the term loan with a $6,567 promissory note. The promissory note provides for monthly principal and interest payments and has a final maturity of December 2023. The promissory note bears interest at a variable rate, based on the 30-day LIBOR plus 1.20%.

(7) Retirement Plans

Anne Arundel Medical Center Plan

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

(Dollars in thousands)

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

		June 30	
		2023	**2022**
Accumulated benefit obligation	$	92,830	102,248
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	102,248	126,360
Service cost		—	—
Interest cost		4,523	3,118
Actuarial loss		(5,325)	(17,470)
Benefits paid		(2,709)	(2,602)
Settlements paid		(5,907)	(7,158)
Projected benefit obligation at end of year		92,830	102,248
Change in plan assets:			
Fair value of plan assets at beginning of year		118,408	140,788
Actual return on plan assets		6,261	(15,020)
Employer contribution		—	2,400
Benefits paid		(2,709)	(2,602)
Settlements paid		(5,907)	(7,158)
Fair value of plan assets at end of year		116,053	118,408
Net asset recognized in other assets	$	23,223	16,160
Net amounts recognized on the consolidated balance sheets consist of:			
Prepaid pension costs	$	23,223	16,160
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:			
Net actuarial loss	$	54,342	64,444

(Continued)

(Dollars in thousands)

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

	June 30	
	2023	**2022**
Discount rate	5.15 %	4.50 %
Rate of compensation increase	N/A	N/A

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

	Year ended June 30	
	2023	**2022**
Discount rate	4.73 %	2.58 %
Expected return on plan assets	5.00	5.50
Rate of compensation increase	N/A	N/A

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

		June 30	
		2023	**2022**
Service cost	$	—	—
Interest cost		4,523	3,118
Expected return on plan assets		(6,271)	(7,250)
Recognized net actuarial loss		1,251	1,856
Loss recognized from partial settlement of projected benefit obligation		3,537	4,188
Net periodic cost	$	3,040	1,912

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

(Dollars in thousands)

LHAAMC's target asset allocation percentages as of June 30, 2023, were as follows: 80% fixed income, 4% international equity, 5% large cap domestic stocks, 1% small cap domestic stocks, and 10% alternative investments and exchange-traded notes.

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

	June 30, 2023			
Assets	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash and cash equivalents	$ 662	—	662	—
Mutual funds:				
Equity	13,251	13,251	—	—
Corporate bonds	94,303	94,303	—	—
International equity	—	—	—	—
Closed-end funds ETF	5,880	5,880	—	—
Assets measured at fair value	114,096	$ 113,434	662	—
Assets at NAV	1,957			
Total assets	$ 116,053			

	June 30, 2022			
Assets	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash and cash equivalents	$ 1,630	—	1,630	—
Mutual funds:				
Equity	17,275	17,275	—	—
Corporate bonds	76,673	76,673	—	—
International equity	5,936	5,936	—	—
Closed-end funds ETF	6,068	6,068	—	—
Assets measured at fair value	107,582	$ 105,952	1,630	—
Assets at NAV	10,826			
Total assets	$ 118,408			

(Continued)

(Dollars in thousands)

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

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

LHAAMC currently does not intend to make voluntary contributions to the defined benefit pension plan in fiscal year 2023.

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

2024	$	6,917
2025		6,575
2026		7,704
2027		6,229
2028		7,233
2029–2033		29,799

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

In 2023, there were several plan amendments for the 403(b) retirement plan. The Anne Arundel Medical Center Employees' Salary Reduction Thrift Plan was renamed the Luminis Health Retirement Plan. Additional amendments to the 403(b) plan included allowing LHDCMC participants to participate in the plan as well as naming Luminis Health (formerly AAMC) as the employer of record for all participants in the plan.

Matching contributions under this defined contribution 403(b) plan were $11,085 and $9,928 in fiscal years 2023 and 2022, respectively.

Doctors Community Hospital Plan

LHDCMC froze the defined benefit pension plan that it sponsors (the LHDCMC Plan) in 2011, which covered substantially all employees. The benefits are based on years of service and employee compensation during years of employment. LHDCMC's funding policy is to make sufficient contributions to the LHDCMC Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). LHDCMC does not expect to contribute to the LHDCMC Plan during 2023 to keep the funding levels at the ERISA requirements. The measurement date of the LHDCMC Plan is June 30.

