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# **Atlantic General Hospital Corporation**

## **Independent Auditor's Report and Financial Statements**

June 30, 2023 and 2022

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## Independent Auditor's Report

Board of Trustees  
Atlantic General Hospital Corporation  
Berlin, Maryland

### **Opinion**

We have audited the financial statements of Atlantic General Hospital Corporation (the "Corporation"), which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Change in Accounting Principles**

As discussed in Note 2 to the financial statements, the Corporation changed its method of accounting for leases in accordance with Accounting Standards Codification Topic 842, *Leases*, effective July 1, 2022. The Corporation adopted this standard using a modified retrospective transition approach and has elected not to restate prior periods. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

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

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

# FORVIS

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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

**FORVIS, LLP**

**Tysons, Virginia  
October 26, 2023**

**Atlantic General Hospital Corporation**  
**Balance Sheets**  
**June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,799,219	\$ 27,708,808
Investments	14,870,749	10,583,728
Patient accounts receivable, net	12,238,696	13,055,093
Supply inventories	3,332,558	3,174,763
Current portion of pledges receivable	151,920	2,087,892
Prepaid expenses and other current assets	4,437,730	4,373,852
	<b>51,830,872</b>	60,984,136
Land, buildings and equipment, net	54,321,471	55,933,973
Right-of-use assets - operating leases	3,079,025	-
Other assets:		
Assets whose use is limited:		
Cash and cash equivalents restricted by donor	344,110	344,110
Cash and cash equivalents internally designated for an endowment	112,379	99,655
Investments internally designated for deferred compensation	3,949,691	3,332,921
Investments internally designated for an endowment	4,524,479	4,170,953
Noncurrent pledges receivable, net	700,804	668,179
Goodwill and intangible assets, net	1,332,674	1,559,511
Swap contracts	2,298,340	676,709
Other noncurrent assets	5,771,988	5,703,388
	<b>19,034,465</b>	16,555,426
Total assets	<b>\$ 128,265,833</b>	<b>\$ 133,473,535</b>

**Atlantic General Hospital Corporation**  
**Balance Sheets**  
**June 30, 2023 and 2022**

(Continued)

	<u>2023</u>	<u>2022</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,791,052	\$ 6,646,702
Salaries, wages, and related items	7,362,751	9,607,689
Interest payable	118,349	113,614
Advances from third party payors	2,623,732	7,855,330
Current portion of long-term obligations	1,751,624	1,526,147
Current portion of operating lease obligations	970,375	-
	<u>22,617,883</u>	<u>25,749,482</u>
Total current liabilities		
Noncurrent liabilities:		
Long-term obligations, less current portion and net of unamortized debt issuance costs	34,548,759	35,412,535
Other liabilities	11,221,679	10,536,309
Long-term operating lease obligations	2,108,650	-
	<u>70,496,971</u>	<u>71,698,326</u>
Total liabilities		
Net assets:		
Without donor restrictions		
General	51,943,066	54,123,714
Board-designated	4,628,962	4,551,314
With donor restrictions	1,196,834	3,100,181
	<u>57,768,862</u>	<u>61,775,209</u>
Total net assets		
	<u>\$ 128,265,833</u>	<u>\$ 133,473,535</u>
Total liabilities and net assets		

See accompanying notes.

**Atlantic General Hospital Corporation**  
**Statements of Operations**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Operating revenue:		
Net patient service revenue	\$ 146,247,385	\$ 142,520,337
Other operating revenue	<u>10,489,234</u>	<u>10,801,275</u>
Total operating revenue	<b>156,736,619</b>	153,321,612
Operating expenses:		
Salaries	74,262,733	67,256,937
Employee benefits and other related expenses	13,535,715	13,177,026
Professional fees and contracted services	13,636,210	12,958,566
Supplies and other expense	42,547,700	38,088,702
Utilities	1,905,582	1,763,358
Maintenance and repairs	8,711,372	8,783,010
Insurance	2,015,118	2,170,878
Interest	1,561,724	1,538,253
Depreciation	8,019,847	8,164,115
Amortization	<u>226,836</u>	<u>226,247</u>
Total operating expenses	<b>166,422,837</b>	154,127,092
Loss from operations	<b>(9,686,218)</b>	(805,480)
Other income (loss):		
Investment income (loss)	(33,285)	1,006,166
Net unrealized gains (losses)	2,550,501	(4,245,936)
Change in fair value of swap contracts	1,621,631	4,339,658
Other	<u>1,523,303</u>	<u>1,172,003</u>
Total other income	<b>5,662,150</b>	2,271,891
Excess (deficit) of revenue and gains over expenses	<b>\$ (4,024,068)</b>	<b>\$ 1,466,411</b>

**Atlantic General Hospital Corporation**  
**Statements of Changes in Net Assets**  
**Years Ended June 30, 2023 and 2022**

	<b>2023</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Net assets, beginning of year	\$ 58,675,028	\$ 3,100,181	\$ 61,775,209
Deficit of revenue and gains over expenses	(4,024,068)	-	(4,024,068)
Restricted contributions	-	17,721	17,721
Net assets released from restrictions used for operations	-	-	-
Net assets released from restrictions used for capital acquisitions	1,921,068	(1,921,068)	-
Changes in net assets	<u>(2,103,000)</u>	<u>(1,903,347)</u>	<u>(4,006,347)</u>
Net assets, end of year	<u>\$ 56,572,028</u>	<u>\$ 1,196,834</u>	<u>\$ 57,768,862</u>

