Consolidated Financial Statements and Supplementary Information

Frederick Health, Inc. and Subsidiaries
Years Ended June 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Frederick Health, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2021 and 2020

Contents

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Report of Independent Auditors

The Board of Directors
Frederick Health, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Frederick Health, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of Monocacy Insurance, Ltd., a wholly-owned subsidiary, which statements reflect total assets of $28,844,034 in 2021 and $25,431,557 in 2020 and net loss after elimination of intercompany revenues of $4,295,423 in 2021 and $4,283,050 in 2020 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Monocacy Insurance, Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Frederick Health, Inc. and Subsidiaries at June 30, 2021 and 2020, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young LLP

October 15, 2021

Frederick Health, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30 2021	June 30 2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 95,758**	$ 89,183
Patient receivables	**68,918**	55,159
Other receivables	**2,541**	2,583
Inventory	**9,693**	8,368
Prepaid expenses	**5,016**	5,522
Assets limited as to use	**18,725**	1,535
Promises to give, net	**781**	786
Total current assets	**201,432**	163,136
Net property and equipment	**271,031**	262,553
Right-of-use assets, net	**25,561**	28,414
Other assets:		
Assets limited as to use	**2,549**	30,294
Investments – donor restricted	**4,699**	3,252
Promises to give, net	**4,304**	3,640
Long-term investments	**210,969**	189,507
Other investments	**9,512**	8,572
Other assets	**9,067**	7,749
Total other assets	**241,100**	243,014
Total assets	**$ 739,124**	$ 697,117

	June 30	
	2021	**2020**
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 4,875**	$ 4,630
Accounts payable	**30,371**	26,328
Accrued expenses	**34,064**	29,915
Advances from third-party payors	**64,040**	67,736
Leases, current	**3,505**	2,676
Other current liabilities	**6,875**	5,023
Total current liabilities	**143,730**	136,308
Long-term liabilities, net of current portion:		
Long-term debt	**202,910**	228,085
Interest rate swap contract	**7,666**	10,404
Accrued pension expense	**360**	15,519
Other long-term liabilities	**27,970**	23,608
Leases, long term	**26,952**	30,542
Total long-term liabilities, net of current portion	**265,858**	308,158
Total liabilities	**409,588**	444,466
Net assets:		
Without donor restrictions	**319,753**	244,974
With donor restrictions	**9,783**	7,677
Total net assets	**329,536**	252,651
Total liabilities and net assets	**$ 739,124**	$ 697,117

See accompanying notes.

Frederick Health, Inc. and Subsidiaries

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

	Year Ended June 30	
	2021	**2020**
Net assets without donor restrictions:		
Unrestricted revenues:		
Net patient service revenue	**$ 469,508**	$ 424,467
Other revenue	**28,271**	25,261
Total unrestricted revenues	**497,779**	449,728
Operating expenses:		
Salaries and wages	**207,057**	191,734
Employee benefits	**43,481**	39,068
Professional fees	**14,047**	15,054
Cost of goods sold	**80,866**	72,625
Supplies	**18,327**	12,513
Contract services	**63,532**	66,101
Other	**12,644**	15,036
Utilities	**5,684**	4,817
Insurance	**5,632**	5,015
Depreciation and amortization	**28,099**	24,333
Interest	**5,260**	5,342
Total operating expenses	**484,629**	451,638
Income (loss) from operations	**13,150**	(1,910)
Other income (loss), net:		
Gain (loss) on sale of assets	**4,987**	(27)
Loss on extinguishment of debt	**–**	(5,479)
Investment gain, net	**19,689**	4,969
Change in unrealized gains on trading securities, net	**25,349**	3,160
Realized and unrealized losses on interest rate swap contract, net	**995**	(3,464)
Periodic pension cost	**(1,196)**	(1,446)
Other nonoperating (losses) gains, net	**(578)**	35
Total other income (loss), net	**49,246**	(2,252)
Excess (deficit) of revenue over expenses	**$ 62,396**	$ (4,162)

Continued on page 6.

Frederick Health, Inc. and Subsidiaries

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

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2019	$ 251,689	$ 7,796	$ 259,485
Deficit of revenue over expenses	(4,162)	–	(4,162)
Pension adjustment	(3,696)	–	(3,696)
Other changes in unrestricted net assets	5	–	5
Released from restriction used to purchase capital	1,138	(1,138)	–
Assets released from restrictions	–	(12,203)	(12,203)
Restricted gifts, bequests, and contributions	–	13,222	13,222
Changes in net assets	(6,715)	(119)	(6,834)
Net assets, June 30, 2020	244,974	7,677	252,651
Excess of revenue over expenses	**62,396**	–	**62,396**
Pension adjustment	**12,355**	–	**12,355**
Other changes in unrestricted net assets	**19**	–	**19**
Released from restriction used to purchase capital	**9**	**(9)**	–
Assets released from restrictions	–	**(12,347)**	**(12,347)**
Restricted gifts, bequests, and contributions	–	**14,462**	**14,462**
Changes in net assets	**74,779**	**2,106**	**76,885**
Net assets, June 30, 2021	**$ 319,753**	**$ 9,783**	**$ 329,536**

See accompanying notes.

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2021	**2020**
Operating activities		
Changes in net assets	**$ 76,885**	$ (6,834)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	**–**	5,479
Depreciation of property and equipment	**28,099**	24,333
Amortization of original issue discount, premium, and bond issue costs	**(43)**	(69)
Gains on joint ventures and Premier noncash component	**(940)**	(59)
(Gain) loss on sale of property and equipment	**(4,987)**	27
Change in pension funded status	**(12,355)**	–
Change in unrealized gains on trading securities, net	**(25,349)**	(3,160)
Proceeds from realized gains on investments – trading	**(19,119)**	(5,090)
Increase in investments – trading	**(740)**	(2,674)
Proceeds from restricted contributions	**(1,447)**	(195)
Change in fair value of interest rate swap	**(2,738)**	3,464
Changes in operating assets and liabilities:		
Receivables, patient, and other	**(13,717)**	(6,138)
Other assets	**(1,318)**	(1,193)
Inventories and prepaids	**(819)**	(4,936)
Pledges receivable	**(659)**	313
Accounts payable	**4,043**	3,209
Accrued expenses	**5,892**	3,510
Accrued pension expense	**(2,804)**	1,146
Net change in operating leases	**95**	–
Advances from third-party payors	**(3,696)**	60,014
Other short-term liabilities	**1,577**	1,181
Other long-term liabilities	**4,959**	5,570
Net cash provided by operating activities	**30,819**	77,898
Investing activities		
Purchases and sales of investments and assets limited as to use, net	**21,912**	6,226
Realized losses on interest rate swap contract	**(1,743)**	(1,425)
Purchases of property and equipment	**(37,927)**	(51,511)
Net proceeds from sale of assets	**7,053**	–
Net cash used in investing activities	**(10,705)**	(46,710)

Frederick Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	Year Ended June 30	
	2021	**2020**
Fundraising and financing activities		
Proceeds from restricted contributions	**$ 1,447**	$ 195
Repayments of long-term debt	**(24,630)**	(116,600)
Proceeds from borrowings	**–**	179,925
Escrow funds used to retire debt	**–**	(7,199)
Payments for finance and capital leases	**(1,041)**	(1,000)
Deferred financing costs paid	**(257)**	(1,212)
Net cash (used in) provided by fundraising and financing activities	**(24,481)**	54,109
Net (decrease) increase in cash, cash equivalents, and restricted cash	**(4,367)**	85,297
Cash, cash equivalents, and restricted cash at the beginning of the year	**118,850**	33,553
Cash, cash equivalents, and restricted cash at the end of the year	**$ 114,483**	$ 118,850
Cash and cash equivalents	**$ 95,758**	$ 89,183
Restricted cash, included in assets limited as to use	**18,725**	29,667
	$ 114,483	$ 118,850
Supplemental disclosures		
Cash paid for interest	**$ 5,324**	$ 5,762

See accompanying notes.