(Dollars in thousands)

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

		June 30	
		2023	2022
Accumulated benefit obligation	$	17,917	18,412
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	18,412	21,988
Service cost		270	—
Interest cost		744	476
Settlement loss		—	(3)
Actuarial loss		(173)	(2,837)
Benefits paid		(1,336)	(152)
Settlements paid		—	(1,060)
Projected benefit obligation at end of year		17,917	18,412
Change in plan assets:			
Fair value of plan assets at beginning of year		15,769	19,787
Actual return on plan assets		1,187	(3,054)
Employer contribution		—	248
Benefits paid		(1,055)	(152)
Settlements paid		(280)	(1,060)
Fair value of plan assets at end of year		15,621	15,769
Net liability recognized	$	2,296	2,643
Net amounts recognized on the consolidated balance sheets consist of:			
Accrued pension costs	$	(2,296)	(2,643)
Amounts recognized in net assets without donor restrictions that have not been recognized in net periodic benefit costs consist of:			
Net actuarial loss	$	5,207	6,549

(Dollars in thousands)

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

	June 30	
	2023	2022
Discount rate	4.85 %	4.25 %
Rate of compensation increase	N/A	N/A

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

	Year ended June 30	
	2023	2022
Discount rate	4.25 %	2.30 %
Expected return on plan assets	6.00	6.00
Rate of compensation increase	N/A	N/A

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

	June 30	
	2023	2022
Service cost	$ 270	—
Interest cost	744	476
Expected return on plan assets	(557)	(1,121)
Recognized net actuarial loss	537	419
Effect of settlement	—	377
Net periodic cost	$ 994	151

LHDCMC's target asset allocation percentages as of June 30, 2023, were as follows: 65% fixed income, 5% international equity, 15% large cap domestic stocks, and 15% small cap domestic stocks.

(Continued)

(Dollars in thousands)

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

	June 30, 2023			
	Total	Quoted Prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Mutual funds:				
U.S. common stock	$ 7,293	7,293	—	—
Corporate bonds	7,405	7,405	—	—
International equity	923	923	—	—
Assets measured at fair value	$ 15,621	15,621	—	—

	June 30, 2022			
	Total	Quoted Prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Mutual funds:				
U.S. common stock	$ 6,332	6,332	—	—
Corporate bonds	8,624	8,624	—	—
International equity	813	813	—	—
Assets measured at fair value	$ 15,769	15,769	—	—

(Dollars in thousands)

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

2024	$	2,075
2025		1,385
2026		1,460
2027		1,376
2028		1,218
2029–2033		5,570

LHDCMC has a 403(b) defined-contribution plan (the contribution plan) covering substantially all its employees. The contribution plan is employee and employer contributory. LHDCMC contributed a match of $0.50 for every $1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to $2,639 and $1,694 for 2023 and 2022, respectively.

LHDCMC has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying consolidated balance sheets. The associated liability of an equal amount is included in other liabilities on the accompanying consolidated balance sheets. The liability recorded regarding the deferred compensation was $2,974 and $3,694 as of June 30, 2023 and 2022, respectively.

LHDCMC is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by LHDCMC under the insurance contracts are approximately $9,010 as of June 30, 2023 and 2022, are included in other assets on the consolidated balance sheets.

(8) Concentrations of Credit Risk

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

	June 30	
	2023	2022
Medicare	23 %	23 %
Medicaid	5	4
Blue Cross	16	15
Commercial, HMO, PPO, and other	39	39
Patients	17	19
	100 %	100 %

(Dollars in thousands)

(9) Malpractice Insurance Costs and Self-Insured Professional Liability

Luminis Health maintains self-insurance programs for professional and general liability risks, employee health and workers' compensation claims. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30 were as follows:

Professional and general liability	$	76,297	66,273
Employee health		4,547	3,954
Workers' compensation		2,442	2,913
Total self-insurance liabilities		83,286	73,140
Less current portion		27,357	25,688
Total self-insurance liabilities, net of current portion	$	55,929	47,452

Claims are administered through an offshore wholly owned captive insurance company, Cottage. Assets are available under the professional and general program to provide specified levels of claims-made coverage for claims with excess layers reinsured through highly rated commercial carriers.

