



Augusta Health Care, Inc. and Affiliates

Independent Auditor's Report, Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2023 and 2022



Augusta Health Care, Inc. and Affiliates
Contents
December 31, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Augusta Health Care, Inc. and Affiliates
Fishersville, Virginia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Augusta Health Care, Inc. and Affiliates (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023 and 2022, and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, consolidating statement of operations, and consolidating statement of changes in net assets on pages 28 through 32, and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2024, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

FORVIS, LLP

**Tysons, Virginia
April 24, 2024**

Augusta Health Care, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27,991,865	\$ 10,935,748
Patient accounts receivable	43,570,453	47,913,189
Other accounts receivable	18,130,927	16,870,644
Inventories	8,004,335	8,408,581
Prepaid expenses	9,636,449	8,909,951
Total current assets	107,334,029	93,038,113
Assets whose use is limited	562,260,776	494,323,714
Property and equipment, net	205,987,786	199,563,050
Other assets	12,666,707	10,841,691
Total assets	<u>\$ 888,249,298</u>	<u>\$ 797,766,568</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 25,025,443	\$ 29,402,268
Accrued salaries and related expenses	33,992,535	30,298,708
Other accrued expenses	15,622,414	13,213,530
Total current liabilities	74,640,392	72,914,506
Other Liabilities	9,789,436	7,043,836
Total liabilities	84,429,828	79,958,342
Net Assets		
Without donor restrictions	796,616,256	711,415,960
With donor restrictions	7,203,214	6,392,266
Total net assets	803,819,470	717,808,226
Total liabilities and net assets	<u>\$ 888,249,298</u>	<u>\$ 797,766,568</u>

Augusta Health Care, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Unrestricted Revenues, Gains, and Other Support		
Patient care service revenue	\$ 509,169,963	\$ 456,867,221
Other operating revenue	6,875,451	18,470,275
Net assets released from restrictions used for operations	394,101	898,265
	<u>516,439,515</u>	<u>476,235,761</u>
Expenses		
Salaries and wages	255,692,087	245,104,118
Employee benefits	41,935,346	35,400,684
Physicians and related fees	3,780,338	6,083,238
Food, drugs, and supplies	94,786,454	83,890,418
Outside services and rentals	50,866,992	44,739,681
Utilities and telephone	4,825,117	4,141,747
Depreciation and amortization	18,552,388	15,388,844
Medicaid provider assessment	26,861,973	20,639,220
Other operating expenses	17,219,658	10,774,347
	<u>514,520,353</u>	<u>466,162,297</u>
Operating Income	1,919,162	10,073,464
Nonoperating Income (Loss)		
Investment income	17,926,283	12,380,431
Net unrealized gains (losses) on investments	60,875,686	(102,506,511)
Equity earnings (losses) on investments in affiliates	1,203,092	(258,513)
Other	2,094,446	(538,457)
	<u>82,099,507</u>	<u>(90,923,050)</u>
Net Nonoperating Income (Loss)	82,099,507	(90,923,050)
Excess (Deficiency) of Revenues, Gains, and Other Support over Expenses	<u>\$ 84,018,669</u>	<u>\$ (80,849,586)</u>

Augusta Health Care, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Assets without Donor Restrictions		
Excess (deficiency) of revenues, gains, and other support over expenses	\$ 84,018,669	\$ (80,849,586)
Net assets released from restrictions used for capital improvements	<u>1,181,627</u>	<u>115,649</u>
Increase (decrease) in net assets without donor restrictions	<u>85,200,296</u>	<u>(80,733,937)</u>
Net Assets with Donor Restrictions		
Contributions	2,386,676	1,396,803
Net assets released from restrictions	<u>(1,575,728)</u>	<u>(1,013,914)</u>
Increase in net assets with donor restrictions	<u>810,948</u>	<u>382,889</u>
Change in Net Assets	86,011,244	(80,351,048)
Net Assets, Beginning of Year	<u>717,808,226</u>	<u>798,159,274</u>
Net Assets, End of Year	<u><u>\$ 803,819,470</u></u>	<u><u>\$ 717,808,226</u></u>

Augusta Health Care, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 86,011,244	\$ (80,351,048)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(75,289,162)	95,833,997
Depreciation and amortization	18,552,388	15,388,844
Equity (earnings) losses on investments in affiliates	(1,203,092)	258,513
Net gain on sale of property and equipment	(148,225)	(54,897)
Restricted contributions	(2,386,676)	(1,396,803)
Net changes in operating assets and liabilities		
Patient accounts receivable	4,342,736	(10,653,784)
Other accounts receivable	(1,260,283)	(3,310,384)
Inventories	404,246	(808,730)
Prepaid expenses	(726,498)	(1,495,015)
Advanced provider payments	-	(6,681,966)
Other assets	(621,924)	1,052,875
Accounts payable	(5,744,556)	(5,673)
Accrued salaries and related expenses	3,693,827	58,583
Other accrued expenses	2,408,884	(1,540,991)
Other liabilities	2,745,600	2,424,493
Net cash provided by operating activities	<u>30,778,509</u>	<u>8,718,014</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(23,609,423)	(47,322,248)
Proceeds from sale of property and equipment	148,255	70,189
Purchases of assets whose use is limited	(150,434,196)	(131,101,679)
Sales of assets whose use is limited	<u>157,659,766</u>	<u>159,376,375</u>
Net cash used in investing activities	<u>(16,235,598)</u>	<u>(18,977,363)</u>
Cash Flow from Financing Activities		
Proceeds from restricted contributions	<u>2,386,676</u>	<u>1,396,803</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	16,929,587	(8,862,546)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	<u>15,330,479</u>	<u>24,193,025</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u><u>\$ 32,260,066</u></u>	<u><u>\$ 15,330,479</u></u>
Supplemental Cash Flow Disclosure Information		
Property and equipment additions included in accounts payable	\$ 1,367,731	\$ 7,561,101
Right-of-use assets obtained in exchanged for new operating lease liabilities	\$ 2,430,965	\$ 755,919

Note 1. Description of Organization and Summary of Significant Accounting Policies

Organization and Affiliates

Augusta Health Care, Inc. (the “Hospital”), located in Fishersville, Virginia, is a not-for-profit entity established to meet the health care needs of the citizens of Augusta County, Virginia, including the cities of Staunton and Waynesboro. The Hospital provides inpatient, outpatient, emergency, and physician services through its acute care and specialty care facilities. Admitting physicians are primarily practitioners in the local area. The Hospital serves as the sole corporate member of Augusta Care Partners, LLC (the “LLC”). The LLC was organized to provide a network of individual practices of Accountable Care Organization professionals.