	<b>2022</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Net assets, beginning of year	\$ 55,644,042	\$ 4,360,740	\$ 60,004,782
Excess of revenue and gains over expenses	1,466,411	-	1,466,411
Restricted contributions	-	308,494	308,494
Net assets released from restrictions used for operations	-	(4,478)	(4,478)
Net assets released from restrictions used for capital acquisitions	1,564,575	(1,564,575)	-
Changes in net assets	<u>3,030,986</u>	<u>(1,260,559)</u>	<u>1,770,427</u>
Net assets, end of year	<u>\$ 58,675,028</u>	<u>\$ 3,100,181</u>	<u>\$ 61,775,209</u>



**Atlantic General Hospital Corporation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities and other gains:		
Change in net assets	\$ (4,006,347)	\$ 1,770,427
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities and other gains:		
Depreciation and amortization expense	8,246,683	8,390,362
Non-cash operating lease expense	1,078,514	-
Amortization of debt issuance costs	52,141	52,141
Recognition of change in fair value of swap contracts	(1,621,631)	(4,339,658)
Realized losses (gains) on sale of investments	650,132	(552,674)
Unrealized losses (gains) on trading portfolio	(2,550,501)	4,245,936
Donations and grants for capital acquisition	(1,921,068)	(1,564,575)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable, net	816,397	(1,426,696)
Supply inventory	(157,795)	(34,286)
Prepaid expenses and other current assets	(63,878)	(1,135,536)
Other assets	1,834,748	1,674,592
Increase (decrease) in:		
Accounts payable and accrued expenses	397,875	208,456
Salaries, wages and related items	(2,244,938)	(205,925)
Interest payable	4,735	(3,102)
Third party advances	(5,231,598)	(13,553,142)
Operating lease obligations	(1,078,514)	-
Other liabilities	685,370	(569,432)
Net cash and cash equivalents used by operating activities	<u>(5,109,675)</u>	<u>(7,043,112)</u>
Cash flows from investing activities:		
Net purchase of investments	(3,356,948)	(323,941)
Purchase of land, building, and equipment	<u>(2,655,820)</u>	<u>(2,305,117)</u>
Net cash and cash equivalents used by investing activities	<u>(6,012,768)</u>	<u>(2,629,058)</u>
Cash flows from financing activities:		
Payments on long-term obligations	(1,695,490)	(1,419,372)
Donations received restricted for capital acquisitions	<u>1,921,068</u>	<u>1,564,575</u>
Net cash and cash equivalents provided by financing activities	<u>225,578</u>	<u>145,203</u>
Net change in cash and cash equivalents	<u>(10,896,865)</u>	<u>(9,526,967)</u>
Cash, cash equivalents, and restricted cash at beginning of year	<u>28,152,573</u>	<u>37,679,540</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 17,255,708</u>	<u>\$ 28,152,573</u>
Supplemental cash flow disclosure:		
Interest paid	<u>\$ 1,514,318</u>	<u>\$ 1,483,010</u>
Noncash supplemental cash flow disclosure:		
Land, building, and equipment in accounts payable	<u>\$ 2,746,475</u>	<u>\$ 20,280</u>
Capital lease obligation for the acquisition of equipment	<u>\$ 1,005,050</u>	<u>\$ 806,341</u>

See accompanying notes.

## Notes to Financial Statements

### 1. Organization and Nature of Activities

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

### 2. Summary of Significant Accounting Policies

#### *Use of estimates*

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

#### *Basis of presentation*

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

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

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

#### *Board-designated net assets without donor restrictions*

Net assets without donor restrictions include amounts designated by the Board of Trustees for a particular purpose. The Board of Trustees may remove or modify the designations at any time. The board-designated assets were a result of the Hospital being named beneficiary in a portion of an estate pursuant to a will in 2001. The Board of Trustees has determined that any investment income on the endowment will be internally

## Atlantic General Hospital Corporation Notes to Financial Statements

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designated by using a three-year rolling average market value method, of which 3% annually can be used to fund physician practice development.

### **Net assets**

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

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

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

### **Risk factors**

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

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States of America. Such accreditation is based upon a number of requirements including undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payors require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services of the U.S. Department of Health and Human Services ("CMS"), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. In other words, by being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payors would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The Hospital has been accredited by the Joint Commission through February 12, 2025.

The HSCRC has jurisdiction over hospital reimbursement in Maryland by an agreement with CMS based on a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a waiver to modernize Maryland's unique all-payor rate-setting system for hospital

## **Atlantic General Hospital Corporation**

### **Notes to Financial Statements**

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services. The waiver consisted of a five-year performance period. Maryland Hospitals are committed to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions.

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

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

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

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

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

#### ***Cash and cash equivalents***

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

**Atlantic General Hospital Corporation**  
**Notes to Financial Statements**

The composition of cash and cash equivalents at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents, classified as a current asset	\$ 16,799,219	\$ 27,708,808
Amounts restricted by donor	344,110	344,110
Amounts internally designated for an endowment	<u>112,379</u>	<u>99,655</u>
Total cash and cash equivalents (as reported in the accompanying statements of cash flows)	<u>\$ 17,255,708</u>	<u>\$ 28,152,573</u>

**Investments**

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

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

The composition of investments at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Investments:		
Common stock	\$ 2,475,250	\$ 2,200,747
Mutual funds - deferred compensation assets	3,949,691	3,332,921
Mutual funds - equities	13,398,624	10,789,401
Mutual funds - fixed maturity	<u>3,521,354</u>	<u>1,764,533</u>
	23,344,919	18,087,602
Less investments internally designated for an endowment	4,524,479	4,170,953
Less investments internally designated for deferred compensation	<u>3,949,691</u>	<u>3,332,921</u>
Undesignated investments	<u>\$ 14,870,749</u>	<u>\$ 10,583,728</u>

Investment income (loss) for the years ended June 30 consists of:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 616,847	\$ 453,492
Realized gains (losses)	<u>(650,132)</u>	<u>552,674</u>
	<u>\$ (33,285)</u>	<u>\$ 1,006,166</u>

***Fair value measurements***

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

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

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

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset.