(10) Commitments and Contingencies

Leases

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

Financing lease assets	Right-of-use assets	$	7,876	—
Operating lease assets	Right-of-use assets		36,735	43,997
Total leased assets		$	44,611	43,997
Liabilities:				
Operating lease liabilities:				
Current	Lease liability short term	$	6,320	7,348
Long term	Lease liability long term		32,278	38,577
Financing lease liabilities:				
Current	Lease liability short term		494	498
Long term	Lease liability long term		6,952	3,003
Total lease liabilities		$	46,044	49,426

Luminis Health determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent Luminis Health's right to use the underlying assets for the lease term and the lease liabilities represent Luminis Health's obligation to make lease payments arising from the leases. Right-of-use assets

(Continued)

and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Luminis Health uses a risk-free discount rate that is determined using Treasury securities of a comparable term to that of its leases when acting as a lessee.

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

Real estate leases may include one or more options to renew that can extend the lease term from five to ten years. The exercise of lease renewal options is at Luminis Health's sole discretion. In general, Luminis Health does not consider renewal options to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of Luminis Health's right-of-use assets and lease liabilities. Certain equipment leases also include options to purchase the leased equipment. The useful life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Luminis Health currently does not have any leases whereby there is a transfer of title or a purchase option that is reasonably certain to be exercised; hence, all of Luminis Health's leases are depreciated over the lease term.

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

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

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

(Continued)

(Dollars in thousands)

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

		Year ended June 30	
		2023	**2022**
Operating lease expense	$	9,297	11,405
Finance lease expense:			
Amortization of leased assets		1,044	176
Interest on lease liabilities		248	24
Total finance lease expense		1,292	200
Variable lease expense		60	60
Short-term lease expense		—	—
Total lease expense	$	10,649	11,665

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

	June 30	
	2023	**2022**
Weighted average remaining lease term (years):		
Operating leases	8.1	8.5
Finance leases	5.1	6.7
Weighted average discount rate:		
Operating leases	3.5 %	3.5 %
Finance leases	5.0	2.6

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

		Year ended June 30	
		2023	**2022**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash outflows from operating leases	$	16,984	20,803
Operating cash outflows from finance leases		—	23
Financing cash inflows from finance leases		1,463	2,137
Financing cash outflows from finance leases		997	147

(Dollars in thousands)

The following table summarizes the maturity lease obligations as of June 30, 2023:

	Operating leases	Finance leases	Total
2024	$ 6,449	1,391	7,840
2025	4,741	1,458	6,199
2026	4,665	1,528	6,193
2027	4,356	1,601	5,957
2028	3,828	1,270	5,098
Thereafter	15,520	764	16,284
Total lease payments	39,559	8,012	47,571
Less imputed interest	(1,177)	(350)	(1,527)
Total lease liabilities	$ 38,382	7,662	46,044

Contingencies

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

Luminis Health's revenues may be subject to adjustment as a result of examination by government agencies or contractors, based upon differing interpretations of government regulations, medical diagnoses, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered. Section 302 of the Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare overpayments and underpayments made to providers. Management has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, management will incur additional costs to respond to requests for records and pursue the reversal of payment denials. As of June 30, 2023 and 2022, Luminis Health has recorded an estimated reserve regarding the Medicare overpayments. In the opinion of Luminis Health's management, the ultimate settlement of this matter will not have a material adverse effect on the consolidated financial position of Luminis Health.

During the year ended June 30, 2020, LHDCMC recorded an accrual related to a billing error that was self-reported to the Department of Health and Human Services. LHDCMC settled this matter during 2023 and the final resolution did not have a material adverse effect on the June 30, 2023 or 2022 consolidated financial statements.

(Dollars in thousands)

(11) Functional Expenses

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

		Healthcare services	General and administrative	Total
Year ended June 30, 2023:				
Salaries and wages	$	545,302	26,123	571,425
Employee benefits		33,166	57,771	90,937
Supplies		193,245	—	193,245
Purchased services		46,610	206,649	253,259
Depreciation and amortization		14,100	24,224	38,324
Interest		13,773		13,773
Total operating expenses	$	846,196	314,767	1,160,963
Year ended June 30, 2022:				
Salaries and wages	$	477,259	70,466	547,725
Employee benefits		27,332	59,893	87,225
Supplies		183,770	12,197	195,967
Purchased services		151,074	150,935	302,009
Depreciation and amortization		16,275	28,889	45,164
Interest		13,152	—	13,152
Total operating expenses	$	868,862	322,380	1,191,242

(12) Net Assets

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

		June 30	
		2023	2022
Hospital capital additions	$	6,729	6,631
Hospital operating programs		16,953	15,155
	$	23,682	21,786

(13) Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date are comprised of the following:

		June 30	
		2023	2022
Cash and cash equivalents	$	26,735	96,638
Short-term investments		535	5,279
Patient receivables		145,831	160,723
Investments*		381,981	408,188
Total financial assets	$	555,082	670,828

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

Luminis Health's bond covenant requires Luminis Health to maintain unrestricted cash and marketable securities on hand to meet 70 days of normal operating expenses.