Augusta Medical Group, Inc. (the “Medical Group”), an affiliate of the Hospital, is a Virginia non-stock corporation that is organized and operated to support the charitable purposes of the Hospital. The Medical Group is comprised of community physician practices offering services in family medicine, internal medicine, urgent care clinics, and specialty practices.

The AHC Community Health Foundation (the “Foundation”) is a not-for-profit single member corporation with the purpose and mission of supporting the Hospital in making available appropriate medical care in the Hospital’s service area. The Foundation is operated exclusively for not-for-profit, charitable, scientific, and educational purposes.

Lifecore Community, Inc. SPC is a single member segregated portfolio company incorporated in the Cayman Islands with limited liability for the purpose of providing various insurance policies and coverage to Augusta Health Care, Inc. and Affiliates. Lifecore Community, Inc. SPC created a segregated portfolio, Lifecore Community, Inc SPC Segregated Portfolio 1 (collectively, “Lifecore”) whereby all insurance is assumed or written within.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of the Hospital (which includes the LLC); the Medical Group; the Foundation; and Lifecore (collectively, the “Company”) and have been consolidated to provide a more meaningful presentation. All significant intercompany accounts have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates and assumptions that were used. Adjustments to estimates are recorded, as appropriate, in the periods in which they are determined.

Cash and Cash Equivalents

The Company’s operating cash is placed with a high credit quality institution. The funds on deposit are in excess of federally insured amounts. Restricted cash is included with cash and cash equivalents in the consolidated statements of cash flows.

Augusta Health Care, Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total amounts shown in the consolidated statements of cash flows.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 27,991,865	\$ 10,935,748
Assets whose use is limited		
Internally designated by the Board of Directors	3,483,315	3,299,753
Donor restricted	<u>784,886</u>	<u>1,094,978</u>
 Total cash, cash equivalents and restricted cash shown in consolidated statements of cash flows	 <u>\$ 32,260,066</u>	 <u>\$ 15,330,479</u>

Patient Accounts Receivable

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. Patient accounts receivable are reported at net realizable value. For accounts receivable associated with services provided to patients who have third-party coverage, the Company estimates net realizable value based on the estimated contractual reimbursement percentage, which is predicated on current contract provisions and historical paid claims by payors. For self-pay accounts receivable, including uninsured and patient responsibility accounts, the net realizable value is determined using historical collection experience, adjusted for estimated conversions of patient responsibility portions, expected recoveries and change in trends to estimate implicit price concessions. Management continually reviews the estimated net realizable value of accounts receivable by monitoring cash collections, economic conditions and trends, changes in payor mix, changes in federal or state healthcare coverage and other matters. Patient accounts receivable are written off after collection efforts have been exhausted in accordance with the Company's policies.

The Company also performs periodic assessments to determine if an allowance for expected credit losses is necessary. The Company considers its incurred loss experience and adjusts for known and expected events and other circumstances. The Company does not believe there are any other significant concentrations of revenues from any particular payor that would subject us to any significant credit risks in the collection of patient accounts receivable. In estimating its expected credit losses, the Company may consider changes in the length of time its receivables have been outstanding, changes in credit ratings for its payors, requests from payors to alter payment terms due to financial difficulty, and notices of payor bankruptcies or payors entering receivership. Because the Company's accounts receivable is typically paid for by highly-solvent, creditworthy payors, such as Medicare, other governmental programs, and highly regulated commercial insurers on behalf of the patient, the Company's credit losses have been infrequent and insignificant in nature. Days revenues in accounts receivable were 31 days and 37 days for the years ended December 31, 2023 and 2022, respectively. Amounts recognized for allowances for expected credit losses are immaterial to the consolidated financial statements.

Inventories

Inventories consist primarily of pharmaceutical and other medical supplies which are managed on a first-in, first-out basis and are stated at average cost.

Assets Whose Use is Limited

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Alternative investments are valued based on the net asset value and other financial information provided by management of each underlying investee fund. Investments held by these funds are valued at prices that approximate fair value. The fair value of hedge funds is determined by external investment managers or other independent sources and reviewed by management. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty and, therefore, value realized upon disposition may vary significantly from currently reported values. Assets whose use is limited include assets set aside by the Board of Directors (the "Board") for future operations and capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes and assets restricted by donors for special purposes.

Investment income (including realized gains and losses on investments, interest, dividends, and net fees) and unrealized gains and losses on investments are included in the excess (deficit) of revenues, gains, and other support over expenses unless the income is restricted by donor or law.

Investment securities are exposed to several risks, such as interest rate, currency, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the Company's consolidated financial statements.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company 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 support 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, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is expensed over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements.

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

Equity Method Investments

The equity method of accounting is used for investments in affiliates for which the Company has the ability to exercise significant influence over the operating and financial policies of the investee, but does not have a controlling financial interest via majority voting rights, sole corporate membership, or by other means. The investments are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. The carrying value of the equity method investments is approximately \$5,254,000 and \$4,051,000 at December 31, 2023 and 2022, respectively, and is recorded in other assets in the accompanying consolidated balance sheets.

Contributions

Unrestricted contributions are reported as a component of other operating revenue in the accompanying consolidated statements of operations. Contributions restricted by donors are reported as additions to net assets with donor restrictions.