Fair values of common stock and mutual funds have been determined by the Corporation from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

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

**Atlantic General Hospital Corporation**  
**Notes to Financial Statements**

The following table presents the Corporation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
<b>ASSETS</b>			
Mutual funds:			
Fixed maturity:			
Taxable Bond Fund	\$ 2,971,554	\$ -	\$ 2,971,554
Taxable High-Yield Funds	549,800	-	549,800
Equities:			
International Emerging Markets	835,601	-	835,601
International Developed	4,389,042	-	4,389,042
U.S. Large/Mid-Cap	6,250,441	-	6,250,441
U.S. REIT Funds	272,631	-	272,631
U.S. Small-Cap	1,428,694	-	1,428,694
Commodities	222,215	-	222,215
Deferred compensation assets	3,949,691	-	3,949,691
Common stocks:			
Consumer Discretionary	213,878	-	213,878
Energy	39,639	-	39,639
Consumer Staples	94,331	-	94,331
Financials	220,932	-	220,932
Healthcare	237,143	-	237,143
Industrials	159,784	-	159,784
Communication Services	134,429	-	134,429
Information Technology	489,023	-	489,023
Real Estate	30,561	-	30,561
Utilities	31,049	-	31,049
Materials	62,346	-	62,346
Total investments	<u>\$ 22,582,784</u>	<u>\$ -</u>	<u>\$ 22,582,784</u>
Interest rate swaps assets	<u>\$ -</u>	<u>\$ 2,298,340</u>	<u>\$ 2,298,340</u>
	<u>\$ 22,582,784</u>	<u>\$ 2,298,340</u>	<u>\$ 24,881,124</u>

Certain investments that were measured at cost have not been classified in the fair value hierarchy. As of June 30, 2023, the costs of these investments were \$762,135. There were no significant transfers between fair value hierarchy levels for the year ended June 30, 2023.

**Atlantic General Hospital Corporation**  
**Notes to Financial Statements**

The following table presents the Corporation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
<b>ASSETS</b>			
Mutual funds:			
Fixed maturity:			
Taxable Bond Fund	\$ 1,226,658	\$ -	\$ 1,226,658
Taxable High-Yield Funds	537,875	-	537,875
Equities:			
International Emerging Markets	1,056,315	-	1,056,315
International Developed	3,097,245	-	3,097,245
U.S. Large/Mid-Cap	4,783,866	-	4,783,866
U.S. REIT Funds	517,514	-	517,514
U.S. Small-Cap	1,334,461	-	1,334,461
Deferred compensation assets	3,332,921	-	3,332,921
Common stocks:			
Consumer Discretionary	233,300	-	233,300
Energy	36,953	-	36,953
Consumer Staples	74,465	-	74,465
Financials	126,981	-	126,981
Healthcare	180,782	-	180,782
Industrials	129,234	-	129,234
Communication Services	106,971	-	106,971
Information Technology	436,913	-	436,913
Real Estate	41,351	-	41,351
Utilities	32,661	-	32,661
Materials	47,596	-	47,596
	<u>\$ 17,334,062</u>	<u>\$ -</u>	<u>\$ 17,334,062</u>
Total investments			
	<u>\$ -</u>	<u>\$ 676,709</u>	<u>\$ 676,709</u>
Interest rate swaps assets			
	<u>\$ 17,334,062</u>	<u>\$ 676,709</u>	<u>\$ 18,010,771</u>

Certain investments that were measured at cost have not been classified in the fair value hierarchy. As of June 30, 2022, the costs of these investments were \$753,540. There were no significant transfers between fair value hierarchy levels for the year ended June 30, 2022.

***Supply inventories***

Supply inventory is stated at the lower of cost or market, with cost determined principally by the first-in, first-out method.

***Land, buildings, and equipment***

Land, buildings, and equipment are carried at cost, including net interest on related borrowings capitalized during periods of construction. Donated items are recorded at fair value at the date of the donation. Financing leases are carried at the lower of the present value of their net minimum lease payments or the fair value of the leased properties at the inception of the lease less accumulated amortization. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The carrying amounts of significant assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts.



**Atlantic General Hospital Corporation**  
**Notes to Financial Statements**

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Depreciation, which includes amortization of equipment under financing leases, is recorded on the straight-line basis using the half-year convention over the estimated useful lives (or lease term if shorter) of 10 to 40 years for buildings and improvements and 5 to 10 years for equipment. Any acquisitions from July 1, 1999 and forward that are in excess of \$100,000 are depreciated on the straight-line basis without using the half-year convention.

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

***Patient accounts receivable, net***

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

***Goodwill***

Goodwill represents the excess of the cost over the fair value of the identified net assets of acquired businesses. The Corporation evaluates goodwill for impairment at the entity level. Goodwill is tested for impairment only when a triggering event occurs, or circumstances change that indicate the fair value of the entity may be less than its carrying value. Goodwill is amortized over a period of 10 years (or less).

***Charity care***

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

Under current accounting standards, the Hospital is required to report the cost of providing charity care. The cost of charity care provided by the Hospital totaled \$720,246 and \$929,495 for the years ended June 30, 2023 and 2022, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Commission. For any charity services rendered by the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Hospital.

