MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

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Independent Auditors’ Report

The Board of Directors
Meritus Medical Center, Inc.:

Opinion

We have audited the consolidated financial statements of Meritus Medical Center, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

(signed) KPMG LLP

Baltimore, Maryland
Date

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	43,495	20,859
Short-term investments		127,770	93,406
Current portion of assets whose use is limited		11,049	10,917
Accounts receivable		45,096	42,073
Supplies		7,899	8,373
Prepaid and other current assets		15,360	15,485
Total current assets		250,669	191,113
Assets whose use is limited		254,960	283,096
Property, plant, and equipment, net		236,698	239,885
Equity investments in affiliates		63,492	50,885
Other assets		42,933	38,517
Total assets	$	848,752	803,496
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	28,296	30,928
Accrued salaries, wages, and withholdings		11,648	14,816
Accrued compensation benefit		15,026	14,265
Advances from third-party payors		17,303	29,335
Accrued interest payable		5,442	5,587
Current portion of long-term debt		8,491	5,841
Total current liabilities		86,206	100,772
Long-term debt, net of current portion		285,905	294,396
Accrued retirement benefits		6,451	5,622
Other long-term liabilities		33,613	32,355
Total liabilities		412,175	433,145
Net assets:			
Net assets without donor restrictions		425,952	365,963
Net assets with donor restrictions		10,625	4,388
Total net assets		436,577	370,351
Total liabilities and net assets	$	848,752	803,496

See accompanying notes to consolidated financial statements.

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2023 and 2022

(Dollars in thousands)

	2023	2022
Unrestricted revenue, gains, and other support:		
Net patient service revenue	$ 502,005	471,694
Other revenue	37,474	14,388
Equity earnings in affiliates	15,862	4,227
Net assets released from restriction used for operations	154	999
Total unrestricted revenue, gains, and other support	555,495	491,308
Expenses:		
Salaries and wages	241,527	236,307
Employee benefits	46,101	44,820
Professional fees	41,510	30,249
Supplies and other	150,201	131,250
Interest	11,864	11,172
Depreciation and amortization	29,733	26,516
Total expenses	520,936	480,314
Operating income	34,559	10,994
Nonoperating gains (losses), net:		
Investment returns, net	26,936	(42,313)
Other, net	(2,022)	(1,667)
Excess (deficit) of revenues over expenses	$ 59,473	(32,986)

(Continued)

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Net assets without donor restrictions			
Excess (deficit) of revenues over expenses	$	59,473	(32,986)
Other, net		516	1,999
Increase (decrease) in net assets without donor restrictions		59,989	(30,987)
Net assets with donor restrictions			
Contributions		10,245	536
Other, net		(3,854)	(1,185)
Net assets released from restriction for operations		(154)	(999)
Increase (decrease) in net assets with donor restrictions		6,237	(1,648)
Increase (decrease) in net assets		66,226	(32,635)
Net assets:			
Beginning of year		370,351	402,986
End of year	$	436,577	370,351

See accompanying notes to the consolidated financial statements.

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from operating activities:			
Increase (decrease) in net assets	$	66,226	(32,635)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		29,733	26,516
Net realized and unrealized (gains) losses on investments		(21,179)	45,448
Gain on disposal of assets		(3)	(3,644)
Equity earnings in affiliates		(15,862)	(4,227)
Restricted contributions and other		(6,907)	(1,350)
Changes in assets and liabilities:			
Accounts receivable		(3,023)	(940)
Supplies, prepaid, and other current assets		982	(4,357)
Other assets		(631)	(14,391)
Accounts payable, accrued expenses, and long-term liabilities		(1,290)	18,840
Accrued salaries, wages, and withholdings		(3,168)	(3,327)
Accrued compensation benefit		761	35
Advances from third-party payors		(12,032)	(47,115)
Interest payable		(145)	(123)
Accrued retirement benefits		829	(1,383)
Net cash provided by (used in) operating activities		34,291	(22,653)
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(26,630)	(37,412)
Proceeds from the disposal of assets		3	4,202
Sales of other short-term investments, and assets whose use is limited, net		17,847	98,542
Purchases of alternative investments		(40,404)	(129,542)
Sales of alternative investments		37,376	32,777
Equity contributions to affiliates, net		3,255	2,165
Net cash used in investing activities		(8,553)	(29,268)
Cash flows from financing activities:			
Payments on long-term debt and finance leases		(5,841)	(5,865)
Proceeds from bond issuance		—	60,350
Restricted contributions and other		2,739	1,350
Net cash provided by financing activities		(3,102)	55,835
Net increase in cash and cash equivalents		22,636	3,914
Cash and cash equivalents:			
Beginning of year		20,859	16,945
End of year	$	43,495	20,859
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	11,864	11,295
Cash paid for income taxes		277	156
Amount included in accounts payable for construction in progress		84	1,404
Non-cash restricted contributions and other		4,168	—

See accompanying notes to consolidated financial statements.

(1) Description of Organization

Organization

Meritus Medical Center, Inc. (the Hospital or the Company) is the parent corporation of the Meritus Healthcare Foundation, Inc. (the Foundation); the Meritus Insurance Company, Ltd. (MIC); Meritus Health ACO, LLC (MACO); and Meritus Holdings, LLC (Holdings), which owns Meritus Enterprises (MEI). These entities are collectively referred to as “Meritus.”