Net Assets

Net assets, revenues, gains, and losses are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

Mission Statement and Excess (Deficit) Of Revenues, Gains, And Other Support Over Expenses

The Company's mission is to promote the health and well-being of the community through access to excellent care. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

The accompanying consolidated statements of operations include excess (deficit) of revenues, gains, and other support over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Patient Care Service Revenue

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient care service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments, under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Company accepts all patients regardless of their ability to pay. A patient is classified as a charity beneficiary by reference to certain established policies of the Company. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Company utilizes generally recognized poverty income levels but also includes certain cases where incurred charges are significant when compared to income. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue; however, expenses incurred in providing these services are included in the Company's operating expenses.

Income Taxes

The Company is exempt from federal and state income taxes on income derived from its exempt purpose as a not-for-profit organization under the provisions of Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income tax. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2023 and 2022.

Cares Act Provider Relief Funds

On March 27, 2020, The Coronavirus Aid, Relief, and Economic Security Act, ("CARES Act") was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. The CARES Act Provider Relief Funds are considered non-exchange transactions subject to terms and conditions specified by the resource provider distributed by the Health Resources Service Administration section of the U.S. Department of Health and Human Services ("HHS"). These conditions create a restriction that such funds must be used to prevent, prepare or respond to COVID-19, creating purpose restrictions in addition to conditions. This conditional grant revenue is recognized as other operating revenue in the accompanying consolidated statements of operations to the extent conditions/restrictions for entitlement are met for coronavirus related expenses or lost revenues. Such funds are subject to recoupment to the extent the conditions for entitlement are not met. During 2022, the Company received and recognized approximately \$6,469,000 in CARES Act grant. No amounts were received during 2023.

Reclassifications

Certain amounts in the 2022 consolidated financial statements have been reclassified for comparative purposes to conform to the current period presentation. Such reclassifications did not impact net assets for the prior year ended December 31, 2022.

New Accounting Pronouncement

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments - Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain qualifying insurance receivables and reinsurance recoveries and receivables. This accounting pronouncement did not have a material impact on the consolidated financial statements.

Subsequent Events

The Company evaluated the effect subsequent events would have on the accompanying consolidated financial statements through April 24, 2024, which is the date the accompanying consolidated financial statements were available to be issued.

Note 2. Patient Care Service Revenue

Patient care service revenue includes estimated uncollectible amounts for services provided to patients, which are considered implicit price concessions. Such implicit price concessions reflected in patient care service revenue were \$18,723,000 and \$16,761,000 for the years ended December 31, 2023 and 2022, respectively. The implicit price concessions of approximately \$14,594,000 and \$12,570,000 as of December 31, 2023 and 2022, respectively, are also presented as a direct reduction of patient accounts receivable.

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

The Company previously elected certain available practical expedients upon adoption of current accounting standards for the recognition of revenue. The Company elected the practical expedient where the promised amount of consideration from patients and third-party payors is not adjusted for the effects of any significant financing component due to the Company's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Company does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. Additionally, the Company applied the practical expedient where all incremental customer contract acquisition costs are expenses as they are incurred, as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.

Patient care service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Company bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Augusta Health Care, Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in current accounting standards whereby it is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Company determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors (i.e., explicit price concessions), discounts provided to uninsured patients in accordance with the Company's policy (i.e., explicit price concessions), and implicit price concessions provided to uninsured patients. The Company determines its estimates of explicit price concessions based on contractual agreements, its discount policies, and historical experience. The Company determines its estimate of implicit price concessions based on its historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

The Company has agreements with third-party payors that provide for reimbursement to the Company at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare

Certain inpatient acute care services, defined capital costs, and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services, related to Medicare beneficiaries, are paid based on predetermined reimbursement methodologies. The Company is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicare fiscal intermediary. The Company's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2018.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a diagnostic-related group ("DRG") methodology. Inpatient services are paid at a tentative rate with final adjustments to DRG reimbursement subsequent to year-end. Outpatient services are reimbursed at prospectively determined rates. The Company's Medicaid cost reports have been final settled by the Medicaid carrier through December 31, 2022.

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Medicaid expansion was effective January 1, 2019 for Virginia residents. A hospital provider assessment has been implemented to fund the Commonwealth's share of expansion costs. Also, a separate hospital provider assessment was implemented to fund an increase in Medicaid reimbursement rates (rate improvement). The payment amount is determined by calculating the difference between Medicaid payment for services and what Medicare would have paid hospitals for the same services. This applies to both Medicaid fee-for service and Medicaid managed-care claims. Hospitals receive the rate increase in Medicaid reimbursement via upper payment limit quarterly lump sum supplemental payments.

Anthem

Inpatient and outpatient services rendered to Anthem subscribers are reimbursed at prospectively determined rates. The prospectively determined rates are not subject to retroactive adjustment.

Other

The Company has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payments to the Company are based on fixed rate schedules and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates could change by a material amount in the future. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. There can be no assurance that regulatory authorities will not challenge the Company's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company. In addition, the contracts the Company has with commercial payors also provide for retroactive audit and review of claims.

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 agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that 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 (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Company also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Company estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt/ credit loss expense. Bad debt/ credit loss expense for the years ended December 31, 2023 and 2022 was not significant.

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Consistent with the Company's mission, care is provided to patients regardless of their ability to pay. Therefore, the Company has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Company expects to collect based on its collection history with those patients.

Patients who meet the Company's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue (see Note 3).

The Company has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payors and service lines.