(Dollars in Thousands)

1. Organization and Mission

On September 10, 2019, the System filed Articles of Amendment of Articles of Incorporation with the Maryland Department of Assessments and Taxation for the sole purpose of changing the names of certain entities. As a result, the following entity names have been changed:

Original Name	New Name
Frederick Memorial Hospital, Inc.	Frederick Health Hospital, Inc.
Frederick Regional Health System, Inc.	Frederick Health, Inc.
Monocacy Health Partners, LLC	Frederick Health Medical Group, LLC
Hospice of Frederick County, Inc.	Frederick Health Hospice, Inc.
Corporate Occupational Health Solutions, LLC	Frederick Health Employer Solutions, LLC

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

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

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

1. Organization and Mission (continued)

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

Frederick Health Services Corporation (FHSC) is a Maryland for-profit corporation, all of the stock of which is owned by the System. FHSC is subject to federal and state income taxes. No provision for income taxes has been recorded for 2021 or 2020 due to the availability of net operating loss carryforwards. FHSC recorded a net deferred tax asset of $285 and $447 as of June 30, 2021 and 2020, respectively, which is presented in other assets on the consolidated balance sheet.

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

The Obligated Group, consisting of the Hospital, Medical Group and the System, is responsible for repayment of the Maryland Health and Higher Education Facilities (MHHEFA) Series 2012A, Series 2017B and Series 2020 Bonds as well as Term Loan 2019, Promissory Note 2020 and any outstanding amount on the 2013 Line of Credit. Refer to Note 9 for additional information on long term debt.

On July 7, 2014, the Hospital, Meritus Health, and Western Maryland Health System (WMHS) established Trivergent Health Alliance (THA), the parent company to Trivergent Health Alliance MSO (MSO). MSO was a managed services organization that provided regional health care services.

1. Organization and Mission (continued)

The Hospital contributed working capital of $100 to THA and $900 to the MSO for a 33% ownership interest, which is presented in other assets on the consolidated balance sheets. Upon establishment of the MSO, certain employees transferred employment from the Hospital to the MSO. The related cost to purchase the service from the MSO was recorded on the consolidated statement of operations within contract services for the years ended June 30, 2021 and 2020. The System paid a total of $9,368 and $16,241 to the MSO during the years ended June 30, 2021 and 2020, respectively. During the prior fiscal year WMHS withdrew its membership from Trivergent due to a clinical affiliation with an outside health system therefore the Hospital and Meritus Health are equal 50% owners of THA. All remaining services provided by the MSO were returned to the Hospital on December 27, 2020. The MSO will be dissolved as soon as practical.

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

Global Pandemic

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

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

1. Organization and Mission (continued)

The Maryland Health Services Cost Review Commission (HSCRC or the Commission) has publicly announced its intention to support Maryland hospitals during the state of emergency and catastrophic health emergency within the State of Maryland and its collaboration with other Maryland regulatory agencies to remove licensure, regulatory, and other barriers to hospitals in the provision of emergency healthcare services. Recognizing that hospitals experienced volume decline due to self-quarantining and cancelled elective surgeries, the HSCRC permitted Maryland hospitals to increase rate corridors up to the 10% threshold or by an additional 5% from their current charging position, whichever is greater, for periods in both fiscal year 2020 and 2021 in order to make up for lost revenue.

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

2. Significant Accounting Policies

Principles of Consolidation

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

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

2. Significant Accounting Policies (continued)

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

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). Certain prior year balances have been reclassified to conform to the current year's presentation.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the asset is reclassified to without donor restrictions if restricted for capital or reported in the statements of operations as net assets released from restrictions if restricted for operating purposes. Donations received are reported as unrestricted contributions in the accompanying consolidated statements of operations as other operating revenues.

Cash and Cash Equivalents

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

Other Revenue

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

2. Significant Accounting Policies (continued)

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

Furthermore, the HSCRC will reduce the System's ability to recoup undercharges from its Global Budgeted Revenue (GBR) reimbursement program in FY22 by an amount derived from these provider relief funds but is not expected to result in a material revenue adjustment for that period. The outcome of the HSCRC's treatment of the undercharge resulting from the GBR program and application of CARES Act funding to GBR limits has not been finalized so the effects on the financial statements in future periods is not determinable at this time.

Inventory

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

Cost of Goods Sold

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

2. Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

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

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

Investment Risk and Liquidity Management

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

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

2. Significant Accounting Policies (continued)

Property and Equipment

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

Leases

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

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

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

2. Significant Accounting Policies (continued)

Valuation of Long-Lived Assets

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

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

Debt Issuance Costs

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

Patient Receivables and Revenues

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

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

2. Significant Accounting Policies (continued)

Performance Indicator

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

Fair Value of Financial Instruments

The carrying amounts reported on the accompanying consolidated balance sheets for cash and cash equivalents, other receivables, accounts payable, accrued expenses, and advances from third-party payors approximate their fair values. The fair values of the System's revenue bond notes, and other long-term debt approximate the carrying amounts, based on loans with similar terms and average maturities.

Advances From Third-Party Payors

On May 4, 2020, the System received $60,014 from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program, which allowed inpatient acute care hospitals to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. Consistent with the terms and conditions of the program repayments began in April 2021 As of June 30, CMS has recovered $5,461, with the remaining $54,553 representing contract liabilities as defined in ASC 606, which have been recorded within advances from third-party payors and cash and cash equivalents in the accompanying consolidated balance sheet at June 30, 2021.

Use of Estimates

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

2. Significant Accounting Policies (continued)

Net Assets

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

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

Investment income related to net assets with donor restrictions is classified as net assets without donor restrictions based on the intent of the donor.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experiences, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those fiscal years, and a modified retrospective approach is required, with a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. Management is currently evaluating the impact of adopting this new accounting guidance.

(Dollars in Thousands)

3. Patient Receivables and Patient Service Revenue

Patient receivables consist of the following at June 30:

	2021	2020
Gross patient receivables	**$ 111,524**	$ 79,796
Less estimated uncollectible accounts and contractual allowances	**(42,606)**	(24,637)
Net patient receivables	**$ 68,918**	$ 55,159

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

	2021	2020
Inpatient charges	**$ 247,870**	$ 231,953
Outpatient charges	**374,969**	326,636
Gross charges	**622,839**	558,589
Less contractual and other allowances	**(153,331)**	(134,122)
Net patient service revenue	**$ 469,508**	$ 424,467

The System's revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for revenues are recognized based on charges incurred in relation to total expected charges. The System has agreements with third-party payors that provide for payments to the System for patient services at amounts different from its established rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and any changes in managed care contractual terms resulting from contract renegotiations and renewals.