The Hospital is a not-for-profit acute-care hospital located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania, and the panhandle of West Virginia. The Hospital currently offers acute general hospital inpatient services, including adult medical/surgical care, obstetrics and newborn care, including a family birthing center, cardiac catheterizations, comprehensive inpatient rehabilitation, radiology and diagnostic services, inpatient and outpatient mental health services, a regional Level III Trauma Center, an intensive care unit, an intermediate care unit, and a pediatric unit. The Hospital also manages gifts, donations, or bequests given for the benefit of Meritus and owns real estate properties for rental to medical provider entities and development opportunities.

The Foundation is a not-for-profit corporation whose purpose is to raise philanthropic support for the capital and endowment campaigns of the Hospital. The Foundation also raises money for the Hospital’s medical programs, healthcare objectives, scientific research, educational programs, and related community activities. Resources for the Foundation’s activities are primarily provided by donors.

MIC is a Cayman Island captive insurance company, wholly owned by the Hospital that provides primary limits of insurance to Meritus for professional liability, employed physician’s professional liability, comprehensive general liability, deductible, and stop-loss coverage for health insurance.

As of June 30, 2023, MEI, a for-profit corporation, held ownership interests in the following joint venture:

- Diagnostic Imaging Services, LLC (DIS), an outpatient imaging services provider

Holdings is the sole member of Medical Practices of Antietam, LLC, which employs physicians and operates clinics in the Meritus primary service area.

As of June 30, 2023, Holdings, held ownership interests in the following joint venture:

- General Surgery Real Estate, LLC (GSRE), a real estate holding company

MEI also owns and operates Equipped for Life (EFL), a durable medical equipment company.

MACO is an Accountable Care Organization (ACO), wholly owned by the Hospital. MACO participates in the following CMS programs:

- Maryland Primary Care Program (MDPCP), as an approved Care Transformation Organization for Washington County, MD, effective January 1, 2019

MSOM, Inc. (Meritus School of Osteopathic Medicine) was established to operate a proposed school of osteopathic medicine. Medical school enrollment trends indicate an ample supply of qualified applicants to support the proposed class size of 180 students. The school is under construction, and the first class is planned to begin in August 2025. The Meritus Board of Directors have approved financial commitments totaling $190,000, including a reserve obligation of $50,000. Meritus will fund the project through current cash and investment holdings.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The Company’s consolidated financial statements include the subsidiaries in which the Company has more than 50% voting interests or when the Company is deemed to have control. Significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts of the Hospital, Holdings, MEI, the Foundation, MACO, and MIC. All material intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated 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. Accordingly, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments held with large well-known financial institutions, that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost that approximates fair value.

(d) Patient Accounts Receivable

Patient accounts receivable result from the healthcare services provided by Meritus and are recorded at the net realizable value based on certain assumptions determined by each payor. For third-party payors, including Medicare, Medicaid, and commercial insurance, the net realizable value is based on the estimated contract adjustments, which is based on approved discounts on charges as permitted by the Health Services Cost Review Commission (HSCRC). For self-pay accounts, which included patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. See note 2(m) for revenue recognition policies.

(e) Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Directors for specific purposes, for supplemental retirement benefit investments, to fulfill donor purposes, assets held by trustees under bond indenture agreement, and funds designated for insurance purposes. Amounts required to meet current liabilities are shown as current assets in the consolidated balance sheets. Cash and cash equivalents, as defined above, within assets whose use is limited are treated as investments.

(f) Investments and Investment Income

Investments in equity securities (i.e., investments that have readily determinable fair values and are not accounted for by the equity method) and all investments in debt securities are reported at fair value on the consolidated balance sheets. Institutional funds are recorded at their readily determinable fair values (RDFV). All securities with the exception of alternative investments are reported at fair value. Alternative investments are recorded under the equity method of accounting.

A significant portion of the Meritus’ investments are held in an investment portfolio maintained for the benefit of Meritus and its affiliates and its subsidiaries. Investments are classified as trading securities except for certain investments, which are limited or restricted as to use or do not have the liquidity to qualify as trading securities and are classified as investments available for sale.

Investment income and realized gains are recorded as nonoperating revenue. Unrealized gains and losses on trading securities are recorded as nonoperating revenue. Unrealized gains and losses on available for sale investments are included in other changes in net assets. Investment income and realized gains and losses on assets restricted by donors for specific purposes or endowment are included in net assets with donor restrictions.

Investment income, which includes interest and dividends, on proceeds of borrowings that are held by a trustee are reported as other revenue. Other investment income, which includes interest, dividends and realized and unrealized gains and losses on assets limited as to use by Board of Directors, and funds designated for insurance purposes are recorded as nonoperating (losses) gains, net, unless the income or loss is restricted by donor or law.

Meritus' investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

(g) Supplies

Supplies for the Hospital are carried at cost on a weighted average basis.

(h) Property, Plant and Equipment

Property, plant and, equipment acquisitions are recorded at cost. Those assets acquired by gift are carried at amounts established as fair value at the time of acquisition. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under finance leases are amortized by the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during the year ended June 30, 2023 or 2022. Leasehold improvements are amortized over the lesser of the useful life or the lease life. Durable medical equipment held for resale is included in supplies. The remainder of durable medical equipment is rented to patients and is included in property, plant, and equipment. Assets are retired or disposed of at book value and related gains or losses are recorded for assets sold. Useful lives range as follows:

Land improvements	5–25 Years
Buildings	10–40 Years
Equipment	3–20 Years

Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. When applicable, 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-lived assets must be maintained, expirations of donor restrictions, occur when the donated or acquired long-lived assets are placed into service.