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 137,871,411	\$ 139,087,249
Managed Medicare	63,575,226	54,134,978
Medicaid	53,916,147	37,854,477
Managed Medicaid	44,333,016	39,164,190
Anthem	121,927,052	96,045,212
Other third-party payors	83,885,497	86,190,858
Self-pay	<u>3,661,614</u>	<u>4,390,257</u>
Patient care service revenue	<u>\$ 509,169,963</u>	<u>\$ 456,867,221</u>

The composition of patient care service revenue based on the Company's lines of business for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Service lines		
Hospital	\$ 420,046,416	\$ 374,511,716
Nursing home and senior care	2,701,528	2,883,023
Physician services	60,257,990	55,757,285
Home health and hospice	13,228,026	13,428,776
Other	<u>12,936,003</u>	<u>10,286,421</u>
Patient care service revenue	<u>\$ 509,169,963</u>	<u>\$ 456,867,221</u>

Note 3. Charity Care and Community Services

The Company also provides medical care without charge or at reduced costs to residents of its community through the provision of charity care. Included in the Company's definition of charity care are (a) services provided at no charge to the uninsured or underinsured who meet certain income guidelines, and (b) services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socio-economic factors. In addition, the Company provides services to Medicaid beneficiaries at payments that do not cover costs.

Consistent with its mission to provide high quality health and wellness services for the community, the Company is committed to providing free or discounted care to individuals who are in need of emergency or medically necessary treatment and have a household income below 400% of the Federal Poverty Level Guidelines.

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The amount of charges foregone for services and supplies furnished under the Company's charity care policy amounted to approximately \$9,852,000 and \$10,209,000 in 2023 and 2022, respectively. The estimated costs of providing such services amounted to approximately \$3,298,000 in 2023 and \$3,463,000 in 2022, with such amounts based on a calculation that applies a ratio of costs to gross charges to the gross uncompensated charges associated with providing charity services to patients. The ratio of cost to charges is calculated based on the Company's total expenses divided by gross patient service revenue.

The Company provides a wide variety of benefits to the community including various community-based social service programs such as support of the free dental clinic, health screenings, trauma services, training for emergency service personnel, social service and support counseling for patients and families, pastoral care, crisis intervention, and transportation to and from the Hospital campus. Additionally, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, unreimbursed costs of medical education, telephone information services, and costs related to programs designed to improve the general standards of the health of the community.

Note 4. Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Company records accounts receivable net of estimated price concessions, and such amounts have historically been within management's expectations. The mix of accounts receivable from patients and third-party payors is as follows at December 31:

	<u>2023</u>	<u>2022</u>
Medicare	24%	27%
Medicaid	13%	9%
Anthem	20%	32%
Other third-party payors	23%	21%
Patients (self-pay)	<u>20%</u>	<u>11%</u>
	<u>100%</u>	<u>100%</u>

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Note 5. Assets Whose Use Is Limited

Assets whose use is limited are summarized as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Internally designated by the Board for capital acquisition and operations:		
Cash and cash equivalents	\$ 3,483,315	\$ 3,299,753
Equities	407,928,073	362,480,035
Fixed income	85,446,763	65,120,566
Alternative strategies, hedge funds	<u>55,022,913</u>	<u>54,492,102</u>
	<u>551,881,064</u>	<u>485,392,456</u>
Externally restricted under donor restriction:		
Cash and cash equivalents	784,886	1,094,978
Equities	7,299,056	5,942,123
Fixed income	1,311,245	1,000,870
Alternative strategies, hedge funds	<u>984,525</u>	<u>893,287</u>
	<u>10,379,712</u>	<u>8,931,258</u>
Total assets whose use is limited	<u>\$ 562,260,776</u>	<u>\$ 494,323,714</u>

The following schedule summarizes investment income for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Included in nonoperating income:		
Dividends and interest less fees	\$ 3,512,807	\$ 5,704,304
Net realized gains on sale of securities	<u>14,413,476</u>	<u>6,676,127</u>
Investment income	<u>\$ 17,926,283</u>	<u>\$ 12,380,431</u>
Net unrealized gains (losses) on investments	<u>\$ 60,875,686</u>	<u>\$ (102,506,511)</u>

Note 6. Other Investments

Investments recorded on the equity method include approximately \$5,254,000 and \$4,051,000 at December 31, 2023 and 2022, respectively, related to the Company's investment in Virginia Solution SPC LTD and Virginia Solution SPC LTD, Segregated Portfolio A (collectively, the "Virginia Solution captive"), an offshore captive comprised of two area regional health systems of which the Company is a member (see also Note 14). The Company's 50% interest in the Virginia Solution captive does not provide the ability for the Company to exercise control. Condensed, unaudited financial information of the Virginia Solution captive for the years ending December 31, 2023 and 2022 is as follows:

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	<u>2023</u>	<u>2022</u>
Cash and investments	\$ 28,832,111	\$ 28,051,722
Receivables and other assets	3,281,857	5,476,170
Claims reserve	(12,169,090)	(14,415,952)
Accounts payable and other accrued liabilities	(3,420,199)	(6,389,935)
Shareholder's (equity)	(16,524,679)	(12,722,005)
Net (loss) income	3,963,211	(1,317,093)

Note 7. Fair Value of Financial Assets

Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Prices for certain stock, mutual funds, and exchange-traded funds that are readily available in the active markets in which those securities are traded and the resulting fair values are categorized as Level 1. Prices for certain fixed income securities that are determined on a recurring basis using inputs that are readily available in public markets or can be derived from information available in publicly quoted markets are categorized as Level 2.

The fair values of certain institutional investment funds, hedge funds, and other funds are estimated primarily based on the net asset value ("NAV") or its equivalent provided by the fund managers.

In accordance with current accounting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The amounts presented in the fair value hierarchy table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.

The Company recognizes transfers of assets into and out of fair value levels as of the date of the relevant causal event or change in circumstances.

The following tables set forth by level within the fair value hierarchy the Company's assets accounted for at fair value on a recurring basis as of December 31, 2023 and 2022.