(14) Subsequent Events

Luminis Health has evaluated the impact of subsequent events through October 4, 2023, representing the date at which the accompanying consolidated financial statements were issued. No events have occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Supplementary Description of Consolidating and Eliminating Entries

June 30, 2023

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

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Assets	Luminis Health Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Luminis HealthCare Enterprises, Inc. and Subsidiaries	Luminis Health Ventures, LLC and Subsidiaries	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ (4,131)	15,966	4,988	6,314	3,598	—	26,735
Short-term investments	—	535	—	—	—	—	535
Current portion of assets whose use is limited	—	6,063	1,601	—	11,351	—	19,015
Patient receivables	—	86,565	36,459	22,060	747	—	145,831
Inventories and supplies	—	8,036	4,675	1,261	—	—	13,972
Prepaid expenses and other current assets	7,241	7,419	3,902	1,091	1,733	—	21,386
Intercompany receivables/(payables)	(104,094)	72,210	(47,683)	42,950	36,617	—	—
Right-of-use assets – short term	—	420	367	452	—	—	1,239
Total current assets	(100,984)	197,214	4,309	74,128	54,046	—	228,713
Property and equipment	(253)	772,614	177,571	60,050	140,360	—	1,150,342
Less accumulated depreciation and amortization	149	(444,366)	(33,898)	(42,026)	(73,558)	—	(593,699)
Net property and equipment	(104)	328,248	143,673	18,024	66,802	—	556,643
Other assets:							
Investments	—	431,448	18,893	—	1,865	—	452,206
Investments in joint ventures	—	—	—	1,535	11,290	—	12,825
Assets whose use is limited	—	18,264	—	—	33,375	—	51,639
Restricted collateral for interest rate swap contract	—	5,818	—	—	—	—	5,818
Right-of-use assets – long term	—	5,390	15,808	14,789	7,385	—	43,372
Investment in subsidiaries	750,627	—	—	—	—	(750,627)	—
Other assets	—	32,819	22,423	1,391	12,429	—	69,062
Total assets	$ 649,539	1,019,201	205,106	109,867	187,192	(750,627)	1,420,278

(Continued)

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Liabilities and Net Assets	Luminis Health Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Luminis HealthCare Enterprises, Inc. and Subsidiaries	Luminis Health Ventures, LLC and Subsidiaries	Eliminations	Consolidated
Current liabilities:							
Accounts payable	$ 4,685	47,284	9,455	10,731	1,949	—	74,104
Accrued salaries, wages, and benefits	31,144	25,395	7,755	11,600	—	—	75,894
Other accrued expenses	(14)	18,371	5,106	2,499	689	—	26,651
Current portion of long-term debt	—	8,970	5,255	—	8,232	—	22,457
Advances from third-party payors	10	26,150	8,475	5,293	688	—	40,616
Lease liability – short term	—	1,911	1,564	1,873	1,466	—	6,814
Total current liabilities	35,825	128,081	37,610	31,996	13,024	—	246,536
Long-term liabilities:							
Long-term debt, less current portion and unamortized original issue premium	—	267,375	107,207	—	41,206	—	415,788
Interest rate swap contract	—	36,886	—	—	—	—	36,886
Accrued pension liability	—	—	2,296	—	—	—	2,296
Lease liability – long term	—	3,954	15,566	13,411	6,299	—	39,230
Other long-term liabilities	—	—	11,123	167	51,910	—	63,200
Total liabilities	35,825	436,296	173,802	45,574	112,439	—	803,936
Net assets:							
Without donor restrictions	591,004	560,480	28,679	64,293	72,455	(726,549)	590,362
Non-controlling interest	—	—	—	—	2,298	—	2,298
Total net assets without donor restrictions	591,004	560,480	28,679	64,293	74,753	(726,549)	592,660
With donor restrictions	22,710	22,425	2,625	—	—	(24,078)	23,682
Total net assets	613,714	582,905	31,304	64,293	74,753	(750,627)	616,342
Total liabilities and net assets	$ 649,539	1,019,201	205,106	109,867	187,192	(750,627)	1,420,278

See accompanying independent auditors’ report.