The System's revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of explicit price concessions, formerly contractual allowances, under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts).

3. Patient Receivables and Patient Service Revenue (continued)

Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

Additionally, the System's revenues may be subject to adjustment as a result of examination by government agencies or contractors and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

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

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of the System's revenues and patient receivable as a primary source of information in estimating the collectability of patient receivable.

The System provides care to patients who meet certain criteria under its charity care policy. The System charges at its established rates but waives all or a portion of reimbursement. Because the System does not pursue collection of amounts determined to qualify as charity care, these revenues are not reported as net patient service revenue. Using the cost to charge ratio to approximate cost, charity care provided for the years ended June 30, 2021 and 2020, was $5,762 and $7,097, respectively. The state of Maryland rate system includes components within the rates to partially compensate hospitals for uncompensated care.

(Dollars in Thousands)

4. Assets Limited as to Use

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

	2021	2020
Current:		
Principal, interest, and other – bonds	**$ 2,523**	$ 1,499
Construction funds	**16,177**	–
Other	**25**	36
	$ 18,725	$ 1,535
Noncurrent:		
Construction funds	**$ –**	$ 28,132
Deferred compensation trusts	**2,549**	2,162
	$ 2,549	$ 30,294

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

	2021	2020
Current:		
Cash and money market accounts	**$ 18,725**	$ 1,535
	$ 18,725	$ 1,535
Noncurrent:		
Cash and money market accounts	**$ –**	$ 28,132
Mutual funds	**2,549**	2,162
	$ 2,549	$ 30,294

The noncurrent assets limited as to use mutual funds, excluding cash and money market accounts held for construction funds, are primarily invested in equities and bonds chosen by deferred compensation plan participants.

(Dollars in Thousands)

5. Promises to Give

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

	2021	2020
Less than one year	**$ 918**	$ 924
One to five years	**2,843**	2,690
More than five years	**2,953**	2,392
	6,714	6,006
Less discounting and allowance for uncollectible promises	**1,629**	1,580
Total promises to give, net	**5,085**	4,426
Less current portion of promises to give, net	**781**	786
	$ 4,304	$ 3,640

Promises to give include $1,611 and $1,056 for the years ended June 30, 2021 and 2020, respectively, related to charitable remainder trusts. This net amount represents the excess of the fair value of the related trust accounts over the net present value of the annuities to be paid out of the trust to the named beneficiaries over their estimated life expectancy.

6. Investments

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

	2021	2020
Investments – donor restricted	**$ 4,699**	$ 3,252
Long-term investments	**210,969**	189,507
	$ 215,668	$ 192,759

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

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

(Dollars in Thousands)

6. Investments (continued)

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

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

	2021		2020	
	Cost	**Fair Value/NAV***	**Cost**	**Fair Value/NAV***
Cash and cash equivalents	**$ 6,493**	**$ 6,493**	$ 12,307	$ 12,307
U.S. government obligations	**6,054**	**5,954**	4,704	4,979
Corporate obligations	**7,002**	**7,167**	4,901	5,370
Mortgage-backed securities	**3,854**	**3,892**	5,028	5,184
Equity securities	**44,926**	**69,531**	46,534	51,754
Mutual funds	**68,273**	**81,761**	84,441	93,428
Private equity investments	**11,472**	**13,515**	7,115	7,834
Hedge funds	**27,154**	**27,355**	11,025	11,903
	$ 175,228	**$ 215,668**	$ 176,055	$ 192,759

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

Investment income for the years ended June 30 is as follows:

	2021	2020
Unrestricted:		
Net realized gains	**$ 15,398**	$ 339
Interest and dividends, net of investment expense	**3,590**	3,447
Gains from joint ventures	**701**	1,183
	$ 19,689	$ 4,969

Investment expense was $485 and $396 for the years ended June 30, 2021 and 2020, respectively.

(Dollars in Thousands)

6. Investments (continued)

Other investments consist of the following at June 30:

	Carrying Value		Income (Loss)	
	2021	**2020**	**2021**	**2020**
Joint ventures	**$ 6,909**	$ 6,367	**$ 508**	$ 1,183
Other	**2,603**	2,205	**–**	–
	$ 9,512	$ 8,572	**$ 508**	$ 1,183

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

	Entity	Interest %	2021	2020
Mt. Airy Health Services, LLC	Hospital	50	**987**	702
Mt. Airy Med-Services, LLC	FHSC	50	**3,613**	3,849
Frederick Surgical Center, LLC	FHSC	40.6	**1,150**	683
MNR of Frederick, LLC	FHSC	22.5	**845**	702
Other	Multiple	6–50	**$314**	**$431**
			$ 6,909	$ 6,367

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

7. Fair Value Measurements

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

FASB guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, emphasizing that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB establishes a

7. Fair Value Measurements (continued)

fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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

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

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

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

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

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

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

(Dollars in Thousands)

7. Fair Value Measurements (continued)

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

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

(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Fair Value at June 30, 2020	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	NAV
Assets					
Cash and cash equivalents	$ 131,133	$ 131,133	$ –	$ –	$ –
Equity securities	51,754	51,754			–
U.S. government obligations	4,845	–	4,845	–	–
Agency securities	134	–	134	–	–
Corporate and other bonds	5,370	–	5,370	–	–
Mutual funds	95,621	95,621	–	–	–
Mortgage-backed securities	5,184	–	5,184	–	–
Private equity investments	7,834	–	–	–	7,834
Hedge funds	11,903	–	–	–	11,903
Total assets	$ 313,778	$ 278,508	$ 15,533	$ –	$ 19,737
Liabilities					
Interest rate swap liability	$ (10,404)	$ –	$ (10,404)	$ –	$ –
Total liabilities	$ (10,404)	$ –	$ (10,404)	$ –	$ –

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

7. Fair Value Measurements (continued)

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

Interest Rate Swap

The System entered into an interest rate swap agreement in conjunction with the issuance of variable rate bonds. The swap contract is valued using models based on readily observable market parameters for all substantial terms of the contract. The fair market value of the swap agreement is included as interest rate swap contract in the accompanying consolidated balance sheets. The fair market value calculation includes a credit valuation adjustment as required of $303 and $540, reducing the interest rate swap agreement liability position on June 30, 2021 and 2020, respectively. The change in the fair market value of the swap agreement is included in (deficit) excess of revenue over expenses, as the swap is not designated as an effective hedge.

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

(Dollars in Thousands)

8. Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2021	2020
Land	–	**$ 10,967**	$ 12,067
Land improvements	8–20 years	**4,512**	4,808
Buildings	20–40 years	**283,509**	275,159
Fixed equipment	10–20 years	**29,372**	29,437
Movable equipment	3–20 years	**274,321**	263,144
Leasehold improvements	5–20 years	**32,671**	32,664
		635,352	617,279
Less accumulated depreciation		**392,054**	370,970
		243,298	246,309
Construction in process, renovations, and deposits		**27,733**	16,244
		$ 271,031	$ 262,553

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

Capitalized computer software, net of accumulated amortization, as of June 30, 2021 and 2020, was $10,600 and $4,653, respectively. Amortization of computer software was $2,427 and $1,294 for fiscal years 2021 and 2020, respectively.

The net book value of assets under financing lease arrangements totaled $2,064 and $2,387 as of June 30, 2021 and 2020, respectively. Depreciation expense related to assets under financing lease arrangements was $1,039 and $1,078 for the years ended June 30, 2021 and 2020, respectively.