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	Assets at Fair Value at December 31, 2023			NAV	Total
	Level 1	Level 2	Level 3		
Fixed income					
Institutional investment funds	\$ -	\$ -	\$ -	\$ 40,652,916	\$ 40,652,916
Mutual funds	31,214,284	-	-	-	31,214,284
Exchange-traded funds	3,182,089	-	-	-	3,182,089
Other fixed income	11,708,718	-	-	-	11,708,718
Alternative strategies					
Hedge funds	-	-	-	56,007,438	56,007,438
Equities					
Institutional investment funds	-	-	-	203,890,312	203,890,312
Exchange-traded funds	99,605,015	-	-	-	99,605,015
Mutual funds	111,731,803	-	-	-	111,731,803
Total assets	<u>\$ 257,441,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,550,666</u>	<u>\$ 557,992,575</u>
Assets at Fair Value at December 31, 2022					
	Level 1	Level 2	Level 3	NAV	Total
Fixed income					
Institutional investment funds	\$ -	\$ -	\$ -	\$ 36,148,381	\$ 36,148,381
Mutual funds	25,907,321	-	-	-	25,907,321
Exchange-traded funds	4,065,733	-	-	-	4,065,733
Alternative strategies					
Hedge funds	-	-	-	55,385,389	55,385,389
Equities					
Institutional investment funds	-	-	-	179,982,151	179,982,151
Exchange-traded funds	95,897,348	-	-	-	95,897,348
Mutual funds	92,542,660	-	-	-	92,542,660
Total assets	<u>\$ 218,413,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,515,921</u>	<u>\$ 489,928,983</u>

The Company had \$4,268,201 and \$4,394,731 of cash and cash equivalents included in assets whose use is limited as of December 31, 2023 and 2022, respectively, which were not classified as a level.

The determination of fair value above incorporates various factors, including but not limited to the credit standing of the counterparties involved, the impact of credit enhancements, and the impact of nonperformance risk of the counterparties.

The following table provides information related to the Company's investments that do not have a readily determinable fair value and are valued based primarily on NAV as a practical expedient.

	Fair Value December 31, 2023	Fair Value December 31, 2022	Unfunded Commitments at December 31, 2023	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Institutional investment funds - fixed maturities (A)	\$ 40,652,916	\$ 36,148,381	\$ -	Daily	1 day
Hedge funds (B)	56,007,438	55,385,389	-	Quarterly	65 days
Institutional investment funds - equity (C)	203,890,311	179,982,151	-	Daily	1-3 days
Total	<u>\$ 300,550,665</u>	<u>\$ 271,515,921</u>	<u>\$ -</u>		

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- (A) Institutional investment funds – fixed income - This category includes a fund of funds that provides participation in the full spectrum of investment opportunities in primarily U.S. debt markets. The fund seeks to take advantage of market trading opportunities, to generate current income, as well as provide a competitive rate of return on assets with a moderate to low level of absolute volatility.
- (B) Hedge funds - This category consists of a fund of funds that seeks to achieve long-term capital appreciation with low to moderate volatility and low correlation to global equity markets.
- (C) Institutional investment funds - equity - This category consists of funds, partnerships and funds of funds that make equity investments focused on various markets such as large cap, small cap, domestic, international, emerging markets, global infrastructure, commodities, and global real estate for short-term and long-term growth.

Note 8. Property and Equipment

A summary of property and equipment at December 31 follows:

	Depreciable Lives	2023	2022
Land and land improvements	2 - 25 yrs.	\$ 22,863,293	\$ 18,692,283
Buildings and improvements	5 - 40 yrs.	189,611,274	157,596,521
Fixed building equipment	5 - 40 yrs.	96,669,115	81,961,448
Fixed and moveable equipment	2 - 20 yrs.	<u>211,298,047</u>	<u>188,898,639</u>
		520,441,729	447,148,891
Accumulated depreciation		<u>(325,671,363)</u>	<u>(307,957,550)</u>
		194,770,366	139,191,341
Construction in progress		<u>11,217,420</u>	<u>60,371,709</u>
		<u>\$205,987,786</u>	<u>\$199,563,050</u>

Depreciation and amortization expense was approximately \$18,552,000 and \$15,389,000 for 2023 and 2022, respectively. The Company has active construction projects as of December 31, 2023 and 2022. The projects include facility upgrades and renovations. The Company spent approximately \$18,019,000 and \$40,223,000 towards these upgrades and renovations during the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there is an estimated \$10,035,000 in remaining committed funding.

Note 9. Other Accrued Expenses

Other accrued expenses consists of the following at December 31:

	<u>2023</u>	<u>2022</u>
Due to third party payors	\$ 7,446,432	\$ 5,856,639
Medical malpractice reserves (see Note 14)	1,802,547	1,480,871
Retirement savings plan contribution accrual	3,984,637	3,542,339
Miscellaneous	<u>2,388,798</u>	<u>2,333,681</u>
Total other accrued expenses	<u>\$ 15,622,414</u>	<u>\$ 13,213,530</u>

Note 10. Benefit Plans

Retirement Plans

In 1998, the Hospital established a defined contribution plan (the “401(k) Plan”) covering substantially all employees. The Hospital matches 50% of the first 6% of employee contributions. The Hospital may also make discretionary contributions as determined by the Board. The 401(k) Plan can be terminated at the discretion of the Board. If the 401(k) Plan is terminated, the Hospital will not be required to make any further contributions to the 401(k) Plan and participants will become 100% vested in their account balance. The 401(k) Plan expense recognized by the Hospital was approximately \$4,425,000 and \$3,796,000 in 2023 and 2022, respectively.

The Hospital has a 403(b) retirement plan whereby employees can contribute to this plan. The Hospital does not make contributions to this plan. A participant may defer up to an annual maximum of the lesser of 75% of eligible compensation or \$22,500.

In 2010, the Hospital established a 401(a) plan whereby it contributes up to 3% of annual salary for eligible employees based on years of service and age. The Hospital makes discretionary contributions as determined by the Board. The Hospital contributed approximately \$3,567,000 and \$3,116,000 for the years ended December 31, 2023 and 2022, respectively.