LUMINIS HEALTH, INC. AND SUBSIDIARIES

Supplementary Consolidating Statement of Operations

Year ended June 30, 2023

(Dollars in thousands)

		Luminis Health Inc.	Luminis Health Anne Arundel Medical Center, Inc. and Subsidiaries	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries	Luminis HealthCare Enterprises, Inc. and Subsidiaries	Luminis Health Ventures, LLC and Subsidiaries	Eliminations	Consolidated
Operating revenue:								
Net patient service revenue	$	—	628,148	228,730	208,867	5,377	—	1,071,122
Other operating revenue		—	16,332	4,692	54,142	40,984	(79,317)	36,833
Total operating revenue		—	644,480	233,422	263,009	46,361	(79,317)	1,107,955
Operating expenses:								
Salaries and wages		54,931	232,433	92,744	190,006	1,311	—	571,425
Employee benefits		9,133	42,424	16,377	22,741	262	—	90,937
Supplies		775	129,328	36,872	26,030	240	—	193,245
Purchased services		67,225	119,107	57,070	55,292	32,903	(78,338)	253,259
Foundation transfer		—	942	—	—	—	(942)	—
Depreciation and amortization		—	21,043	11,465	2,693	3,123	—	38,324
Interest		5	7,693	3,490	—	2,622	(37)	13,773
Shared services		(132,068)	102,866	29,202	—	—	—	—
Total operating expenses		1	655,836	247,220	296,762	40,461	(79,317)	1,160,963
Operating income (loss)		(1)	(11,356)	(13,798)	(33,753)	5,900	—	(53,008)
Other income (loss):								
Investment income (loss), net		(151)	20,763	(105)	—	1,198	—	21,705
Income (loss) from joint ventures and other, net		139	1,073	331	574	(433)	(155)	1,529
Pension expense, net		—	(3,040)	(994)	—	—	—	(4,034)
Change in unrealized gains on trading securities, net		—	16,529	294	—	964	—	17,787
Realized and unrealized gains on interest rate swap contracts, net		—	12,123	—	—	—	—	12,123
Total other income (loss), net		(12)	47,448	(474)	574	1,729	(155)	49,110
(Deficit) excess of revenues over expenses	$	(13)	36,092	(14,272)	(33,179)	7,629	(155)	(3,898)

See accompanying independent auditors' report.

LUMINIS HEALTH ANNE ARUNDEL MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Assets		Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Pathways, Inc.	Luminis Health J Kent McNew Family Medical Center, Inc.	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Eliminations	Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries
Current assets:							
Cash and cash equivalents	$	9,392	108	131	6,335	—	15,966
Short-term investments		83	—	—	452	—	535
Current portion of assets whose use is limited		6,063	—	—	—	—	6,063
Patient receivables		84,949	784	832	—	—	86,565
Inventories and supplies		8,036	—	—	—	—	8,036
Prepaid expenses and other current assets		4,048	—	43	3,328	—	7,419
Intercompany receivables/(payables)		115,350	(3,809)	(29,061)	(10,270)	—	72,210
Right-of-use assets – short term		420	—	—	—	—	420
Total current assets		228,341	(2,917)	(28,055)	(155)	—	197,214
Property and equipment		729,970	11,415	28,623	2,606	—	772,614
Less accumulated depreciation and amortization		(435,248)	(5,789)	(2,994)	(335)	—	(444,366)
Net property and equipment		294,722	5,626	25,629	2,271	—	328,248
Other assets:							
Investments		429,701	—	—	1,747	—	431,448
Assets whose use is limited		—	—	—	18,264	—	18,264
Beneficial interest in net assets of Anne Arundel Medical Center Foundation, Inc.		22,085	—	—	—	(22,085)	—
Restricted collateral for interest rate swap contract		5,818	—	—	—	—	5,818
Right-of-use assets – long term		5,390	—	—	—	—	5,390
Investment in subsidiaries		(216)	—	—	—	216	—
Other assets		32,638	—	—	181	—	32,819
Total assets	$	1,018,479	2,709	(2,426)	22,308	(21,869)	1,019,201

(Continued)