Meritus continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Meritus uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable.

The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices, where available, or discounted cash flows. Management believes that no revision to the remaining useful lives is required, and there was no impairment of long-lived assets during the year ended June 30, 2023 or 2022.

(i) Deferred Financing Costs

Financing costs incurred in issuing debt have been capitalized and are being amortized over the life of the debt.

(j) Compensated Absences

Meritus records a liability for amounts due to employees for future absences, which are attributable to services performed in the current and prior periods. This liability is included in accrued compensation benefit on the consolidated balance sheets.

(k) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by Meritus have been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified into net assets without donor restrictions and reported as net assets released from restrictions. Net assets with donor restrictions also include funds that have been restricted by donors to be maintained by Meritus in perpetuity.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions if for operating purposes and as other changes in net assets without donor restrictions if for capital purposes in the consolidated statements of operations and changes in net assets.

(l) Excess (Deficit) of Revenues Over Expenses

The consolidated statements of operations include a performance indicator, the excess (deficit) of revenue over expenses. Changes in net assets without donor restrictions that are excluded from the excess (deficit) of revenues over expenses, consistent with industry practice, include net assets released from restrictions for property, plant, and equipment.

(m) Net Patient Service Revenue

For services provided at the Hospital’s campus, all payors are required to pay the Maryland Health Services Cost Review Commission (HSCRC) approved rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Hospital’s charges are subject to review and approval by the HSCRC. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. The Hospital has an agreement with the HSCRC under a rate regulation concept called Global Budget Revenue (GBR).

Services not located on the Hospital’s campus and certain other services are not regulated by the HSCRC. Medicare and Medicaid pay the revenues associated with these services based upon established fee schedules. Commercial payors pay at negotiated rates for these services.

Laws and regulations governing the HSCRC, Medicare, and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Meritus believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action.

Net patient service revenue is recognized, over time, as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized at the estimated net realizable amounts from patients and third-party payors for services rendered.

The Company generates revenues, primarily by providing healthcare services to its customers. Revenues are recognized when control of the promised good or service is transferred to customers, in an amount that reflects the consideration to which the Company expects to be entitled from patients, third-party payors (including government programs and insurers), and others, in exchange for those goods and services.

The majority of the Company’s healthcare services represent a bundle of services that are not capable of being distinct and as such, are treated as a single performance obligation satisfied over time as services are rendered. The Company also provides certain ancillary services that are not included in the bundle of services, and as such, are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

The Company’s estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts, which are determined using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Estimates for uncollectible amounts are based on the aging of the accounts receivable, historical collection experience for similar payors and patients, current market conditions, and other relevant factors.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments 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 payor’s or patient’s ability to pay are recorded as bad debt expense. Bad debt expense for the year ended June 30, 2023 or 2022 was not significant to the consolidated financial statements.

Patient service revenue for the years ended June 30, 2023 and 2022, net of contractual allowances and other allowances, recognized in the period by inpatient / outpatient, is as follows:

		Third party	
		2023	**2022**
Net patient service revenue:			
Hospital inpatient	$	231,917	240,014
Hospital outpatient		208,429	190,463
Other outpatient		318,694	252,456
Gross charges		759,040	682,933
Less contractual and other allowances		(257,035)	(211,239)
Net patient service revenue	$	502,005	471,694

(n) Charity Care

Meritus provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Meritus does not pursue collection on amounts deemed to qualify as charity. Meritus also estimates that the direct and indirect cost of services and supplies furnished to patients eligible for charity care using a ratio of cost to gross charges based on internal data is $14,479 and $14,943 for the years ended June 30, 2023 and 2022, respectively.

Meritus' patient acceptance policy is based upon its mission statement and its charitable purposes. This policy results in Meritus' assumption of higher-than-normal credit risk from its patients. To the extent that Meritus realizes additional losses resulting from such higher credit risks and clients are not identified or do not meet Meritus' defined charity care policy, such additional losses are recognized as a reduction to net patient service revenue.

Meritus also sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health and education for the general community welfare. In addition, all other uncollectible amounts resulting from the patients' inability to pay are recorded as a reduction to net patient service revenue, consistent with Meritus' policy.

(o) Other Revenue

Other revenue comprises rental income, gains and losses on disposal of assets, 340B contract pharmacy income, grants related to COVID-19 funding, including funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Federal Emergency Management Agency (FEMA) reimbursement (note 15), and other miscellaneous items.

(p) Income Taxes

The Internal Revenue Service has ruled that the Hospital and the Foundation qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not subject to tax under present income tax regulations.

Holdings and MACO are considered a disregarded entity for tax purposes and are reported through the Hospital.

MEI accounts for income taxes through the current recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

At present, no income, profit, or capital gain taxes are levied in the Cayman Islands and accordingly, no provision for taxation has been made for MIC. In the event that such taxes are levied, MIC has been granted an exemption until September 14, 2043 for any such taxes that might be introduced. MIC intends to conduct its affairs so as not to be liable for taxes in any other jurisdiction.

Meritus follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. Meritus does not believe its consolidated financial statements include any material uncertain tax positions. As of June 30, 2023, the Meritus tax years ended June 30, 2017 through June 30, 2023 for federal tax jurisdiction remain open to examination.