The Hospital sponsors deferred compensation plans, 457(b) and 457(f), to encourage retention of executive level employees. The asset and corresponding liability of approximately \$2,678,000 and \$2,949,000 are recorded in other assets and other liabilities at December 31, 2023 and 2022, respectively. The total amount of deferred compensation recognized in the accompanying consolidated statements of operations under the 457 plans for the years ended December 31, 2023 and 2022, was approximately \$426,000 and \$502,000, respectively.

Health Insurance

Effective January 1, 2009, the Hospital became self-funded for amounts up to a specified level for health and medical benefits for its employees. The estimated health and medical benefits liability is the total estimated amount to be paid for all known claims or incidents and a reserve for incurred but not reported claims. The medical programs represented include medical, vision, and prescription drug programs. The Hospital paid approximately \$30,194,000 and \$21,896,000 in claims for the years ended December 31, 2023 and 2022, respectively. The Hospital recorded a liability related to claims incurred but not paid of approximately \$2,580,000 in 2023 and 2022, which is reported as accrued salaries and related expenses in the accompanying consolidated balance sheets.

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Effective January 1, 2022, the Company entered into an Employer Medical Benefits Reimbursement policy (the "Medical Benefit Policy") with the Lifecore captive. The policy with the Lifecore captive includes coverage for medical claims greater than the actuarially determined retained aggregate losses. In 2023 and 2022, the Company incurred claims of approximately \$7,450,00 and \$1,766,000, respectively, in excess of the retained aggregate losses to be paid by the Lifecore captive to the Company in 2023 and 2022 pursuant to the Medical Benefit Policy. Such amounts represent activity between two consolidated entities and therefore is eliminated in the consolidated balance sheet and statement of operations.

In 2023 and 2022, the Company accrued a premium payable to the Lifecore captive of approximately \$3,185,000 and \$4,295,000, respectively, for the Medical Benefit Policy, which is reported as employee benefits in the accompanying consolidated financial statements. Such amount represents activity between two consolidated entities and therefore is eliminated in the accompanying consolidated balance sheet and statement of operations.

Note 11. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Health care services		
Supplies and equipment	\$ 5,940,972	\$ 5,095,789
Health education	240,195	259,380
Uninsured patient care	57,427	72,477
Plant replacement	<u>964,620</u>	<u>964,620</u>
	<u>\$ 7,203,214</u>	<u>\$ 6,392,266</u>

Note 12. Liquidity and Availability

As of December 31, 2023 and 2022, the Company has net working capital of approximately \$32,694,000 and \$20,124,000 and average days (based on normal expenditures) cash on hand of 433 and 423 days, respectively.

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 27,991,865	\$ 10,935,748
Patient accounts receivable	43,570,453	47,913,189
Assets whose use is limited, Board designated	<u>551,881,064</u>	<u>485,392,456</u>
Total	<u>\$ 623,443,382</u>	<u>\$ 544,241,393</u>

The Company estimates that all of the Board designated assets whose use is limited are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The Company has other assets whose use is limited for donor-restricted purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

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Note 13. Functional Expenses

The Company provides general health care services to residents within its geographical location. Expenses related to providing these services included in the accompanying consolidated statements of operations for the years ended December 31 are as follows:

	Expenses at December 31, 2023		
	Health care services	General and administrative	Total
Salaries and wages	\$217,853,759	\$ 37,838,328	\$255,692,087
Employee benefits	35,730,571	6,204,775	41,935,346
Physicians and related fees	3,608,494	171,844	3,780,338
Food, drugs, and supplies	92,920,109	1,866,345	94,786,454
Outside services and rentals	23,755,023	27,111,969	50,866,992
Utilities and telephone	3,927,911	897,206	4,825,117
Depreciation and amortization	18,531,643	20,745	18,552,388
Medicaid provider assessment	26,861,973	-	26,861,973
Other operating expenses	3,707,818	13,511,840	17,219,658
Total expenses	<u>\$426,897,301</u>	<u>\$ 87,623,052</u>	<u>\$514,520,353</u>

	Expenses at December 31, 2022		
	Health care services	General and administrative	Total
Salaries and wages	\$209,625,352	\$ 35,478,766	\$245,104,118
Employee benefits	30,277,551	5,123,133	35,400,684
Physicians and related fees	3,407,686	2,675,552	6,083,238
Food, drugs, and supplies	82,788,489	1,101,929	83,890,418
Outside services and rentals	20,159,678	24,580,003	44,739,681
Utilities and telephone	3,305,572	836,175	4,141,747
Depreciation and amortization	15,375,064	13,780	15,388,844
Medicaid provider assessment	20,639,220	-	20,639,220
Other operating expenses	5,494,313	5,280,034	10,774,347
Total expenses	<u>\$391,072,925</u>	<u>\$ 75,089,372</u>	<u>\$466,162,297</u>

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

Note 14. Commitments and Contingencies

Malpractice Insurance

Effective July 15, 2004, the Company placed its professional and general liability coverage with the Virginia Solution captive. The policy with the Virginia Solution captive included full prior-acts coverage with a retroactive date of January 1, 1976, and provided \$2,450,000 of coverage for each incident and an annual aggregate limit of \$7,350,000. The Hospital's professional liability policy was on a claims-made basis. The coverage under the policy extended through June 1, 2021. Under Virginia statutes, medical malpractice claims were capped at \$2,450,000 as of June 1, 2021.

Effective June 1, 2021, the Company placed its professional liability and general liability insurance with Lifecore. The current policy with Lifecore provides \$2,600,000 of coverage for each incident and an annual aggregate limit of \$7,800,000. The coverage under the existing policy extends to June 1, 2024. The previous policy with Lifecore provided \$2,550,000 of coverage for each incident and an annual aggregate limit of \$7,650,000. The coverage under the previous policy expired on June 1, 2023. The Hospital's professional liability policy is on a claims-made basis. Under Virginia statutes, medical malpractice claims are currently capped at \$2,550,000. Beginning July 1, 2012, the amount of the cap increases by \$50,000 each year for 20 years until the cap reaches \$3,000,000. The Company's professional liability limits will increase commensurate with increases in the cap such that the primary coverage limit equals the cap limit in any given year.