(Dollars in Thousands)

9. Long-Term Debt

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

	2021	2020
MHHEFA Series 2012A Bonds	**$ 2,475**	$ 3,545
MHHEFA Series 2017B Bonds	**47,230**	50,790
Term Loan Note 2019	**–**	20,000
Promissory Note 2020	**93,875**	93,875
MHHEFA Series 2020 Bonds	**65,937**	66,050
Deferred finance costs	**(1,732)**	(1,545)
	207,785	232,715
Less current maturities	**4,875**	4,630
	$ 202,910	$ 228,085

Series 2012A MHHEFA Revenue Bonds

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

In December 2012, the System obtained a loan of $96,240 in MHHEFA Revenue Bonds, Frederick Memorial Hospital Issue, Series 2012A. The MHHEFA Series 2012A Bonds were issued to refund all of the MHHEFA Series 2002 Bonds and to finance a portion of certain construction and equipment costs of the System. The Series 2012A Bonds were issued with a premium of $3,990, which is being amortized over the life of the bonds. The accumulated amortization was $1,208 at June 25, 2020 at which time the remaining premium of $2,872 was recognized as a gain on extinguishment of debt. The annual interest rate on the bond loan ranges between 3% and 5% over the term of the bond. Interest is payable semiannually on each January 1 and July 1, through July 1, 2038.

Under the provisions of the bond agreement, the System has granted to the authority a security interest in all receipts now owned and hereafter acquired. The bonds are also secured with a deed of trust and security agreement applicable to the main hospital campus of the System. The Series 2012A Bonds are secured ratably with the Series 2017B Bonds, Term Loan Note 2019, Series 2020 Bonds, Promissory Note 2020 and any outstanding amounts on the 2013 Line of Credit.

9. Long-Term Debt (continued)

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

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2021.

Series 2017B MHHEFA Revenue Bonds

In June 2017, the System obtained a loan of $60,645 in MHHEFA Revenue Bonds, Frederick Memorial Hospital Issue, Series 2017B. Upon settlement of the bonds, MHHEFA and the obligated group entered into a financing agreement with BB&T whereby BB&T became the initial purchaser of the Series 2017B Bonds. The interest rate on the bonds is based on an index floating rate determined by BB&T equal to the applicable percentage of LIBOR plus the applicable spread plus the TEFRA adjustment, if any. The average interest rate on the bond loan is .898% for the year ended June 30, 2021. The carrying value of the 2017B Bonds approximates fair value.

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

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

Under the provisions of the bond agreement, the System has granted a security interest in all receipts now owned and hereafter acquired. The bonds are also secured with a deed of trust and security agreement applicable to the main hospital campus of the System. The Series 2017B Bonds are secured ratably with the Series 2012A Bonds, Term Loan Note 2019, Series 2020 Bonds, Promissory Note 2020 and any outstanding amounts on the 2013 Line of Credit.

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

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2021.

9. Long-Term Debt (continued)

Term Loan Note 2019

On October 29, 2019, the System's obligated group issued a promissory note in favor of a lending institution in the amount of $20,000. The loan was paid in full on January 28, 2021.

Promissory Note 2020

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

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

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

The promissory note contains certain financial covenants, all of which the System was in compliance with as of June 30, 2021.

Series 2020 MHHEFA Revenue Bonds

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

(Dollars in Thousands)

9. Long-Term Debt (continued)

The annual interest rate on the bond loan ranges between 3.25% and 4.00% over the term of the bonds. Interest is payable semiannually on each January 1 and July 1, through July 1, 2050.

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

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

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

The bond agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2021.

Debt service requirements on long-term debt, excluding original issue premium and deferred financing costs at June 30, 2021, of $3,292 and $1,732, respectively, are as follows:

	Principal
Years ending June 30:	
2022	$ 4,875
2023	6,095
2024	6,400
2025	6,650
2026	6,920
Thereafter	175,285
	$ 206,225

9. Long-Term Debt (continued)

As a result of the refinancing of 2012A and 2017A bonds, remaining unamortized deferred finance costs of $1,061, unamortized original issue premium of $2,781 and escrow funding for future 2012A Bonds payments of $7,199 resulted in $5,479 net loss on extinguishment debt in the accompanying statements of operations and changes in net assets for the year ended June 30, 2020.

2013 Line of Credit

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

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

This agreement contains certain financial covenants, all of which the System was in compliance with as of June 30, 2021.

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

2020 Line of Credit

On May 22, 2020, the System entered into a $25,000 unsecured revolving line of credit with a lending institution for the purpose of funding short-term working capital needs. The line of credit bears a variable interest rate of one-month LIBOR plus 1.5% per annum, adjusted and payable monthly. This line of credit expired on May 21, 2021 and was not renewed.

10. Interest Rate Swap Contract

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

The System has an interest rate swap contract with a third party with a notional amount of $46,920 on June 30, 2021, which reduces annually by an amount equal to the sinking fund installment due on bonds until maturity on July 1, 2036. The System is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap contract. However, the System does not anticipate nonperformance by the counterparty. Under the swap contract, the System pays interest at a fixed rate of 3.804% per annum and receives interest at a variable rate equal to 67% of the one-month LIBOR (.101%) as of June 30, 2021. The swap contract requires payments to be made or received monthly. The fair value of the swap contract was a liability of $7,666 and $10,404 at June 30, 2021 and 2020, respectively.

The System accrued net payments under its interest rate swap program of $1,743 and $1,425 during fiscal years 2021 and 2020, respectively. These amounts are included within realized and unrealized losses on interest rate swap contract, net, in the accompanying consolidated statements of operations and investing activities in the accompanying consolidated statements of cash flows.

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

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

(Dollars in Thousands)

10. Interest Rate Swap Contract (continued)

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

Balance Sheet Location	Fair Value 2021	Fair Value 2020
Asset derivatives		
Derivatives not designated as hedging instruments:		
Interest rate contracts	**$ –**	$ –
Liability derivatives		
Interest rate swap contract	**$ 7,666**	$ 10,404
Total derivatives not designated as hedging instruments	**$ 7,666**	$ 10,404

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

Type of Non-hedging Derivatives	Statement of Operations Location of Loss Recognized	Derivative Loss Recognized
Year ended June 30, 2021		
Interest rate swap contract – realized loss	Other loss	**$ (1,743)**
Interest rate swap contract – unrealized gain	Other gain	**2,738**
Total		**$ 995**
Year ended June 30, 2020		
Interest rate swap contract – realized loss	Other loss	$ (1,425)
Interest rate swap contract – unrealized loss	Other loss	(2,039)
Total		$ (3,464)

(Dollars in Thousands)

11. Employee Benefit Plans

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

The Hospital's Board of Directors approved a plan for terminating the Plan on August 26, 2020 and the System has notified participants of their options This action will result in the eventual termination of the Plan and conversion of remaining participants' benefit interests into an annuity or lump-sum distribution in September 2022.