(q) Concentration of Credit Risk

Meritus invests its excess cash, investments, and assets in financial institutions, which are federally insured under the Federal Deposit Insurance Act (FDIA). Deposits in certain accounts exceed federally insured deposit limits. Meritus has experienced no losses on its deposits and believes it is not exposed to any significant credit risks on its cash deposits.

Meritus grants credit without collateral to the patients it serves who primarily live in the tristate area. The majority of these patients have either insurance through Blue Cross, another insurance company or a health maintenance organization, or qualify for the Maryland Medical Assistance or the Centers for Medicare and Medicaid Services (CMS) programs.

At June 30, Meritus' patient accounts receivable was made up of the following:

	2023	2022
Medical assistance HMO/Medicaid	14 %	15 %
Medicare	41	39
Commercial insurance, HMO, and other	26	27
Blue Cross/Blue Shield	14	15
Self-pay	5	4
	100 %	100 %

(r) Deferred Compensation Plan

The Hospital is party to a 457(b) deferred compensation plan and a 457(f) deferred compensation plan, both are intended to provide retirement benefits to certain eligible employees. Assets are deposited with the plan managers, pursuant to this agreement, such that the value of the assets determined by the fair value approximately equals the related accrued deferred compensation liability. The funds are placed into a range of investment strategies from conservative to aggressive. The liability associated with this plan is included in accrued retirement benefits on the consolidated balance sheets.

(s) Management's Assessment and Plans

The Company previously adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and the Company will continue to meet its obligations through September 29, 2024.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform with current period presentation, the effects of which are not material.

(3) Investments and Investment Income

Investments at June 30 consisted of the following:

		2023	2022
Short-term investments:			
Cash and cash equivalents	$	76,445	944
U.S. government notes		9,096	33,853
Fixed income bonds – corporate		1,016	15,548
Mutual funds		8,611	17,855
Mortgage backed securities		696	—
Asset backed securities		3,725	—
Alternative investments		28,181	25,206
Total	$	127,770	93,406

		2023	2022
Assets whose use is limited:			
Cash and cash equivalents	$	13,408	14,322
Fixed income:			
Corporate debt securities		48,348	77,542
Mortgage backed securities		122	272
Asset backed securities		2,972	2,569
US government notes		4,483	5,583
Equities:			
Mutual funds		22,370	27,090
Institutional funds:			
Domestic equities		33,684	41,974
International equities		9,769	9,651
Fixed income		1,455	1,030
Alternative investments		129,398	113,980
Total	$	266,009	294,013

The amount of the board designated funds whose use is limited is $232,520 and $260,730 as of June 30, 2023 and 2022, respectively.

Investment returns, net included in the consolidated statements of operations and changes in net assets comprise the following for the years ended June 30:

		2023	2022
Investment returns, net:			
Interest and dividends, net of investment fees of $578 and $620 in 2023 and 2022, respectively	$	5,757	3,135
Net realized gains on investments		731	26,357
Change in unrealized gains (losses) on investments		20,448	(71,805)
	$	26,936	(42,313)

As of June 30, 2023 and 2022, the Hospital had invested $14,639 and $28,123, or 9.3% and 20.2%, respectively, of the portfolio in certain alternative investments, which are invested in hedge funds. The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2023:

	Fund 1	Fund 2
Redemption timing:		
Redemption frequency	Quarterly	Quarterly
Required notice	65 days	100 days

At June 30, 2023 and 2022, the Company has invested in $226,101 and $220,894 of investments and assets whose use is limited for which the value is based on either readily determinable fair value (RDFV) or net asset value (NAV). At June 30, 2023, $68,522 was based on RDFV and $157,579 was based on NAV. At June 30, 2022, $81,708 was based on RDFV and $139,186 was based on NAV. At June 30, 2023 and 2022, $142,940 and $111,063, respectively, of assets based on NAV are commingled funds with the majority having redemption terms of five days or less.

The redemption terms and notification requirements of the institutional funds range from daily to monthly.

(4) Fair Value Measurements

Meritus measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level I – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level III – Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Financial instruments consist of cash equivalents, patient accounts receivable, investments, excluding those accounted for by the equity method, accounts payable and accrued expenses, and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash equivalents, patient accounts receivable, and accounts payable and accrued expenses approximate fair value. Management's estimates of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

Meritus does not have any Level 3 financial instruments as of June 30, 2023 or 2022.

Investments are valued using a market approach as follows:

Cash and cash equivalents – Cash equivalents are classified as Level 1 inputs and represent short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Stock and equity/institutional funds – Common stock and equity funds consist of stock and are valued based upon unadjusted quoted prices in the market.

Mutual Funds – Valued at the closing price reported in the active market in which the mutual fund is traded.

Fixed income bonds – Valued at the closing price reported in the active market in which the bond is traded.