The Company also has coverage through a commercial carrier that provides excess coverage in the amount of \$15,000,000 that would respond in the event of a claim exceeding the primary coverage from the Virginia Solution captive or Lifecore.

The Company also carries other normal and customary insurance including commercial property, automobile liability, pollution liability, workers' compensation, employer's liability, fiduciary liability, cyber liability, directors' and officers' liability and indemnification coverage. Company management is of the opinion that its financial position would not be materially affected by the ultimate costs related to unasserted claims at December 31, 2023.

Losses from asserted claims and from unasserted claims identified under the Company's risk management system are accrued based on actuarial estimates that incorporate past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

In accordance with current accounting standards, the Company has recorded a current receivable for estimated insurance recoveries of approximately \$1,803,000 and \$1,481,000 as of December 31, 2023 and 2022, respectively, with a corresponding current liability in the accompanying consolidated financial statements.

Lease Commitments

The Company determines if an arrangement is an operating lease or financing lease at the commencement date of the lease. The Company has determined that it has no finance lease arrangements at December 31, 2023 and 2022. Lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease and are recorded in other assets and other liabilities within the consolidated balance sheets, respectively. The Company uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Company uses its incremental borrowing rate, which is based on information available at the lease commencement date, to determine the present value of lease payments. The right-of-use assets are calculated as the present value of the lease payments plus initial direct costs, plus any prepayments less any lease incentives received.

Augusta Health Care, Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

The Company leases some of its office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2028 and provide for renewal options ranging from three months to six years. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

Operating lease expense is recognized in continuing operations by amortizing the total lease payments straight-line over the life of the lease. In determining lease asset values, the Company considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option were not exercised. The leases provide for increases in future minimum annual rental payments based on defined increases, subject to certain minimum increases. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately.

Right of use asset of approximately \$3,362,000 and \$2,012,000 is included within other assets in the accompanying consolidated balance sheets as of December 31, 2023 and 2022, respectively. Short term lease liabilities of approximately \$1,456,000 and \$1,473,000 is included within other accrued expenses in the accompanying consolidated balance sheets as of December 31, 2023 and 2022, respectively. Long term lease liabilities of approximately \$1,906,000 and \$539,000 is included within other liabilities in the accompanying consolidated balance sheets as of December 31, 2023 and 2022, respectively.

The weighted-average remaining lease term for the Company's operating leases was 2.83 and 2.46 years as of December 31, 2023 and 2022, respectively. The weighted-average discount rate for the Company's operating leases was 3.50% and 2.56% as of December 31, 2023 and 2022, respectively.

The total operating lease costs for the year ended December 31, 2023 and 2022 was approximately \$1,572,000 and \$1,538,000, respectively, and is reported as a component of outside services and rentals in the accompanying consolidated statements of operations.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2023:

Year ending December 31,	<u>Amount</u>
2024	\$ 1,517,512
2025	1,124,704
2026	417,612
2027	290,526
2028	<u>183,831</u>
Total minimum payments for operating lease	3,534,185
Imputed interest	<u>(171,931)</u>
Present value of lease liability	<u><u>\$ 3,362,254</u></u>

Augusta Health Care, Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

Operating leases arise from the leasing of office space to tenants under noncancelable operating leases with initial lease terms generally ranging from 12 to 36 months. Such leases generally include provisions for renewals every twelve months thereafter.

Litigation

In January 2020, Valley Health filed a petition to wind up Virginia Solution. As a result, the Company formed Lifecore. The ultimate outcome of the wind up of Virginia Solution is yet to be determined by the courts. The Company has reserved \$1,450,000 and \$4,000,000 as of December 31, 2023 and 2022, respectively, for potential costs associated with the wind up.

Other Industry Risks

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies continue to pursue investigations and allegations concerning possible violations and 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 significant fines and penalties, as well as significant repayments for patient services billed. Management believes the Company is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material impact on its financial position or results of operations.

In recent years, legislative and regulatory changes have resulted in limitations on and, in some cases, reductions in levels of payments to health care providers for certain services under the Medicare program. Certain federal legislation provides for deficit reduction and material reductions in the growth of Medicare program spending, including reductions in Medicare market basket updates and Medicare disproportionate share hospital funding. From time to time, CMS revises the reimbursement systems used to reimburse health care providers, which may include additional changes to the Medicare Severity Diagnosis Related Group system and other payment systems. These changes may result in reduced Medicare payments, as well as substantially different reimbursement models that increase risk for health care providers.

The Commonwealth of Virginia must operate with balanced budgets, and since the Medicaid program is one of the state's largest programs, it is possible that Virginia will enact or consider enacting legislation designed to reduce its Medicaid expenditures.

Consolidating Supplementary Information

Augusta Health Care, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2023

	<u>Augusta Health Care</u>	<u>Augusta Medical Group</u>	<u>AHC Community Health Foundation</u>	<u>LifeCore Community, Inc. SPC</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 25,680,378	\$ 867,246	\$ -	\$ 1,444,241	\$ -	\$ 27,991,865
Patient accounts receivable	37,796,984	5,773,469	-	-	-	43,570,453
Other accounts receivable	23,707,152	2,623	1,105,369	1,025,350	(7,709,567)	18,130,927
Inventories	8,004,335	-	-	-	-	8,004,335
Prepaid expenses	9,377,674	234,775	24,000	-	-	9,636,449
Due from related party	258,252,450	-	-	-	(258,252,450)	-
Total current assets	362,818,973	6,878,113	1,129,369	2,469,591	(265,962,017)	107,334,029
Assets whose use is limited	537,439,241	-	12,657,328	12,164,207	-	562,260,776
Property and equipment, net	205,323,370	664,416	-	-	-	205,987,786
Other assets	14,301,015	605,542	-	121,500	(2,361,350)	12,666,707
Total assets	<u>\$ 1,119,882,599</u>	<u>\$ 8,148,071</u>	<u>\$ 13,786,697</u>	<u>\$ 14,755,298</u>	<u>\$ (268,323,367)</u>	<u>\$ 888,249,298</u>