A Maryland hospital either receives payments from or makes payments to the Commission with respect to an Uncompensated Care Fund (“UCC”) established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital made net payments to the UCC of \$1,498,182 for the year ended June 30, 2023 and received net payments from the UCC of \$1,341,660 for the year ended June 30, 2022.

***Excess (deficit) of revenue and gains over expenses***

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

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

Certain of the Hospital's charges are subject to review and approval by the Commission. The Hospital has filed the required reports with the Commission and believes it is in compliance with the Commission's requirements. The rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs prior to January 1, 2014, was based on a 36-year-old agreement between CMS and the Commission. This agreement was based upon a waiver from the Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a new waiver to modernize Maryland's unique all-payor rate-setting system for hospital services. The current waiver consists of a five-year performance period. Maryland hospitals commit to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions. Maryland also limits the annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2016 to 2019. Under the waiver, Maryland shifted virtually all of its hospital revenue over the five-year performance period into global payment models. Beginning January 2019, the new "Total Cost of Care Model" (the "Model") was approved and builds upon the successes of the all-payor model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This Model is approved for a 10-year term provided Maryland meets the Model performance requirements.

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

***Other operating revenue***

The majority of other operating revenue is derived from retail pharmacy sales and revenue from the Maryland Primary Care Program ("MDPCP"). During 2023 and 2022, the Corporation generated pharmacy revenue totaling \$6,457,742 and \$5,084,082, respectively and MDPCP revenue totaling \$2,353,816 and \$1,692,851, respectively. In 2022, the Corporation received \$3,202,073 in provider relief funding. No provider relief funding was received or recognized in 2023 (see Note 15). Other operating revenue also includes rental income, rebates, physician billing fees and miscellaneous income earned from refunds.

***Advertising and marketing costs***

The Corporation expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses were approximately \$1,610,000 and \$1,210,000 for the fiscal years ended June 30, 2023 and 2022, respectively, and are reported as supplies and other expense in the accompanying statements of operations. No advertising or marketing costs have been capitalized in the accompanying balance sheets.

### ***Income taxes***

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption.

The state in which the Corporation operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the Corporation is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

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

### ***Recent accounting pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. Under the new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For statement of operations purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. The Corporation adopted this standard effective July 1, 2022 using the modified retrospective transition approach for leases existing at, or entered into after, that date and has elected not to restate prior periods. The primary impacts of adoption are a gross-up of right of use assets and lease liability for operating leases and expanded disclosures which are included in Note 10.

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

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured at the present value of the lease payments over the lease term. The Corporation elected the practical expedient to use the risk-free discount rate. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs and any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates and the presence of factors that would cause a significant economic penalty to the Corporation if the option were not exercised. The Corporation has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in supplies and other expense in the accompanying statements of operations. Variable lease costs include common area maintenance costs and represent non-lease components. As such, these costs are not included in the lease obligation calculation and are expensed as incurred. The most significant impact of adoption was the recognition of \$4,157,539 of ROU assets and operating lease liabilities at July 1, 2022.

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

#### ***New accounting standard 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.

#### ***Subsequent events***

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 26, 2023, the date the financial statements were available to be issued.

### **3. Net Patient Service Revenue**

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

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

A summary of payment arrangements with third party payors, by service type, is as follows:

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

## Atlantic General Hospital Corporation Notes to Financial Statements

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- Regional cancer center revenue – Corporation has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.
- Unregulated hospital patient revenue - the Corporation has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.

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

The Corporation measures the performance obligation from the commencement of the outpatient service to the point when it is no longer required to provide services to that patient, which is generally the completion of the outpatient service.

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

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

Generally, patients who are covered by third party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients financial assistance, by either policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any explicit price concession, financial assistance, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

**Atlantic General Hospital Corporation**  
**Notes to Financial Statements**

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles).

The Corporation aggregates revenue from contracts with customers by type of service and payor source. Tables providing details of these factors are presented below.

Net patient service revenue disaggregated by service type for the years ended June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Global budget revenue	\$ 106,510,605	\$ 107,361,671
Physician services revenue	26,733,299	24,415,940
Regional cancer center revenue	12,060,981	9,644,149
Unregulated hospital revenue	<u>942,500</u>	<u>1,098,577</u>
Total	<u>\$ 146,247,385</u>	<u>\$ 142,520,337</u>

Net patient service revenue disaggregated by payor for the years ended June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 60,503,096	\$ 58,709,652
Medicaid	16,667,168	16,010,197
Commercial insurance and HMOs	10,932,708	12,426,602
CareFirst	16,947,230	18,322,389
Self-pay and others	<u>1,460,403</u>	<u>1,892,831</u>
	106,510,605	107,361,671
Physician services revenue	26,733,299	24,415,940
Regional cancer center revenue	12,060,981	9,644,149
Unregulated hospital revenue	<u>942,500</u>	<u>1,098,577</u>
Total	<u>\$ 146,247,385</u>	<u>\$ 142,520,337</u>

The following table presents the detail of net patient service revenue:

	<u>2023</u>	<u>2022</u>
Gross charges	\$ 212,159,776	\$ 202,937,272
Price concessions		
Explicit price concessions	(58,995,374)	(54,273,638)
Implicit price concessions	(5,605,301)	(4,522,325)
Charity care	<u>(1,311,716)</u>	<u>(1,620,972)</u>
Net patient service revenue	<u>\$ 146,247,385</u>	<u>\$ 142,520,337</u>