The following table presents Meritus' assets measured at fair value on a recurring basis using the market approach, as of June 30:

	Level 1	Level 2	Level 3	Total
2023:				
Cash and cash equivalents	$ 89,853	—	—	89,853
Mutual funds	30,981	—	—	30,981
Fixed income bonds:				
Corporate debt securities	—	49,364	—	49,364
Mortgage-backed securities	—	818	—	818
Asset backed securities	—	6,697	—	6,697
U.S. government notes	—	13,579	—	13,579
Institutional funds:				
Domestic equities	—	33,684	—	33,684
International equities	—	9,769	—	9,769
Fixed income	—	1,455	—	1,455
Total assets at fair value	$ 120,834	115,366	—	236,200
Assets at NAV				157,579
Total assets				$ 393,779

	Level 1	Level 2	Level 3	Total
2022:				
Cash and cash equivalents	$ 15,266	—	—	15,266
Mutual funds	44,944	—	—	44,944
Fixed income bonds:				
Corporate debt securities	—	93,090	—	93,090
Mortgage-backed securities	—	272	—	272
Asset backed securities	—	2,569	—	2,569
U.S. government notes	—	39,436	—	39,436
Institutional funds:				
Domestic equities	—	41,974	—	41,974
International equities	—	9,652	—	9,652
Fixed income	—	1,030	—	1,030
Total assets at fair value	$ 60,210	188,023	—	248,233
Assets at NAV				139,186
Total assets				$ 387,419

There were no Level 3 investments or transfers during the year ended June 30, 2023 or 2022.

(5) Property, Plant, and Equipment

Property, plant, and equipment at June 30 comprise the following:

		2023	2022
Land	$	26,307	25,123
Buildings and improvements		249,043	247,174
Leasehold improvements		4,428	4,164
Equipment		232,004	219,027
		511,782	495,488
Less accumulated depreciation and amortization		(285,397)	(257,473)
		226,385	238,015
Construction in progress		10,313	1,870
Property, plant, and equipment, net	$	236,698	239,885

Total depreciation and amortization expense for property, plant, and equipment for the years ended June 30, 2023 and 2022 was $29,733 and $26,516, respectively.

(6) Equity Investments in Affiliates

The following investments, recorded under the equity method of accounting, are included in the consolidated balance sheets.

The Hospital holds a 25% equity interest in Maryland Care, Inc. (MPC), a managed care organization (MCO) that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO, and Maryland Care Management, Inc. (MCMI), a management services organization that provides management services to MPC. The Hospital holds a 41% equity interest in Cumberland Valley Surgery Center, LLC, an ambulatory surgery center.

Holdings holds a 50% interest in GSRE which is a real estate holding company. MEI has a 50% interest in DIS, which provides radiology imaging services.

Summary of financial information as of June 30, 2023 and 2022 and for the years then ended appears below for the significant equity investments:

	Maryland Care, Inc.		Diagnostic Imaging Services, LLC	
	2023	2022	2023	2022
Assets	$ 484,638	307,603	10,187	10,210
Liabilities	258,307	131,037	3,826	4,167
Equity	$ 226,331	176,566	6,361	6,043
Revenue	$ 1,438,003	1,375,003	20,988	20,477
Expenses	1,370,940	1,366,425	20,170	18,103
Net income	$ 67,063	8,578	818	2,374

	Maryland Care Management, Inc.	
	2023	2022
Assets	$ 18,350	20,623
Liabilities	5,040	7,350
Equity	$ 13,310	13,273
Revenue	$ 28,033	25,335
Expenses	27,034	21,939
Net income	$ 999	3,396

(7) Long-Term Debt

Long-term debt at June 30 consists of the following:

	2023	2022
MHHEFA Revenue Bonds:		
Series 2015 3.50%–5.00% serial bonds, including issue premiums of $11,138	$ 235,928	241,836
Series 2022 2.59%	60,350	60,350
Mortgages and equipment loans with banks, with interest rates ranging from 2.24% to 7.75%	—	20
	296,278	302,206
Less current portion of long-term debt	(8,491)	(5,841)
Less debt issuance costs and discounts	(1,882)	(1,969)
	$ 285,905	294,396

On July 9, 2015, Meritus issued Series 2015 Bonds to (i) refund all of the Maryland Health and Higher Educational Facilities Authority's Revenue Bonds, Washington County Hospital Issue, Series 2008 (Series 2008 Bonds) and (ii) finance and refinance the cost of construction, renovation, and equipping of certain additional facilities for Meritus (the 2015 Project). The Series 2015 Bonds were issued in the principal amount of $257,300 plus a premium of $15,100. The Series 2015 Bonds proceeds, together with the outstanding Series 2008 Bonds escrow fund balance totaled $22,000, and Meritus' internal cash of $7,400 were used to pay the cost of issuance, refund Series 2008 Bonds and receive $20,000 of proceeds for capital expenditures. The Series 2015 Bonds are due in annual principal installments through 2045 and bear interest at 3.5% to 5.0% due semiannually in January and July.

The long-term debt related to the Series 2015 Bonds is reflected in the consolidated financial statements including the unamortized bond premium. The original issue bond premiums are being amortized over the life of the debt and are netted against interest expense in the consolidated statements of operations and changes in net assets.

On March 9, 2022, Meritus issued a taxable bond in the amount of $60,350 (Series 2022 Bond) to finance past capital expenditures and pay for the cost of issuance. Maryland Health and Higher Educational Facilities Authority (MHHEFA) and Meritus amended the Master Loan Agreement dated as of July 1, 2015 to recognize the Series 2022 Bond as a parity debt by executing the First Supplemental Master Loan Agreement dated as of March 1, 2022. The Series 2022 Bond are due in various annual principal repayments commencing July 1, 2023 through 2037, and bears a fixed interest at 2.59% due monthly.

All bonds are collateralized by a first lien and claims on all receipts of Meritus, except restricted donations and contributions. In connection with the Series 2015 Bonds, the bond holders have a security interest in existing facilities of Meritus. All bonds require the Hospital to maintain certain financial ratios and stipulated insurance coverage as defined.