The following provides a reconciliation of the changes in fair value of the Plan's assets and projected benefit obligations and the Plan's funded status based on a June 30, 2021 and 2020, measurement date:

	2021	2020
Accumulated benefit obligation	**$ 53,278**	$ 61,007
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 61,007**	$ 57,296
Interest cost	**1,625**	2,014
Actuarial (gain) loss	**(8,102)**	2,759
Benefits paid and other expenses	**(1,252)**	(1,062)
Projected benefit obligation at end of year	**53,278**	61,007
Change in plan assets:		
Fair value of plan assets at beginning of year	**45,488**	42,922
Actual return on plan assets	**4,682**	(372)
Employer contribution	**4,000**	4,000
Benefits paid	**(1,252)**	(1,062)
Fair value of plan assets at end of year	**52,918**	45,488
Funded status	**(360)**	(15,519)
Net amount recognized	**$ (360)**	$ (15,519)

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The cash balance annuity conversion basis assumption was changed from 2.0% to 0.0% resulting in $7,389 of the total $8,102 decrease in the projected benefit obligation as of June 30, 2021.

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

	June 30	
	2021	**2020**
Net actuarial loss	**$ 220**	$ 12,570
Total recognized in unrestricted net assets	**$ 220**	$ 12,570

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

	June 30	
	2021	**2020**
Discount rate	**2.75%**	2.70%
Interest crediting rate	**4.00%**	4.00%
Rate of compensation increase	**N/A**	N/A

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

	Year Ended June 30	
	2021	**2020**
Discount rate	**2.70%**	3.56%
Expected return on plan assets	**3.75%**	4.00%
Interest crediting rate	**4.00%**	4.00%
Rate of compensation increase	**N/A**	N/A

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

Net periodic pension cost included the following components:

	2021	2020
Interest cost	**$ 1,625**	$ 2,014
Expected return on plan assets	**(1,483)**	(1,095)
Amortization of prior service cost	**–**	30
Amortization of net loss	**1,054**	497
Net periodic pension cost	**$ 1,196**	$ 1,446

The System determines the expected long-term rate of return on plan assets by taking into consideration the historical returns of various asset classes and the types of investments the Plan is expected to hold. As a result of the intended plan termination, the Company may continue to consider allocation changes that will result to minimize volatility of the portfolio in the event of the distribution of plan assets upon termination.

The Plan's asset allocation as of the measurement date presented as a percentage of total plan assets was as follows:

	2021	2020
Equity securities	**27%**	25%
Debt securities	**57**	63
Cash	**10**	6
Hedge funds	**6**	6
Total	**100%**	100%

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

FASB guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, emphasizing that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for

11. Employee Benefit Plans (continued)

considering market participant assumptions in fair value measurements, the FASB establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

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

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

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

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

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

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

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

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

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

		Fair Value Measurements at Reporting Date Using			
	Fair Value at June 30 2020	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**NAV**
Assets					
Cash and cash equivalents	$ 2,388	$ 2,388	$ –	$ –	$ –
Equity securities	11,350	11,350	–	–	–
Fixed income mutual funds	29,056	29,056	–	–	–
Hedge funds	2,694	–	–	–	2,694
Total assets	$ 45,488	$ 42,794	$ –	$ –	$ 2,694

11. Employee Benefit Plans (continued)

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

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

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

- Achieve an annualized total return that equals or exceeds the actuarial target

- Preserve the value of the Plan's assets

- Diversify assets sufficiently and, in accordance with modern portfolio theory, avoid large specific risks (losses) and minimize the volatility of the portfolio

- Provide sufficient liquidity to plan benefit payment outflows and meet the Plan's requirements

The historical strategic target asset allocation for the Plan is 20% in equities, 62% in fixed income securities, 10% in hedge funds, 5% real estate, and 3% in cash. As noted previously, the Company may continue to consider allocation changes that will result to minimize volatility of the portfolio in the event of the distribution of plan assets upon termination.

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The System also has a tax-deferred annuity savings (403(b)) plan available to substantially all employees. In conjunction with the curtailment of the defined benefit pension plan, the System modified the 403(b) plan effective July 1, 2007. Effective January 1, 2018, the plan was amended such that all new hires will be automatically enrolled in the 403(b) plan at 3% of employee earnings, which will be automatically increased 1% annually up to 10%. Employees can opt out of this automatic enrollment and annual increase. The System will match 100% on employee contributions up to 5.0% of employee earnings. Base contributions continue for employees with 5 to 10 years of service at 0.5% and 1.0% for employees with over 10 years of service. The System's contribution for base matching and transition credits totaled $7,962 and $7,999 for fiscal years 2021 and 2020, respectively.

In December 2005, the System adopted two nonqualified deferred compensation plans with an effective date of December 15, 2004, for certain members of executive management. Under these plans, participating employees may contribute amounts from their compensation to the plan and may receive a discretionary employer contribution. Employees are fully vested in all employee contributions to the plans. Vesting in employer contributions occurs in accordance with the underlying plan documents. All assets of the plans are held in separate trusts. Total contributions by the System to the plans were $439 and $568 for the years ended June 30, 2021 and 2020, respectively.

12. Concentration of Credit Risk

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

	2021	**2020**
Medicare	**28%**	28%
Medicaid	**25**	22
Blue Cross	**13**	19
HMOs and PPOs	**20**	14
Commercial insurance and other third-party payors	**8**	9
Patients	**6**	8
	100%	100%

(Dollars in Thousands)

13. Functional Expenses

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

	Program	General and Administrative	Total
Year ended June 30, 2021			
Salaries and wages	**$ 171,270**	**$ 35,787**	**$ 207,057**
Employee benefits	**36,714**	**6,767**	**43,481**
Professional fees	**9,999**	**4,048**	**14,047**
Cost of goods sold	**80,830**	**36**	**80,866**
Supplies	**17,527**	**800**	**18,327**
Contract services	**54,476**	**9,056**	**63,532**
Other	**9,809**	**2,835**	**12,644**
Utilities	**4,197**	**1,487**	**5,684**
Insurance	**1,068**	**4,564**	**5,632**
Depreciation	**25,917**	**2,182**	**28,099**
Interest	**4,835**	**425**	**5,260**
	$ 416,642	**$ 67,987**	**$ 484,629**
Year ended June 30, 2020			
Salaries and wages	$ 161,942	$ 29,792	$ 191,734
Employee benefits	33,832	5,236	39,068
Professional fees	10,666	4,388	15,054
Cost of goods sold	72,486	139	72,625
Supplies	11,893	620	12,513
Contract services	58,178	7,923	66,101
Other	11,250	3,786	15,036
Utilities	3,868	949	4,817
Insurance	988	4,027	5,015
Depreciation	22,964	1,369	24,333
Interest	4,941	401	5,342
	$ 393,008	$ 58,630	$ 451,638

(Dollars in Thousands)

14. Net Assets

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

	2021	2020
Health care services:		
Buildings and equipment	**$ 6,005**	$ 4,342
Restricted by time only	**1,611**	1,060
Education programs	**777**	871
Indigent care and research	**414**	428
	$ 8,807	$ 6,701

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

	2021	2020
General health care services		
(reported as other operating revenue)	**$ 971**	$ 971
Specific health care services		
(reported as net assets released from restrictions)	**5**	5
	$ 976	$ 976

During 2021 and 2020, net assets were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes in the amounts of $12,356 and $13,341, respectively.

15. Contingencies

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

15. Contingencies (continued)

The System is partially self-insured against employee medical claims. Expenses include claims paid and a provision for claims incurred but not reported. As of June 30, 2021 and 2020, the System has recorded a liability for claims incurred but not reported of $2,245 and $2,250, respectively. The program has an annual aggregate stop-loss provision of $500 per employee.