#### **4. Land, Buildings, and Equipment**

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

	<u>2023</u>	<u>2022</u>
Land, buildings, and improvements	\$ 63,068,979	\$ 62,923,920
Fixed equipment	30,086,219	29,788,665
Movable equipment	58,087,554	56,642,490
Finance lease equipment	<u>5,356,868</u>	<u>4,246,217</u>
	<b>156,599,620</b>	153,601,292
Less accumulated depreciation	<u>106,628,220</u>	<u>98,608,372</u>
	<b>49,971,400</b>	54,992,920
Construction in process	<u>4,350,071</u>	<u>941,053</u>
	<u><b>\$ 54,321,471</b></u>	<u><b>\$ 55,933,973</b></u>

Accumulated amortization on leased equipment totaling \$3,527,164 and \$2,848,262 is included in the balance of accumulated depreciation as of June 30, 2023 and 2022, respectively. Amortization expense associated with finance lease equipment was \$678,902 and \$391,972 for the years ended June 30, 2023 and 2022, and is included in depreciation expense in the accompanying statements of operations.

#### ***Ocean Pines facility***

The Corporation is planning to open an outpatient center and other physician offices in Ocean Pines, Maryland at a location currently being constructed by a developer. On July 23, 2021, the Corporation entered into an agreement with the developer to lease the real property and building upon substantial completion of the building for a fourteen-year term. The base rent shall equal \$146,025 per month with an annual escalation of 1.75%. The project is expected to be completed in 2023. Management has determined that this lease agreement has met the requirements of an operating lease under the applicable accounting standards.

The Corporation has contracted with the developer to complete the tenant outfitting of the Ocean Pines facility. As of June 30, 2023, the contract total is \$6,863,489 of which the developer is required to pay \$3,000,000 for the building shell and an additional \$500,000 to complete the project. As of June 30, 2023, the Corporation has accrued \$2,597,566 related to work completed on the tenant outfitting portion of the project.

#### **5. Pledges Receivable**

Unconditional promises to give cash and others assets are recorded at fair value in the year that they are made net of allowance for uncollectible accounts and discounted to their present value. As of June 30, 2023, promises to give that are expected to be received in less than one year total \$151,920 and one to five years total \$999,817. The promises to give in future years are discounted in the amount of \$178,958 and \$66,002 at a rate of 5.758% and 2.035% at June 30, 2023 and 2022, respectively. Conditional promises to give are recorded at the time they become unconditional and are reported in prepaid expenses and other current assets and noncurrent pledges receivable of the accompanying balance sheets. The allowance for doubtful accounts for pledges receivable was \$120,055 and \$250,240 at June 30, 2023 and 2022, respectively.

**Atlantic General Hospital Corporation**  
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**6. Non-Current Liabilities**

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

	<u>2023</u>	<u>2022</u>
2017 Series A Bond	\$ 4,079,000	\$ 5,007,000
2017 Series B Bond	20,013,000	20,013,000
2017 Series Mayor and Council of Berlin Hospital Revenue Bond (Atlantic General Hospital Facility)	10,000,000	10,000,000
2014 commercial mortgage loan	267,804	396,177
2015 commercial mortgage loan	470,585	500,479
2016 commercial loan	147,594	196,818
Finance leases payable, with interest ranging from 3.00% to 6.67%, secured by selected equipment.	<u>1,808,752</u>	<u>1,363,701</u>
Total long-term debt	36,786,735	37,477,175
Less net unamortized debt issuance costs	(486,352)	(538,493)
Less current portion	<u>(1,751,624)</u>	<u>(1,526,147)</u>
	<u>\$ 34,548,759</u>	<u>\$ 35,412,535</u>

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

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Thereafter</u>
Future minimum lease payments	\$ 661,536	\$ 529,155	\$ 412,791	\$ 353,391	\$ 29,598	\$ -
Less interest	<u>79,904</u>	<u>54,036</u>	<u>32,390</u>	<u>11,278</u>	<u>108</u>	<u>-</u>
	581,632	475,119	380,401	342,113	29,490	-
Notes/loans payable	215,992	220,780	76,063	35,156	36,586	301,404
Bonds payable	<u>954,000</u>	<u>984,000</u>	<u>1,009,000</u>	<u>1,041,000</u>	<u>1,071,000</u>	<u>29,033,000</u>
	<u>1,169,992</u>	<u>1,204,780</u>	<u>1,085,063</u>	<u>1,076,156</u>	<u>1,107,586</u>	<u>29,334,404</u>
	<u>\$ 1,751,624</u>	<u>\$ 1,679,899</u>	<u>\$ 1,465,464</u>	<u>\$ 1,418,269</u>	<u>\$ 1,137,076</u>	<u>\$29,334,404</u>

**Swap agreements**

During 2018, the Corporation obtained a new swap agreement connected with the revenue bonds. The fair value of the swap agreements as of June 30, 2023 and 2022 (as determined after consultation with investment hedging consultants), based on the present value of cash flow differences over the lives of the swap agreements between the interest rate calculated on the swap agreements at inception and rates available on similar swap agreements is \$2,298,340 and \$676,709, respectively. Payments made to the counterparty to the swap agreements totaled \$1,404,975 and \$1,390,376 for the years ended June 30, 2023 and 2022, respectively. These amounts include interest due on both the bonds and swap agreements. The Corporation is exposed to credit loss in the event of nonperformance by the counterparty on the swap agreements but does not anticipate nonperformance by the counterparty.



**2014 Commercial mortgage loan**

On May 23, 2014, the Corporation obtained a \$1,950,000 commercial mortgage from the Bank of Ocean City for the purposes of purchasing a medical office building. The loan is collateralized by a mortgage lien against the building. Principal and interest payments of \$11,810 are made monthly based on an interest rate of 3.99% and the loan matures on May 23, 2034.