Scheduled principal repayments on long-term debt are as follows for the next five years as of June 30:

2024	$	8,491
2025		8,814
2026		9,149
2027		9,599
2028		9,868
Thereafter		250,357
	$	296,278

(8) Leases Commitments

Meritus accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842, *Leases,* and determines if an arrangement contains a lease at the inception of the contract. Right-of-use assets and liabilities are recognized at the contract commencement date for the present value of lease payments over the lease term. Meritus uses its estimated incremental borrowing rate when no implicit rate is noted within the contract. A right-of-use asset and lease liability is not recognized for leases with an initial term of 12 months or less and rent expense for these types of leases are recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease.

Meritus utilizes operating leases primarily for real estate, including medical facilities and office space. The real estate lease agreements have initial terms of 5 to 20 years. Some real estate leases include one or more options to renew, the exercise of lease renewal options is at the Hospital's discretion. When determining the lease term, options to extend or terminate the lease were included when it was reasonably certain the Meritus would exercise that option.

Supplemental balance sheet information related to leases as of June 30 are as follows:

	Balance sheet classification		2023	2022
Operating leases:				
Operating lease ROU assets – current	Prepaid and other current assets	$	3,487	3,107
Operating lease ROU assets – noncurrent	Other assets		26,830	25,230
Operating lease ROU liabilities – current	Accounts payable and accrued expenses		3,487	3,107
Operating lease ROU liabilities – noncurrent	Other long-term liabilities		26,830	25,230

Supplemental cash flow and other information related to leases as of and for the years ended June 30 are as follows:

Other information		2023	2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases (1)	$	1,979	9,422
Weighted average remaining lease term:			
Operating leases		11 Years	12 Years
Weighted average discount rate:			
Operating leases		4.4 %	4.4 %

(1) Included in other assets and accounts payable, accrued expenses, and long-term liabilities in the statement of cash flows

Future maturities of operating lease liabilities as of June 30, 2023 are as follows:

		Leases
Year ending June 30:		
2024	$	4,696
2025		4,611
2026		4,063
2027		3,538
2028		3,451
Thereafter		17,560
Total minimum lease payments		37,919
Impact of present value discount		(7,602)
Present value of minimum lease payments	$	30,317

The components of the lease cost and rent expense, which is recorded within supplies and other in the consolidated statements of operations and changes in net assets for the years ended June 30 are as follows:

Lease cost		2023	2022
Operating lease cost:			
Operating lease cost	$	4,451	3,740
Short-term lease expense		1,184	1,067
Total operating lease cost	$	5,635	4,807

(9) Income Taxes

Holdings and its subsidiaries file a consolidated federal return and separate state returns. The income tax expense for the years ended June 30 consists of:

		2023	2022
Current:			
Federal	$	(207)	(127)
State		(70)	(39)
		(277)	(166)
Deferred:			
Federal		2	(131)
State		—	(41)
		2	(172)
	$	(275)	(338)

The significant components of the deferred tax assets and deferred tax liabilities, which are included in prepaid and other current assets and other assets at June 30, are as follows:

		2023	2022
Deferred tax asset:			
Accrued vacation	$	107	99
Deferred compensation		423	565
Allowance for bad debts		23	25
NOL carryover		1,103	1,040
Fixed assets		138	121
Other		141	68
		1,935	1,918
Deferred tax liabilities:			
Unrealized gain/loss		(29)	(16)
Captive insurance premiums		(11)	(10)
		(40)	(26)
	$	1,895	1,892

In assessing deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon positive operation trends through 2023 and projections for future taxable income, management believes that it is more likely than not that the Company will realize the benefits of the deductible differences at June 30, 2023 and 2022. Accordingly, the Company has determined that there is no valuation allowance as of June 30, 2023 or 2022. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of June 30, 2023 or 2022, the Company has no unrecognized tax benefits. Therefore, the Company does not expect any impact on the effective tax rate related to recognition of unrecognized tax benefits. In addition, there are no anticipated reversals of uncertain tax positions in the next 12 months. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of June 30, 2023 or 2022, the Company has no accrued interest or penalties related to uncertain tax positions.

(10) Post Retirement Benefit Plans

Defined Contribution Plans

Meritus has a 401(k) Savings Plan. The plan is available to all Meritus employees. Meritus matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations.

Amounts charged to expense for the years ended June 30, 2023 and 2022 were $7,835 and $7,192, respectively.

The Hospital and MEI each maintain an employee funded supplemental nonqualified retirement plan for certain employees. The plan requires the benefits be paid upon termination, retirement, or death. The related liability is $6,451 and $5,622 at June 30, 2023 and 2022, respectively. Management has designated investments for the intended purpose of funding the liability when payable.

(11) Insurance Coverage

Meritus has a wholly owned insurance captive, MIC, to provide primary limits of insurance of $1,000 per occurrence/$3,000 aggregate for professional and general liability. In addition, MIC purchased reinsurance in the amount of $30,000 to cover any potential liabilities above the $1,000/$3,000 primary limits, which were covered by MIC. The self-insured liabilities determined by an actuary for professional and general liability claims are included in other long-term liabilities in the consolidated balance sheets. As of June 30, 2023 and 2022, Meritus recorded a liability of $6,820 and $7,096, respectively.