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

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

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

15. Contingencies (continued)

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

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

There are known claims and incidents that could result in the assertion of additional claims, as well as claims from unknown incidents that could be asserted arising from services provided to patients. Through MIL, a wholly owned subsidiary, the System maintains reserves, including excess coverage, in the amount of $23,699 and $19,592 at June 30, 2021 and 2020, respectively, and a related reinsurance receivable of $8,791 and $7,218 at June 30, 2021 and 2020, respectively. The System employs an independent actuary to estimate the ultimate settlement of such claims.

These reserves are recorded on an undiscounted basis at June 30, 2021 and 2020. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change upon final resolution of such matters.

(Dollars in Thousands)

16. Commitments

Leases

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

Finance lease cost:	
Amortization	$ 1,040
Interest	72
Total finance lease cost	1,112
Operating lease cost	3,658
Short-term lease cost	312
Total lease cost	$ 5,089

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of June 30, 2021, to lease obligation recorded on the consolidated balance sheet at June 30, 2021:

	Operating Leases	Finance Leases	Total
Years ended June 30:			
2022	$ 3,639	$ 719	$ 4,358
2023	3,552	719	4,271
2024	3,118	548	3,666
2025	2,932	177	3,109
2026	2,901	–	2,901
Thereafter	18,762	–	18,762
Total future undiscounted lease obligations	34,904	2,163	37,067
Less: lease payment representing interest	(4,447)	(99)	(4,546)
Present value of future lease payments	30,457	2,064	32,521
Less: current portion of future lease payments	(3,505)	(667)	(4,172)
Long-term lease obligations	$ 26,952	$ 1,397	$ 28,349

(Dollars in Thousands)

16. Commitments (continued)

As of June 30, 2021, the System recognized $25,561 and $2,064 of operating and financing right-of-use assets, respectively. As of June 30, 2020, the System recognized $28,414 and $2,387 of operating and financing right-of-use assets, respectively.

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

	Operating Leases	Finance Leases	Total
June 30, 2021			
Leases, current	**$ 3,505**	**$ –**	**$ 3,505**
Leases, long term	**26,952**	**–**	**26,952**
Other current liabilities	**–**	**667**	**667**
Other long-term liabilities	**–**	**1,397**	**1,397**
Total lease liabilities	**$ 30,457**	**$ 2,064**	**$ 32,521**
June 30, 2020			
Leases, current	$ 2,676	$ –	$ 2,676
Leases, long term	30,542	–	30,542
Other current liabilities	–	918	918
Other long-term liabilities	–	1,509	1,509
Total lease liabilities	$ 33,218	$ 2,427	$ 35,645

The following table summarizes cash flows from operating and finance leases for the year ended June 30, 2021:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows paid for operating leases	$ 3,658
Operating cash flows paid for interest portion of finance leases	72
Financing cash flows paid for principal portion of finance leases	1,041
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	610
Finance leases	719

(Dollars in Thousands)

16. Commitments (continued)

The weighted average discount rates and our weighted remaining lease terms as of June 30, 2021:

Weighted average discount rate:	
Operating leases	2.13%
Finance leases	2.98
Weighted average lease term:	
Operating leases	11.83
Finance leases	3.10

Workers' Compensation

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

Letter of Credit

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

17. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at June 30, 2021:

Cash and cash equivalents	$ 95,758
Patient accounts receivable, net	68,918
Promises to give, net	781
Other receivables	2,541
Investments with daily and weekly liquidity	170,865
Total	$ 338,863

17. Liquidity and Availability (continued)

The System's most restrictive bond covenant requires the obligated group to maintain unrestricted cash and marketable securities on hand to meet 75 days of normal operating expenses, which would be approximately $93,803 as of June 30, 2021.

18. Regulatory Environment

Medicare and Medicaid

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

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

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

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

18. Regulatory Environment (continued)

State of Maryland Health Services Cost Review Commission

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

Through June 2021, the current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between CMS and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the state of Maryland under Section 1814(b) of the Social Security Act. As of January 2014, CMS approved a modernized waiver that will be in place as long as Maryland hospitals commit to achieving significant quality improvements, limits on all-payor per capita hospital growth, and limits on annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate.

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

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

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

18. Regulatory Environment (continued)

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

Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The System was undercharged by $2,104 and $17,354 for the years ended June 30, 2021 and 2020, respectively.

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

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

HSCRC established an uncompensated care fund whereby certain hospitals are required to contribute to the fund to help cover the costs associated with uncompensated care for all Maryland hospitals equitably. The System received from the fund $2,395 and $1,610 for the years ended June 30, 2021 and 2020, respectively.

19. Subsequent Events

The System has evaluated subsequent events through October 15, 2021, the date of issuance of these consolidated financial statements. The system is unaware of any subsequent events that would require recognition or disclosure at this time except as noted below.

Supplementary Information

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet

(In Thousands)

June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 130	$ 89,039	$ 17	$ 2,972	$ 1,221	$ 1,799	$ 580	$ –	$ 95,758
Patient receivables	–	57,922	–	9,910	1,086	–	–	–	68,918
Other receivables	–	2,463	2,629	78	–	–	–	(2,629)	2,541
Inventory	–	8,157	–	1,536	–	–	–	–	9,693
Prepaid expenses	–	4,810	6	–	158	–	42	–	5,016
Assets limited as to use	–	18,700	25	–	–	–	–	–	18,725
Promises to give, net	–	781	–	–	–	–	–	–	781
Total current assets	130	181,872	2,677	14,496	2,465	1,799	622	(2,629)	201,432
Net property and equipment	–	243,564	–	2,207	4,074	–	21,186	–	271,031
Right-of-use assets	–	14,775	–	7,701	3,085	–	–	–	25,561
Other assets:									
Assets limited as to use	–	2,549	–	–	–	–	–	–	2,549
Investments – donor restricted	–	4,699	–	–	–	–	–	–	4,699
Promises to give, net	–	4,304	–	–	–	–	–	–	4,304
Long-term investments	–	193,592	17,377	–	–	–	–	–	210,969
Other investments	346,028	20,087	–	–	5,593	–	–	(362,196)	9,512
Other assets	–	12,406	8,791	–	285	–	–	(12,415)	9,067
Intercompany receivables	–	30,051	–	1,181	–	–	–	(31,232)	–
Total other assets	346,028	267,688	26,168	1,181	5,878	–	–	(405,843)	241,100
Total assets	$ 346,158	$ 707,899	$ 28,845	$ 25,585	$ 15,502	$ 1,799	$ 21,808	$ (408,472)	$ 739,124

Frederick Health, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheet (continued)

(In Thousands)