**2015 Commercial mortgage loan**

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

**2016 Commercial loan**

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

**2017 Series revenue bonds**

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

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

The Series 2017 Bonds bear interest at the respective index floating rates applicable to the bonds, excluding the immediately succeeding interest payments date, in which the interest rates were 2.21% and 2.45% for Series A and B, respectively. Thereafter, the index floating rate is determined by the London Interbank Offered Rate ("LIBOR") Interest Period. On April 11, 2023, the bonds were amended due to the impending replacement of the index used to determine the index floating rate. The index floating rate was amended to be based on the Term Secured Overnight Financing Rate ("SOFR"). The interest rates as of June 30, 2023 for the 2017 Series A and Series B bonds were 5.87% and 6.41%, respectively.

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

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On September 1, 2017, the Corporation also entered into a financing agreement with the Mayor and Council of Berlin and the Lender for a 2017 Taxable Bond in the amount of \$10,000,000 to finance the 2017 Project. The 2017 Taxable Bond bears interest at the index floating rate, excluding the immediately succeeding interest payment date, in which the interest rate was 2.36%. Thereafter, the index floating rate is determined by the LIBOR Interest Period. On May 3, 2023, the bond was amended due to the impending replacement of the index used to determine the index floating rate. The index floating rate was amended to be based on the Term Secured Overnight Financing Rate ("SOFR"). The interest rates as of June 30, 2023 for the bond was 5.97%. Interest payments began November 1, 2017 and principal and interest payments are to begin April 1, 2042, with any outstanding interest and principal due July 1, 2047.

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

The bonds are secured by a collateral interest in the Corporation's receipts, revenue, and other amounts received by or on behalf of the Corporation. The revenue bonds also place limits on the incurrence of additional borrowings and require the Corporation to maintain a certain debt service coverage, cash covenant, and capitalization ratio. During the year ended June 30, 2023, the Hospital was not in compliance with the debt service coverage covenant; therefore, a waiver was obtained from MHHEFA and the financial institution.

**2023 Construction loan**

On March 30, 2023, the Corporation entered into a 14-year \$5,000,000 construction loan with Calvin B. Taylor Bank. The loan will be used to facilitate the tenant outfit project at the Ocean Pines facility. The Corporation will draw down balances as the project progresses. As of June 30, 2023, there were no draws on the construction loan. The loan has a fixed rate of 5.5% and interest payments began in July 2023 following the first draw on the loan. Principal and interest payments will begin October 30, 2023 on the unpaid principal sum, and the loan matures September 30, 2037.

**Line of credit**

In March 2020, the Corporation entered into an \$8,500,000 revolving line of credit agreement with M&T Bank of which \$7,000,000 matured in October 2020. Amounts drawn on the remaining \$1,500,000 are due on demand with an interest rate of SOFR plus 1.96448%. The line of credit is secured by a third security interest in all non-realty assets and the Corporation's property. There were no amounts drawn on the line as of June 30, 2023 and it is available through October 1, 2024.

**7. Goodwill**

In March 2018, the Corporation acquired 100% of the equity interest of Berlin Radiation Therapy Treatment Center, LLC (the "Center"). The Center is in the business of providing cancer care services to Berlin, Maryland and the surrounding area. The Corporation paid \$2,500,000 and acquired medical and office equipment of \$308,171. Goodwill of \$2,191,837 was recorded as part of the acquisition, which included the assembled workforce and noncompete agreements, as well as the Center's brand. Amortization expense was approximately \$219,000 for the years ended June 30, 2023 and 2022. Amortization expense will be approximately \$219,000 per year for the next five years.

## **8. Professional Liability Insurance Coverage**

The Corporation is presently exposed to asserted and unasserted potential legal claims encountered in the ordinary course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Corporation's June 30, 2023 financial position or the results of operations for the year then ended. Prior to 2005, the Corporation had claims-made professional liability insurance through a commercial insurance carrier covering claims arising from the performance of professional services and brought against the Corporation while the policy was in force. Insurable limits under this policy were \$1 million per claim and \$3 million annual aggregate shared limit basis. In addition, the Corporation maintained an umbrella policy of \$15,000,000 per occurrence and aggregate.

During 2005, the Hospital, in conjunction with eight other Maryland hospitals, ("Shareholders") formed Freestate Healthcare Insurance Company, Ltd. (the "Captive"), a Cayman Islands company, to provide claims-made professional and general liability coverage for the risks of the Shareholders, their controlled affiliates, and their respective employees. Each of the Shareholders is a Maryland nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended ("Code" or "IRC"), as an organization described in Section 501(c)(3) of the Code. The Shareholders are not affiliated with one another through common ownership or control.

The Captive provides primary coverage to the Shareholders and their affiliates with limits of liability of \$2,000,000 for each and every claim ("Retained Layer") and provides an excess policy with various limits of liability which is fully reinsured through commercial carriers. The Corporation has \$15,000,000 of additional reinsurance in the aggregate through such reinsurance arrangements. The estimated unpaid loss liability reserved by the captive for the Hospital was \$5,771,988 and \$5,703,388 at June 30, 2023 and 2022, respectively.

In accordance with current accounting standards, the June 30, 2023 and 2022 unpaid loss liability is recorded as a noncurrent liability, and the related insurance recovery was reported as a noncurrent asset, in the accompanying balance sheets. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately \$1,500,000 as a noncurrent liability as of June 30, 2023 and 2022.