Consistent with most companies with similar insurance operations, the liability for losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the consolidated financial statements.

In 2023 and 2022, the Company participated in a self-insured plan for workers' compensation claims. Stop-loss coverage has been purchased through a commercial carrier for claims in excess of $450. As of June 30, 2023 and 2022, Meritus recorded a liability of $2,300, which is included in accrued salaries, wages, and withholdings in the consolidated balance sheets.

(12) Risk and Uncertainties

The Company provides general acute healthcare services in the State of Maryland. The Company and other healthcare providers are subject to certain inherent risks, including the following:

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

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

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

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Company.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse laws and physician self-referral laws (STARK law and regulation). Federal healthcare reform initiatives continue to prompt a national review of federally funded healthcare programs. In addition, the federal government and many states continue to fund programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Company has devoted resources to implement a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists. However, any negative findings from a future proceeding, if any, could result in substantial financial penalties or awards against the Company, exclusion from future participation in the Medicare and Medicaid programs, and if criminal proceedings were initiated against the Company, possible criminal penalties. At this time, the Company cannot predict the ultimate outcome of any potential inquiries, or the potential range of damages, if any.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation 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. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2023 or 2022 consolidated financial statements.

Litigation

Additionally, Meritus is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on Meritus' financial position or results of operations.

(13) Functional Expenses

Meritus provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended June 30 are as follows:

		Program services	General and administrative	Fundraising	Total
2023:					
Salaries and wages	$	200,467	41,060	—	241,527
Employee benefits		38,264	7,837	—	46,101
Professional fees		34,453	7,057	—	41,510
Supplies and other		124,592	25,349	260	150,201
Interest		9,847	2,017	—	11,864
Depreciation and amortization		24,678	5,055	—	29,733
Total expenses	$	432,301	88,375	260	520,936

		Program services	General and administrative	Fundraising	Total
2022:					
Salaries and wages	$	188,403	47,904	—	236,307
Employee benefits		37,534	7,286	—	44,820
Professional fees		27,117	3,132	—	30,249
Supplies and other		113,804	17,134	312	131,250
Interest		8,987	2,185	—	11,172
Depreciation and amortization		22,576	3,940	—	26,516
Total expenses	$	398,421	81,581	312	480,314

(14) Liquidity and Availability of Financial Assets

The following reflects financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditure because of contractual or donor-imposed restrictions within one year.

		2023	2022
Financial assets as of June 30	$	490,711	460,918
Less those unavailable for general expenditures within one year, due to:			
Contractual and donor-imposed restriction:			
Funds designated for insurance purpose		(14,837)	(15,598)
Assets held by trustee		(11,049)	(10,917)
Supplemental retirement benefits investment		(6,451)	(5,624)
Donor restricted		(1,151)	(1,144)
Financial assets available within one year to meet cash needs for general expenditures within one year	$	457,223	427,635

Included in financial assets available are $232,520 and $260,730 of funds set aside for long-term investments as designated by the Board of Directors as of June 30, 2023 and 2022, respectively.

(15) COVID-19

The CARES Act, which was enacted on March 27, 2020, authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the PHSSEF). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The Company received $5,492 in PHSSEF Phase 3 payments on August 24, 2022 and recognized the amount in other revenue for the year ended June 30, 2023.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals may request accelerated payments of up to 100% of the Medicare payment amount for a 6-month period (not including Medicare Advantage payments). CMS based payment amounts for inpatient acute-care hospitals on the provider’s Medicare fee-for-service reimbursements in the last 6 months of 2019. Such accelerated payments are interest free for inpatient acute-care hospitals for 12 months, and the program requires CMS to recoup the payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The program requires any outstanding balance remaining after 17 months to be repaid by the provider or be subject to an interest rate currently set at 4%. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity’s customers. In April 2020, Meritus received approximately $66,070 of accelerated payments, which have been accrued on the consolidated balance sheet as of June 30, 2020 as a contract liability and is included in advances from third-party payors, in accordance with ASC Topic 606. As of June 30, 2023 and 2022, CMS recouped $66,070 and $56,291, respectively, of the advance. The accrued contract liability as of June 30, 2023 and 2022 was $0 and $9,779, respectively.

The Company received loan proceeds in the amount of $1,293 under the Paycheck Protection Program established as part of the CARES Act, primarily for DIS. The loan forgiveness application was accepted on March 16, 2022, and loan proceeds were recognized as a credit to salary expenses as of June 30, 2022.

The Company received a letter of final determination from FEMA in the amount of $3,816 on March 17, 2022, which the Company recognized the entire amount in other revenue for the year ended June 30, 2022. On August 9, 2022, the Company received another letter of final determination from FEMA in the amount of $10,498, which was recognized in other revenue for the year ending June 30, 2023.

Due to the recent enactment of the CARES Act and the PPPHCE Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. We continue to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition, and cash flows.