LUMINIS HEALTH ANNE ARUNDEL MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Liabilities and Net Assets	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Pathways, Inc.	Luminis Health J Kent McNew Family Medical Center, Inc.	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Eliminations	Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries
Current liabilities:						
Accounts payable	$ 47,164	61	44	15	—	47,284
Accrued salaries, wages, and benefits	24,931	224	169	71	—	25,395
Other accrued expenses	18,233	1	—	137	—	18,371
Current portion of long-term debt	8,970	—	—	—	—	8,970
Advances from third-party payors	26,150	—	—	—	—	26,150
Lease liability – short term	1,911	—	—	—	—	1,911
Total current liabilities	127,359	286	213	223	—	128,081
Long-term liabilities:						
Long-term debt, less current portion	267,375	—	—	—	—	267,375
Interest rate swap contract	36,886	—	—	—	—	36,886
Lease liability – long term	3,954	—	—	—	—	3,954
Total liabilities	435,574	286	213	223	—	436,296
Net assets:						
Without donor restrictions	561,600	2,423	(2,639)	363	(1,267)	560,480
Non-controlling interest	—	—	—	—	—	—
Total net assets without donor restrictions	561,600	2,423	(2,639)	363	(1,267)	560,480
With donor restrictions	21,305	—	—	21,722	(20,602)	22,425
Total net assets	582,905	2,423	(2,639)	22,085	(21,869)	582,905
Total liabilities and net assets	$ 1,018,479	2,709	(2,426)	22,308	(21,869)	1,019,201

See accompanying independent auditors' report.

LUMINIS HEALTH ANNE ARUNDEL MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Statement of Operations

Year ended June 30, 2023

(Dollars in thousands)

	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Pathways, Inc.	Luminis Health J Kent McNew Family Medical Center, Inc.	Luminis Health Anne Arundel Medical Center Foundation, Inc.	Eliminations	Luminis Health Anne Arundel Medical Center Inc. and Subsidiaries
Operating revenue:						
Net patient service revenue	$ 616,607	4,324	7,217	—	—	628,148
Other operating revenue	13,121	510	336	4,334	(1,969)	16,332
Total operating revenue	629,728	4,834	7,553	4,334	(1,969)	644,480
Operating expenses:						
Salaries and wages	222,314	4,070	4,900	1,149	—	232,433
Employee benefits	40,751	711	818	144	—	42,424
Supplies	128,690	394	207	37	—	129,328
Purchased services	114,702	935	2,019	1,451	—	119,107
Foundation transfer	—	—	—	2,911	(1,969)	942
Depreciation and amortization	19,837	314	782	110	—	21,043
Interest	7,693	—	—	—	—	7,693
Shared services	102,866	—	—	—	—	102,866
Total operating expenses	636,853	6,424	8,726	5,802	(1,969)	655,836
Operating loss	(7,125)	(1,590)	(1,173)	(1,468)	—	(11,356)
Other income (loss):						
Investment income (loss), net	20,763	—	—	—	—	20,763
Income (loss) from joint ventures and other, net	(1,689)	—	—	—	2,762	1,073
Pension expense, net	(3,040)	—	—	—	—	(3,040)
Change in unrealized gains on trading securities, net	16,529	—	—	—	—	16,529
Realized and unrealized gains on interest rate swap contracts, net	12,123	—	—	—	—	12,123
Total other income, net	44,686	—	—	—	2,762	47,448
(Deficit) excess of revenues over expenses	$ 37,561	(1,590)	(1,173)	(1,468)	2,762	36,092

See accompanying independent auditors' report.

LUMINIS HEALTH DOCTORS COMMUNITY MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Assets	Luminis Health Doctors Community Medical Center, Inc.	Doctors Community Health Ventures, Inc.	Luminis Health Doctors Community Medical Center Foundation, Inc.	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
Current assets:					
Cash and cash equivalents	$ 2,037	166	2,785	—	4,988
Short-term investments	—	—	—	—	—
Current portion of assets whose use is limited	1,601	—	—	—	1,601
Patient receivables	36,212	247	—	—	36,459
Inventories and supplies	4,675	—	—	—	4,675
Prepaid expenses and other current assets	3,242	206	454	—	3,902
Intercompany receivables/(payables)	(10,115)	(35,347)	(2,221)	—	(47,683)
Right-of-use assets – short term	367	—	—	—	367
Total current assets	38,019	(34,728)	1,018	—	4,309
Property and equipment	177,571	—	—	—	177,571
Less accumulated depreciation and amortization	(33,898)	—	—	—	(33,898)
Net property and equipment	143,673	—	—	—	143,673
Other assets:					
Investments	18,893	—	—	—	18,893
Beneficial interest in net assets of Foundation	682	—	—	(682)	—
Right-of-use assets – long term	15,808	—	—	—	15,808
Investment in subsidiaries	(33,720)	335	—	33,385	—
Other assets	20,211	2,212	—	—	22,423
Total assets	$ 203,566	(32,181)	1,018	32,703	205,106