June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Liabilities and net assets									
Current liabilities:									
Current maturities of long-term debt	$ –	$ 4,875	$ –	$ –	$ –	$ –	$ –	$ –	$ 4,875
Accounts payable	–	31,785	–	418	86	331	380	(2,629)	30,371
Accrued expenses	–	25,935	30	7,712	387	–	–	–	34,064
Advances from third-party payors	–	64,040	–	–	–	–	–	–	64,040
Loans payable, affiliates	–	–	–	–	2,325	–	–	(2,325)	–
Leases, current	–	2,829	–	538	138	–	–	–	3,505
Other current liabilities	–	4,265	8,706	2,589	10	–	–	(8,695)	6,875
Total current liabilities	–	133,729	8,736	11,257	2,946	331	380	(13,649)	143,730
Long-term liabilities, net of current portion:									
Long-term debt	–	202,910	–	–	–	–	–	–	202,910
Interest rate swap contract	–	7,666	–	–	–	–	–	–	7,666
Accrued pension expense	–	360	–	–	–	–	–	–	360
Other long-term liabilities	–	7,980	19,989	1	1,395	–	–	(1,395)	27,970
Leases, long term	–	16,198	–	7,664	3,090	–	–	–	26,952
Intercompany liabilities	292	200	–	6,663	1,181	1,468	21,428	(31,232)	–
Total long-term liabilities, net of current portion	292	235,314	19,989	14,328	5,666	1,468	21,428	(32,627)	265,858
Total liabilities	292	369,043	28,725	25,585	8,612	1,799	21,808	(46,276)	409,588
Net assets:									
Without donor restrictions	345,866	329,073	120	–	6,890	–	–	(362,196)	319,753
With donor restrictions	–	9,783	–	–	–	–	–	–	9,783
Total net assets	345,866	338,856	120	–	6,890	–	–	(362,196)	329,536
Total liabilities and net assets	$ 346,158	$ 707,899	$ 28,845	$ 25,585	$ 15,502	$ 1,799	$ 21,808	$ (408,472)	$ 739,124

Frederick Health, Inc. and Subsidiaries

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

Year Ended June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Net patient service revenue	$ –	$ 398,432	$ –	$ 66,684	$ 4,763	$ –	$ –	$ (371)	$ 469,508
Other	–	21,866	3,404	2,962	2,595	1,895	2,673	(7,124)	28,271
Total unrestricted revenues	–	420,298	3,404	69,646	7,358	1,895	2,673	(7,495)	497,779
Operating expenses:									
Salaries and contract labor	–	162,350	–	39,242	4,079	1,386	–	–	207,057
Employee benefits	–	35,080	–	7,307	826	319	–	(51)	43,481
Professional fees	–	14,226	121	68	13	341	22	(744)	14,047
Cost of goods sold	–	45,135	–	34,876	855	–	–	–	80,866
Supplies	–	17,658	–	609	–	2	58	–	18,327
Contract services	–	60,217	–	2,912	527	102	803	(1,029)	63,532
Other	–	9,708	72	3,846	973	4	308	(2,267)	12,644
Utilities	–	4,990	–	171	110	22	391	–	5,684
Insurance	–	2,400	5,529	977	88	20	22	(3,404)	5,632
Depreciation and amortization	–	26,698	–	453	229	–	719	–	28,099
Interest	–	5,155	–	–	82	–	100	(77)	5,260
Total operating expenses	–	383,617	5,722	90,461	7,782	2,196	2,423	(7,572)	484,629
Income (loss) from operations	–	36,681	(2,318)	(20,815)	(424)	(301)	250	77	13,150
Other income (loss), net:									
Gain on sale of assets	–	4,987	–	–	–	–	–	–	4,987
Investment gain (loss), net	76,883	18,837	512	1	416	–	–	(76,960)	19,689
Change in unrealized gains on trading securities, net	–	23,543	1,806	–	–	–	–	–	25,349
Realized and unrealized losses on interest rate swap contract, net	–	995	–	–	–	–	–	–	995
Periodic pension cost	–	(1,042)	–	(154)	–	–	–	–	(1,196)
Other nonoperating gains, net	–	(88)	–	–	(161)	–	(329)	–	(578)
Total other income (loss), net	76,883	47,232	2,318	(153)	255	–	(329)	(76,960)	49,246
Excess (deficit) of revenue over expenses	76,883	83,913	–	(20,968)	(169)	(301)	(79)	(76,883)	62,396

Frederick Health, Inc. and Subsidiaries

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

(In Thousands)

Year Ended June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Inc Consolidated	Monocacy Insurance, Ltd.	Frederick Health Medical Group, LLC	Frederick Health Services Corporation	Frederick Integrated Healthcare Network, LLC	Frederick Health Village, LLC	Elimination	Frederick Health Incorporated Consolidated
Excess (deficit) of revenue over expenses (from previous page)	$ 76,883	$ 83,913	$ –	$ (20,968)	$ (169)	$ (301)	$ (79)	$ (76,883)	$ 62,396
Other changes in net assets without donor restrictions:									
Pension adjustment	–	12,355	–	–	–	–	–	–	12,355
Other changes in unrestricted net assets*	2	(21,327)	–	20,967	–	302	75	–	19
Released from restriction used to purchase capital	–	9	–	–	–	–	–	–	9
Total other changes in net assets without donor restrictions	2	(8,963)	–	20,967	–	302	75	–	12,383
Increase (decrease) in net assets without donor restrictions	76,885	74,950	–	(1)	(169)	1	(4)	(76,883)	74,779
Net assets with donor restrictions:									
Released from restriction used to purchase capital	–	(9)	–	–	–	–	–	–	(9)
Assets released from restrictions	–	(12,347)	–	–	–	–	–	–	(12,347)
Restricted gifts, bequests, and contributions	–	14,462	–	–	–	–	–	–	14,462
Decrease in net assets with donor restrictions	–	2,106	–	–	–	–	–	–	2,106
Increase (decrease) in net assets	76,885	77,056	–	(1)	(169)	1	(4)	(76,883)	76,885
Net assets, beginning of year	268,981	261,802	120	–	7,059	–	–	(285,311)	252,651
Net assets, end of year	$ 345,866	$ 338,858	$ 120	$ (1)	$ 6,890	$ 1	$ (4)	$ (362,194)	$ 329,536

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Balance Sheet
(In Thousands)

June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Assets					
Current assets:					
Cash and cash equivalents	$ 130	$ 85,593	$ 2,972	$ –	$ 88,695
Patient receivables	–	57,920	9,910	–	67,830
Other receivables	–	2,463	78	–	2,541
Inventory	–	8,157	1,536	–	9,693
Prepaid expenses	–	4,810	–	–	4,810
Assets limited as to use	–	18,700	–	–	18,700
Promises to give, net	–	781	–	–	781
Total current assets	130	178,424	14,496	–	193,050
Net property and equipment	–	242,979	2,207	–	245,186
Right-of-use assets	–	14,775	7,701	–	22,476
Other assets:					
Assets limited as to use	–	2,549	–	–	2,549
Investments – donor restricted	–	4,699	–	–	4,699
Promises to give, net	–	4,304	–	–	4,304
Long-term investments	–	185,756	–	–	185,756
Other investments	346,028	31,736	–	(355,186)	22,578
Other assets	–	12,406	–	–	12,406
Intercompany receivables	–	30,051	1,181	(6,955)	24,277
Total other assets	346,028	271,501	1,181	(362,141)	256,569
Total assets	$ 346,158	$ 707,679	$ 25,585	$ (362,141)	$ 717,281

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Balance Sheet (continued)

(In Thousands)