(16) Subsequent Events

Meritus evaluated subsequent events through September 28, 2023, the date these consolidated financial statements were available to be issued. All material matters are disclosed in the notes to the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Schedule 1

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Assets	Meritus Medical Center	Meritus Healthcare Foundation	Meritus other	Consolidating total	Consolidating entries	Consolidated total
Current assets:						
Cash and cash equivalents	$ 41,524	25	1,946	43,495	—	43,495
Short-term investments	127,770	—	—	127,770	—	127,770
Current portion of assets whose use is limited	11,049	—	—	11,049	—	11,049
Accounts receivable	37,549	—	7,547	45,096	—	45,096
Supplies	6,938	—	961	7,899	—	7,899
Prepaid and other current assets	20,466	438	3,648	24,552	(9,192)	15,360
Total current assets	245,296	463	14,102	259,861	(9,192)	250,669
Assets limited as to use	233,139	5,447	16,374	254,960	—	254,960
Property, plant, and equipment, net	230,035	—	6,663	236,698	—	236,698
Equity investments in affiliates	63,314	—	3,302	66,616	(3,124)	63,492
Other assets	32,658	3,885	19,106	55,649	(12,716)	42,933
Total assets	$ 804,442	9,795	59,547	873,784	(25,032)	848,752

(Continued)

Schedule 1

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

Liabilities and Net Assets	Meritus Medical Center	Meritus Healthcare Foundation	Meritus other	Consolidating total	Consolidating entries	Consolidated total
Current liabilities:						
Accounts payable and accrued expenses	$ 17,491	(1,853)	12,658	28,296	—	28,296
Accrued salaries, wages, and withholdings	10,870	—	778	11,648	—	11,648
Accrued compensation benefit	12,061	—	2,965	15,026	—	15,026
Advances from third-party payors	13,929	—	3,374	17,303	—	17,303
Accrued interest payable	5,442	—	—	5,442	—	5,442
Current maturity of long-term debt	8,491	—	—	8,491	—	8,491
Total current liabilities	68,284	(1,853)	19,775	86,206	—	86,206
Long-term debt, net of current portion	285,905	—	—	285,905	—	285,905
Accrued retirement benefits	4,914	—	1,537	6,451	—	6,451
Other long-term liabilities	16,336	—	26,470	42,806	(9,193)	33,613
Total liabilities	375,439	(1,853)	47,782	421,368	(9,193)	412,175
Stockholder's equity:						
Common stock	—	—	820	820	(820)	—
Paid-in capital	—	—	1,150	1,150	(1,150)	—
Total stockholders' equity	—	—	1,970	1,970	(1,970)	—
Net assets:						
Net assets without donor restrictions	415,116	2,195	9,795	427,106	(1,154)	425,952
Net assets with donor restrictions	13,887	9,453	—	23,340	(12,715)	10,625
Total net assets	429,003	11,648	9,795	450,446	(13,869)	436,577
Total liabilities and net assets	$ 804,442	9,795	59,547	873,784	(25,032)	848,752

See accompanying independent auditors' report.

Schedule 2

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets

Year ended June 30, 2023

(Dollars in thousands)

Fiscal period ending June 30, 2023		Meritus Medical Center	Meritus Healthcare Foundation	Meritus other	Consolidating total	Consolidating entries	Consolidated total
Unrestricted revenue, gains and other support:							
Net patient revenue	$	396,207	—	120,606	516,813	(14,808)	502,005
Other revenue		37,735	134	3,994	41,863	(4,389)	37,474
Equity earnings in affiliates		15,450	—	412	15,862	—	15,862
Net assets released from restriction used for operations		153	387	—	540	(386)	154
		449,545	521	125,012	575,078	(19,583)	555,495
Operating expenses:							
Salaries and wages		180,064	—	61,463	241,527	—	241,527
Benefits		34,961	—	11,729	46,690	(589)	46,101
Professional fees		21,095	—	20,415	41,510	—	41,510
Supplies and other		115,814	123	52,872	168,809	(18,608)	150,201
Interest		11,862	—	2	11,864	—	11,864
Depreciation and amortization		26,276	—	3,457	29,733	—	29,733
		390,072	123	149,938	540,133	(19,197)	520,936
Operating income (loss)		59,473	398	(24,926)	34,945	(386)	34,559
Nonoperating gains (losses), net:							
Investment returns, net		25,822	436	678	26,936	—	26,936
Other, net		(1,672)	(474)	(262)	(2,408)	386	(2,022)
Excess (deficit) of revenue over expenses	$	83,623	360	(24,510)	59,473	—	59,473

(Continued)

Schedule 2

MERITUS MEDICAL CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets

Year ended June 30, 2023

(Dollars in thousands)

Fiscal period ending June 30, 2023		Meritus Medical Center	Meritus Healthcare Foundation	Meritus other	Consolidating total	Consolidating entries	Consolidated total
Net assets without donor restrictions							
Excess (deficit) of revenues over expenses	$	83,623	360	(24,510)	59,473	—	59,473
Equity transfers		(20,966)	—	20,966	—	—	—
Other, net		592	(76)	(1,970)	(1,454)	1,970	516
Increase (decrease) in net assets without donor restrictions		63,249	284	(5,514)	58,019	1,970	59,989
Net assets with donor restrictions							
Contributions		655	9,913	—	10,568	(323)	10,245
Other, net		11,366	(3,291)	—	8,075	(11,929)	(3,854)
Net assets released to restriction for operations		(153)	(387)	—	(540)	386	(154)
Increase (decrease) in net assets with donor restrictions		11,868	6,235	—	18,103	(11,866)	6,237
Increase (decrease) in net assets		75,117	6,519	(5,514)	76,122	(9,896)	66,226
Net assets:							
Beginning of year		353,886	5,129	15,309	374,324	(3,973)	370,351
End of year	$	429,003	11,648	9,795	450,446	(13,869)	436,577

See accompanying independent auditors' report.