Premiums are calculated by an actuary under a retrospectively rated policy and are based primarily on the experience of the Shareholders. The total premium is allocated to each of the Shareholders based on their experience. Premiums for the Corporation's professional and general liability insurance of approximately \$1,764,000 and \$1,498,000 were charged to operations during fiscal years 2023 and 2022. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. Each named insured will not be charged or entitled to any retrospective premium assessments or credits until the policy period has been closed and no further claim obligations are expected. In management's opinion, the assets of the Captive are sufficient to meet its obligations as of June 30, 2023. If the financial condition of the Captive were to materially deteriorate in the future, and the Captive was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

## **9. Commitments**

### ***Employment agreements***

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

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***Lease agreements under ASC 840***

The Corporation has entered into various lease agreements for equipment and facilities. Most lease arrangements contain a renewal option. Total rent expense for the year ended June 30, 2022 was approximately \$1,958,000. Future minimum payments on noncancelable office and equipment leases, with initial or remaining terms of one year or more, for years ending June 30 are as follows:

2023	\$ 1,384,599
2024	1,074,353
2025	707,902
2026	612,818
2027	455,527
Thereafter	<u>250,506</u>
	<u>\$ 4,485,705</u>

***Retirement plans***

The Corporation sponsors a 403(b) retirement covering substantially all employees of the Corporation. Participants may elect to contribute a percentage of their pretax annual compensation, as defined by the Plan, not to exceed the maximum allowable contributions under the IRC. The Corporation matches 50% of the first 5% of participants' elective deferrals and participants become fully vested in employer contributions after three years of continuous service. Plan expenses were \$958,454 and \$895,369 for the years ended June 30, 2023 and 2022, respectively.

Effective January 31, 2003, the Corporation entered into an agreement to sponsor a Section 457 deferred compensation plan. All contributions to the Section 457 plan are from participating employees; however, all assets of the Section 457 plan are the sole property of the Corporation and are fully subject to claims by the Corporation's general creditors. As of June 30, 2023 and 2022, \$3,949,691 and \$3,332,921, respectively, are recorded as investments internally designated for deferred compensation and a related liability in the same amounts as other liabilities on the balance sheets.

***Self-insured plans***

Effective May 1, 2002, the Corporation joined the Maryland Hospital Association ("MHA") Workers' Compensation Self-Insurance Group to self-insure for worker's compensation benefits. The annual premium for worker's compensation is calculated based on the Corporation's payroll estimate and MHA rates per payroll classification. The MHA rates are determined based on past experience. Amounts charged to operations for workers' compensation expense were \$606,805 and \$537,521 for the years ended June 30, 2023 and 2022, respectively.

In lieu of paying unemployment tax premiums to the State of Maryland, the Corporation secured a letter of credit with M&T Bank, effective May 21, 2004. As of June 30, 2023 the letter of credit was in the amount of \$472,291. Additionally, the Corporation paid actual Maryland unemployment claims in the amount of \$78,216 and \$0 for the years ended June 30, 2023 and 2022, respectively.

The Corporation maintains an agreement with a third-party to administer a self-insured health plan that benefits Hospital employees and their dependents. On behalf of participating employees, the Corporation pays the cost of health claims and an administration fee for each subscriber employee. The participating associates share in the cost by remitting a pre-established premium through payroll deductions. Additionally, the Hospital obtains stop loss insurance to cover possible claims in excess of expected claims. The stop loss insurance agreements are annual agreements, subject to annual renewals. The Corporation submits a claim for reimbursement of stop loss insurance when claims exceed a pre-established ceiling. The Corporation's net health benefit expense for the fiscal years ended June 30, 2023 and 2022 was \$6,649,195 and \$6,966,590, respectively, net of premiums received from associates during the fiscal years of \$1,275,577 and \$1,188,535, respectively.

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

**10. Leases Topic 842**

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

As discussed in Note 2, the Corporation adopted ASC 842, *Leases*, effective July 1, 2022, using the alternative transition method, under which the prior period financial statements were not restated for the new guidance.

The components of lease expense (and related classification in the accompanying statements of operations) were as follows during the year ended June 30, 2023:

Operating lease cost (supplies and other expenses)	\$ 1,183,518
Short-term lease cost (supplies and other expenses)	600,899
Finance lease cost:	
Amortization of right-of use assets (depreciation)	678,902
Interest on lease liabilities (interest expense)	<u>69,958</u>
Total lease cost	<u>\$ 2,533,277</u>

Cash paid for amounts included in the measurement of lease liabilities for the year ended June 30, 2023 is as follows:

Operating cash flows from operating leases	\$ 1,078,514
Operating cash flows from finance leases	69,958
Financing cash flows from finance leases	<u>678,902</u>
Total	<u>\$ 1,827,374</u>

Right-of-use assets obtained in exchange for new lease obligations for the year ended June 30, 2023 are as follows:

Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,005,050
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Operating lease right-of-use assets are classified as long-term assets with the related liabilities classified as current and long-term in the accompanying balance sheets. The following table presents lease-related assets and liabilities at June 30, 2023:

Operating leases:	
Right-of-use assets - operating leases	\$ 3,079,025
Current portion of operating lease obligations	\$ 970,375
Long-term operating lease obligations	<u>2,108,650</u>
Total operating lease liabilities	<u>\$ 3,079,025</u>

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

The following table presents lease-related assets and liabilities at June 30, 2023:

Finance leases:	
Property and equipment, net	\$ 1,829,704
Current portion of finance lease obligations	\$ 581,632
Long-term finance lease obligations	<u>1,227,123</u>
Total finance lease liabilities	<u>\$ 1,808,755</u>