June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Liabilities and net assets					
Current liabilities:					
Current maturities of long-term debt	$ –	$ 4,875	$ –	$ –	$ 4,875
Accounts payable	–	31,782	418	–	32,200
Accrued expenses	–	25,920	7,712	–	33,632
Advances from third-party payors	–	64,040	–	–	64,040
Loans payable, affiliates	–	–	–	–	–
Leases, current	–	2,829	538	–	3,367
Other current liabilities	–	4,265	2,589	–	6,854
Total current liabilities	–	133,711	11,257	–	144,968
Long-term liabilities, net of current portion:					
Long-term debt	–	202,910	–	–	202,910
Interest rate swap contract	–	7,666	–	–	7,666
Accrued pension expense	–	360	–	–	360
Other long-term liabilities	–	7,978	1	–	7,979
Leases, long term	–	16,198	7,664	–	23,862
Intercompany liabilities	292	–	6,663	(6,955)	–
Total long-term liabilities, net of current portion	292	235,112	14,328	(6,955)	242,777
Total liabilities	292	368,823	25,585	(6,955)	387,745
Net assets:					
Without donor restrictions	345,866	329,073	–	(355,186)	319,753
With donor restrictions	–	9,783	–	–	9,783
Total net assets	345,866	338,856	–	(355,186)	329,536
Total liabilities and net assets	$ 346,158	$ 707,679	$ 25,585	$ (362,141)	$ 717,281

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

Frederick Health, Inc. Obligated Group

Supplementary Combining Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Net patient service revenue	$ –	$ 398,432	$ 66,684	$ –	$ 465,116
Other	–	18,801	2,962	(3,261)	18,502
Total unrestricted revenues	–	417,233	69,646	(3,261)	483,618
Operating expenses:					
Salaries and contract labor	–	162,350	39,242	–	201,592
Employee benefits	–	35,080	7,307	–	42,387
Professional fees	–	14,226	68	(749)	13,545
Cost of goods sold	–	45,135	34,876	–	80,011
Supplies	–	17,548	609	–	18,157
Contract services	–	59,901	2,912	(680)	62,133
Other	–	9,587	3,846	(1,832)	11,601
Utilities	–	4,977	171	–	5,148
Insurance	–	2,400	977	–	3,377
Depreciation and amortization	–	26,639	453	–	27,092
Interest	–	5,155	–	–	5,155
Total operating expenses	–	382,998	90,461	(3,261)	470,198
Income (loss) from operations	–	34,235	(20,815)	–	13,420
Other income, net:					
Gain on sale of assets	–	4,987	–	–	4,987
Investment gain (loss), net	76,883	21,820	1	(77,056)	21,648
Change in unrealized losses on trading securities, net	–	23,024	–	–	23,024
Realized and unrealized losses on interest rate swap contract, net	–	995	–	–	995
Periodic pension cost	–	(1,042)	(154)	–	(1,196)
Other nonoperating income (loss)	–	(88)	–	–	(88)
Total other income (loss), net	76,883	49,696	(153)	(77,056)	49,370
Excess (deficit) of revenue over expenses	76,883	83,931	(20,968)	(77,056)	62,790

Continued on page 62.

Frederick Health, Inc. Obligated Group

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

(In Thousands)

Year Ended June 30, 2021

	Frederick Health Incorporated	Frederick Health Hospital Incorporated	Frederick Health Medical Group, LLC	Elimination	Frederick Health Obligated Group
Excess (deficit) of revenue over expenses (from previous page)	$ 76,883	$ 83,931	$ (20,968)	$ (77,056)	$ 62,790
Other changes in net assets without donor restrictions:					
Pension adjustment	–	12,355	–	–	12,355
Other changes in unrestricted net assets*	2	(21,344)	20,967	–	(375)
Released from restriction used to purchase capital	–	9	–	–	9
Total other changes in net assets without donor restrictions	2	(8,980)	20,967	–	11,989
Increase (decrease) in net assets without donor restrictions	76,885	74,951	(1)	(77,056)	74,779
Net assets with donor restrictions:					
Released from restriction used to purchase capital	–	(9)	–	–	(9)
Assets released from restrictions	–	(12,347)	–	–	(12,347)
Restricted gifts, bequests, and contributions	–	14,462	–	–	14,462
Decrease in net assets with donor restrictions	–	2,106	–	–	2,106
Increase (decrease) in net assets	76,885	77,057	(1)	(77,056)	76,885
Net assets, beginning of year	268,981	261,802	–	(278,132)	252,651
Net assets, end of year	$ 345,866	$ 338,859	$ (1)	$ (355,188)	$ 329,536

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

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

Frederick Health, Inc. Obligated Group

Supplementary Combined Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2021	**2020**
Operating activities		
Changes in net assets	**$ 76,885**	$ (6,834)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	**–**	5,479
Depreciation of property and equipment	**27,092**	23,483
Amortization of original issue discount, premium, and bond issue costs	**(43)**	(69)
Gains on joint ventures and Premier noncash component	**(4,308)**	(2,302)
Change in pension funded status	**(12,355)**	–
(Gain) loss on sale of property and equipment	**(4,987)**	26
Change in unrealized gains on trading securities, net	**(23,021)**	(2,716)
Proceeds from realized gains on investments – trading	**(17,836)**	(3,937)
Increase in investments – trading	**(373)**	(2,754)
Proceeds from restricted contributions	**(1,447)**	(195)
Change in fair value of interest rate swap	**(2,738)**	3,464
Changes in operating assets and liabilities:		
Receivables, patient, and other	**(13,415)**	(5,984)
Other assets	**570**	1,748
Inventories and prepaids	**(901)**	(4,832)
Pledges receivable	**(659)**	313
Accounts payable	**5,607**	3,839
Accrued expenses	**6,004**	3,930
Accrued pension expense	**(2,804)**	1,146
Change in ROU assets and liabilities	**45**	–
Advances from third-party payors	**(3,696)**	60,014
Intercompany receivable, net	**(3,353)**	(20,688)
Other short-term liabilities	**1,567**	1,170
Other long-term liabilities	**1,104**	1,671
Net cash provided by operating activities	**26,938**	55,972
Investing activities		
Purchases and sales of investments and assets limited as to use, net	**19,704**	8,957
Realized losses on interest rate swap contract	**(1,743)**	(1,425)
Purchases of property and equipment	**(35,201)**	(31,748)
Net proceeds from sale of assets	**7,053**	–
Net cash used in investing activities	**(10,187)**	(24,216)

Frederick Health, Inc. Obligated Group

Supplementary Combined Statements of Cash Flows (continued)

(In Thousands)

	Year Ended June 30	
	2021	**2020**
Fundraising and financing activities		
Proceeds from restricted contributions	**$ 1,447**	$ 195
Repayments of long-term debt	**(24,630)**	(116,600)
Proceeds from borrowings	**–**	179,925
Escrow funds used to retire debt	**–**	(7,199)
Payments for finance and capital leases	**(1,041)**	(1,000)
Deferred financing costs paid	**(257)**	(1,212)
Net cash (used in) provided by fundraising and financing activities	**(24,481)**	54,109
Net (decrease) increase in cash, cash equivalents, and restricted cash	**(7,730)**	85,865
Cash, cash equivalents, and restricted cash at the beginning of the year	**115,150**	29,285
Cash, cash equivalents, and restricted cash at the end of the year	**$ 107,420**	$ 115,150
Cash and cash equivalents	**$ 88,695**	$ 85,483
Restricted cash, included in assets limited as to use	**18,725**	29,667
	$ 107,420	$ 115,150
Supplemental disclosures		
Cash paid for interest	**$ 5,334**	$ 5,762

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

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