(Continued)

LUMINIS HEALTH DOCTORS COMMUNITY MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Liabilities and Net Assets		Luminis Health Doctors Community Medical Center, Inc.	Doctors Community Health Ventures, Inc.	Luminis Health Doctors Community Medical Center Foundation, Inc.	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
Current liabilities:						
Accounts payable	$	8,871	582	2	—	9,455
Accrued salaries, wages, and benefits		7,738	—	17	—	7,755
Other accrued expenses		5,106	—	—	—	5,106
Current portion of long-term debt		5,255	—	—	—	5,255
Advances from third-party payors		7,904	571	—	—	8,475
Lease liability – short term		1,564	—	—	—	1,564
Total current liabilities		36,438	1,153	19	—	37,610
Long-term liabilities:						
Long-term debt, less current portion		107,207	—	—	—	107,207
Accrued pension liability		2,296	—	—	—	2,296
Lease liability – long term		15,566	—	—	—	15,566
Other long-term liabilities		11,072	51	—	—	11,123
Total liabilities		172,579	1,204	19	—	173,802
Net assets:						
Without donor restrictions		28,708	(33,385)	(484)	33,840	28,679
Non-controlling interest		—	—	—	—	—
Total net assets without donor restrictions		28,708	(33,385)	(484)	33,840	28,679
With donor restrictions		2,279	—	1,483	(1,137)	2,625
Total net assets		30,987	(33,385)	999	32,703	31,304
Total liabilities and net assets	$	203,566	(32,181)	1,018	32,703	205,106

See accompanying independent auditors' report.

LUMINIS HEALTH DOCTORS COMMUNITY MEDICAL CENTER, INC. AND SUBSIDIARIES

Supplementary Consolidating Statement of Operations

Year ended June 30, 2023

(Dollars in thousands)

	Luminis Health Doctors Community Medical Center, Inc.	Doctors Community Health Ventures, Inc.	Luminis Health Doctors Community Medical Center Foundation, Inc.	Eliminations	Luminis Health Doctors Community Medical Center, Inc. and Subsidiaries
Operating revenue:					
Net patient service revenue	$ 228,730	—	—	—	228,730
Other operating revenue	4,919	—	—	(227)	4,692
Total operating revenue	233,649	—	—	(227)	233,422
Operating expenses:					
Salaries and wages	92,263	—	481	—	92,744
Employee benefits	16,301	—	76	—	16,377
Supplies	36,869	—	3	—	36,872
Purchased services	57,122	—	172	(224)	57,070
Foundation transfer	—	—	3	(3)	—
Depreciation and amortization	11,465	—	—	—	11,465
Interest	3,490	—	—	—	3,490
Shared services	29,202	—	—	—	29,202
Total operating expenses	246,712	—	735	(227)	247,220
Operating loss	(13,063)	—	(735)	—	(13,798)
Other income (loss):					
Investment income (loss), net	(105)	—	—	—	(105)
Income (loss) from joint ventures and other, net	331	671	—	(671)	331
Pension expense, net	(994)	—	—	—	(994)
Change in unrealized gains on trading securities, net	294	—	—	—	294
Total other income (loss), net	(474)	671	—	(671)	(474)
(Deficit) excess of revenues over expenses	$ (13,537)	671	(735)	(671)	(14,272)

See accompanying independent auditors' report.

LUMINIS HEALTH OBLIGATED GROUP

Supplementary Combining Balance Sheet

June 30, 2023

(Dollars in thousands)

Assets		Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
Current assets:							
Cash and cash equivalents	$	(4,131)	9,392	860	2,037	—	8,158
Short-term investments		—	83	—	—	—	83
Current portion of assets whose use is limited		—	6,063	—	1,601	—	7,664
Patient receivables		—	84,949	4,790	36,212	—	125,951
Inventories and supplies		—	8,036	—	4,675	—	12,711
Prepaid expenses and other current assets		7,241	4,048	68	3,242	—	14,599
Intercompany receivables/(payables)		(104,094)	115,350	107,882	(10,115)	—	109,023
Right-of-use assets – short term		—	420	445	367	—	1,232
Total current assets		(100,984)	228,341	114,045	38,019	—	279,421
Property and equipment		(253)	729,970	27,212	177,571	—	934,500
Less accumulated depreciation and amortization		149	(435,248)	(21,025)	(33,898)	—	(490,022)
Net property and equipment		(104)	294,722	6,187	143,673	—	444,478
Other assets:							
Investments		—	429,701	—	18,893		448,594
Assets whose use is limited		—	—	—	—	—	—
Beneficial interest in net assets of the Foundation		—	22,085	—	682	—	22,767
Restricted collateral for interest rate swap contract		—	5,818	—	—		5,818
Right-of-use assets – long term		—	5,390	3,218	15,808		24,416
Investment in subsidiaries		750,627	(216)	—	(33,720)	(729,591)	(12,900)
Other assets		—	32,638	—	20,211	—	52,849
Total assets	$	649,539	1,018,479	123,450	203,566	(729,591)	1,265,443