Other Information:	
Weighted-average remaining lease term – operating leases	4.02 years
Weighted-average remaining lease term – finance leases	3.04 years
Weighted-average discount rate – operating leases	2.88%
Weighted-average discount rate – finance leases	5.05%

Future operating lease liability maturities for the years ended June 30 are as follows (see Note 5 for finance lease maturity schedule):

	<u>Operating</u>	<u>Finance</u>
2024	\$ 1,046,306	\$ 661,536
2025	770,899	529,155
2026	532,581	412,791
2027	504,239	353,391
2028	399,395	29,598
Thereafter	<u>35,805</u>	<u>-</u>
Total	3,289,225	1,986,471
Less: interest	<u>210,200</u>	<u>177,716</u>
Lease liability	<u>\$ 3,079,025</u>	<u>\$ 1,808,755</u>

## 11. Functional Expenses

The Corporation provides general health care services and related services to individual within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30:

	<b>2023</b>		
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries	\$ 54,254,715	\$ 20,008,018	\$ 74,262,733
Employee benefits and other related expenses	10,997,295	2,538,420	13,535,715
Professional fees and contracted services	9,028,899	4,607,311	13,636,210
Supplies and other expenses	38,206,147	4,341,553	42,547,700
Utilities	383,139	1,522,443	1,905,582
Maintenance and repairs	6,550,511	2,160,861	8,711,372
Insurance	410,406	1,604,712	2,015,118
Interest	420,466	1,141,258	1,561,724
Depreciation	6,103,767	1,916,080	8,019,847
Amortization	219,182	7,654	226,836
<b>Total</b>	<b><u>\$126,574,527</u></b>	<b><u>\$ 39,848,310</u></b>	<b><u>\$ 166,422,837</u></b>

	<b>2022</b>		
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries	\$ 49,182,840	\$ 18,074,097	\$ 67,256,937
Employee benefits and other related expenses	10,570,783	2,606,243	13,177,026
Professional fees and contracted services	9,099,633	3,858,933	12,958,566
Supplies and other expenses	34,164,781	3,923,921	38,088,702
Utilities	364,772	1,398,586	1,763,358
Maintenance and repairs	6,569,502	2,213,508	8,783,010
Insurance	581,826	1,589,052	2,170,878
Interest	372,949	1,165,304	1,538,253
Depreciation	7,001,656	1,162,459	8,164,115
Amortization	219,183	7,064	226,247
<b>Total</b>	<b><u>\$118,127,925</u></b>	<b><u>\$ 35,999,167</u></b>	<b><u>\$ 154,127,092</u></b>

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

## 12. Business and Credit Concentrations

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

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

	<u>2023</u>	<u>2022</u>
Medicare	48%	48%
Medicaid	14%	13%
Blue Cross	15%	18%
Commercial	18%	15%
Self-pay and others	<u>5%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

## 13. Perdue Kresge Challenge for the Community

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

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

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

	<u>2023</u>	<u>2022</u>
Beginning fund balance	\$ 1,996,830	\$ 2,376,074
Interest and dividends	67,470	85,584
Net realized and unrealized (losses) gains	238,243	(339,532)
Administrative and management fees	(19,770)	(22,501)
Annual income distributions	<u>(104,145)</u>	<u>(102,795)</u>
Ending fund balance	<u>\$ 2,178,628</u>	<u>\$ 1,996,830</u>



**14. Liquidity and Availability**

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 16,799,219	\$ 27,708,808
Marketable securities	<u>19,499,911</u>	<u>14,846,640</u>
	<b>36,299,130</b>	42,555,448
Accounts receivable, net	<b>12,238,696</b>	13,055,093
Other receivables	<u>234,192</u>	<u>144,153</u>
Total	<u><b>\$ 48,772,018</b></u>	<u>\$ 55,754,694</u>

In addition to the assets in the table above, the Corporation has other investments and assets whose use is limited for specified purposes, and because they are not available for general expenditure within one year are not reflected in the amounts above. The Corporation does, however, have investments and certain other long-term assets whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.

**15. COVID-19 Pandemic and CARES Act**

In response to the COVID-19 pandemic, the CARES Act was signed into law on March 27, 2020. One provision of the CARES Act was the establishment of the Provider Relief Funds administered by the U.S. Department of Health and Human Services (“HHS”). The Provider Relief Funds are being distributed to healthcare providers throughout the country to support the battle against the COVID-19 outbreak. During the year ended June 30, 2022, the Corporation received \$404,282 in general and targeted distributions and \$2,797,791 in American Rescue Plan (“ARP”) Rural distributions from this fund. The Corporation recognized these amounts as other operating revenues in the accompanying statements of operations as of June 30, 2022 to the extent the conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met for resulting in the simultaneous release of restrictions. The funds are subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

Also under the CARES Act, the Corporation received \$22,353,918 accelerated or advance financing from the Medicare Accelerated and Advance Payment Program in April 2020, which will need to be repaid beginning one year from the date of issuance of the payments as new claims are submitted to CMS. The remaining balance of \$5,026,835 as of June 30, 2022 is included in advances from third party payors in the accompanying balance sheets and this balance was recouped in its entirety as of June 30, 2023.

Additionally, during the year ended June 30, 2021, the Corporation elected payroll tax deferrals of approximately \$1,980,000, which were due back to the IRS during fiscal years 2022 and 2023. These deferrals are included in salaries, wages, and related items in the accompanying balance sheet. At June 30, 2022, the payroll tax deferral was approximately \$830,000 which was paid in full as of June 30, 2023.