(Continued)

LUMINIS HEALTH OBLIGATED GROUP

Supplementary Combining Balance Sheet

June 30, 2023

(Dollars in thousands)

Liabilities and Net Assets	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
Current liabilities:						
Accounts payable	$ 4,685	47,164	3,978	8,871	—	64,698
Accrued salaries, wages, and benefits	31,144	24,931	544	7,738	—	64,357
Other accrued expenses	(14)	18,233	—	5,106	—	23,325
Current portion of long-term debt	—	8,970	—	5,255	—	14,225
Advances from third-party payors	10	26,150	—	7,904	—	34,064
Lease liability – short term	—	1,911	48	1,564	—	3,523
Total current liabilities	35,825	127,359	4,570	36,438	—	204,192
Long-term liabilities:						
Long-term debt, less current portion	—	267,375	—	107,207	—	374,582
Interest rate swap contract	—	36,886	—	—	—	36,886
Accrued pension liability	—	—	—	2,296	—	2,296
Lease liability – long term	—	3,954	3,168	15,566	—	22,688
Other long-term liabilities	—	—	—	11,072	—	11,072
Total liabilities	35,825	435,574	7,738	172,579	—	651,716
Net assets:						
Without donor restrictions	591,004	561,600	115,712	28,708	(705,513)	591,511
Non-controlling interest	—	—	—	—	—	—
Total net assets without donor restrictions	591,004	561,600	115,712	28,708	(705,513)	591,511
With donor restrictions	22,710	21,305	—	2,279	(24,078)	22,216
Total net assets	613,714	582,905	115,712	30,987	(729,591)	613,727
Total liabilities and net assets	$ 649,539	1,018,479	123,450	203,566	(729,591)	1,265,443

See accompanying independent auditors’ report.

LUMINIS HEALTH OBLIGATED GROUP

Supplementary Combining Statement of Operations

Year ended June 30, 2023

(Dollars in thousands)

	Luminis Health, Inc.	Luminis Health Anne Arundel Medical Center, Inc.	Luminis Health Imaging, Inc.	Luminis Health Doctors Community Medical Center, Inc.	Eliminations	Luminis Health Obligated Group
Operating revenue:						
Net patient service revenue	$ —	616,607	31,273	228,730	—	876,610
Other operating revenue	—	13,121	6	4,919	—	18,046
Total operating revenue	—	629,728	31,279	233,649	—	894,656
Operating expenses:						
Salaries and wages	54,931	222,314	7,440	92,263	—	376,948
Employee benefits	9,133	40,751	1,433	16,301	—	67,618
Supplies	775	128,690	1,995	36,869	—	168,329
Purchased services	67,225	114,702	14,494	57,122	—	253,543
Depreciation and amortization	—	19,837	755	11,465	—	32,057
Interest	5	7,693	—	3,490	—	11,188
Shared services	(132,068)	102,866	—	29,202	—	—
Total operating expenses	1	636,853	26,117	246,712	—	909,683
Operating income (loss)	(1)	(7,125)	5,162	(13,063)	—	(15,027)
Other income (loss):						
Investment income (loss), net	(151)	20,763	—	(105)	—	20,507
Income (loss) from joint ventures and other, net	139	(1,689)	—	331	(30,830)	(32,049)
Pension expense, net	—	(3,040)	—	(994)	—	(4,034)
Change in unrealized gains on trading securities, net	—	16,529	—	294	—	16,823
Realized and unrealized gains on interest rate swap contracts, net	—	12,123	—	—	—	12,123
Total other income (loss), net	(12)	44,686	—	(474)	(30,830)	13,370
(Deficit) excess of revenues over expenses	$ (13)	37,561	5,162	(13,537)	(30,830)	(1,657)

See accompanying independent auditors' report.