Augusta Health Care, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2023

(Continued)

	Augusta Health Care	Augusta Medical Group	AHC Community Health Foundation	LifeCore Community, Inc. SPC	Eliminating Entries	Consolidated
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts payable	\$ 23,234,607	\$ 1,856,801	\$ 365,283	\$ -	\$ (431,248)	\$ 25,025,443
Accrued salaries and related expenses	20,308,207	13,618,602	65,726	-	-	33,992,535
Other accrued expenses	13,953,181	1,612,147	16,315	40,771	-	15,622,414
Due to related party	-	258,155,811	96,638	-	(258,252,449)	-
Total current liabilities	57,495,995	275,243,361	543,962	40,771	(258,683,697)	74,640,392
Other Liabilities	4,439,348	275,231	-	12,353,177	(7,278,320)	9,789,436
Total liabilities	61,935,343	275,518,592	543,962	12,393,948	(265,962,017)	84,429,828
Net Assets (Deficit)						
Without donor restrictions	1,057,593,219	(267,370,521)	6,393,558	2,361,350	(2,361,350)	796,616,256
With donor restrictions	354,037	-	6,849,177	-	-	7,203,214
Total net assets (deficit)	1,057,947,256	(267,370,521)	13,242,735	2,361,350	(2,361,350)	803,819,470
Total liabilities and net assets	<u>\$ 1,119,882,599</u>	<u>\$ 8,148,071</u>	<u>\$ 13,786,697</u>	<u>\$ 14,755,298</u>	<u>\$ (268,323,367)</u>	<u>\$ 888,249,298</u>

Augusta Health Care, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2023

	Augusta Health Care	Augusta Medical Group	AHC Community Health Foundation	LifeCore SPC	Eliminating Entries	Consolidated
Unrestricted Revenues, Gains, and Other Support						
Patient care service revenue	\$ 448,911,974	\$ 60,257,989	\$ -	\$ -	\$ -	\$ 509,169,963
Other operating revenue	5,987,110	22,139,853	195,259	8,768,683	(30,215,454)	6,875,451
Net assets released from restrictions used for operations	189,669	-	204,432	-	-	394,101
Total revenues, gains, and other support	455,088,753	82,397,842	399,691	8,768,683	(30,215,454)	516,439,515
Expenses						
Salaries and wages	164,253,103	90,727,079	711,905	-	-	255,692,087
Employee benefits	36,046,404	10,474,448	154,702	-	(4,740,208)	41,935,346
Physicians and related fees	23,152,499	1,552,544	-	-	(20,924,705)	3,780,338
Food, drugs, and supplies	91,892,044	2,867,214	27,196	-	-	94,786,454
Outside services and rentals	44,697,895	7,094,099	128,072	-	(1,053,074)	50,866,992
Utilities and telephone	4,685,115	140,002	-	-	-	4,825,117
Depreciation and amortization	18,417,629	134,759	-	-	-	18,552,388
Medicaid provider assessment	26,861,973	-	-	-	-	26,861,973
Other operating expenses	6,150,494	2,755,971	260,003	11,706,966	(3,653,776)	17,219,658
Transfers to AHC for program support	-	-	522,066	-	(522,066)	-
Total expenses	416,157,156	115,746,116	1,803,944	11,706,966	(30,893,829)	514,520,353
Operating Income (Loss)	38,931,597	(33,348,274)	(1,404,253)	(2,938,283)	678,375	1,919,162

Augusta Health Care, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2023

(Continued)

	August Health Care	Augusta Medical Group	AHC Community Health Foundation	LifeCore SPC	Eliminating Entries	Consolidated
Nonoperating Income (Loss)						
Investment income	\$ 17,590,685	\$ -	\$ 335,598	\$ -	\$ -	\$ 17,926,283
Net unrealized gains on investments	59,669,390	-	1,206,296	-	-	60,875,686
Rental revenue, net of expenses of approximately \$692,000 in 2023	678,375	-	-	-	(678,375)	-
Equity gains on investments in affiliates	1,203,092	-	-	-	-	1,203,092
Other	(843,837)	-	-	-	2,938,283	2,094,446
Net Nonoperating Income	78,297,705	-	1,541,894	-	2,259,908	82,099,507
Excess (Deficiency) of Revenues Over Expenses	117,229,302	(33,348,274)	137,641	(2,938,283)	2,938,283	84,018,669
Other Changes in Net Assets Without Donor Restrictions						
Equity transfers between affiliates used for operations	(911,653)	-	911,653	-	-	-
Equity transfers between affiliates used for capital improvements	1,181,627	-	(1,181,627)	-	-	-
Net assets released from restrictions used for capital improvements	-	-	1,181,627	-	-	1,181,627
Increase (decrease) in net assets without donor restrictions	\$ 117,499,276	\$ (33,348,274)	\$ 1,049,294	\$ (2,938,283)	\$ 2,938,283	\$ 85,200,296

Augusta Health Care, Inc. and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended December 31, 2023

	Augusta Health Care	Augusta Medical Group	AHC Community Health	LifeCore Community,	Eliminating Entries	Consolidated
Net Assets Without Donor Restrictions						
Excess (deficiency) of revenues over expenses	\$ 117,229,302	\$ (33,348,274)	\$ 137,641	\$ (2,938,283)	\$ 2,938,283	\$ 84,018,669
Equity transfers between affiliates used for operations	(911,653)	-	911,653	-	-	-
Equity transfers between affiliates used for capital improvements	1,181,627	-	(1,181,627)	-	-	-
Net assets released from restrictions used for capital improvements	-	-	1,181,627	-	-	1,181,627
Increase (decrease) in net assets without donor restrictions	117,499,276	(33,348,274)	1,049,294	(2,938,283)	2,938,283	85,200,296
Net Assets with Donor Restrictions						
Contributions	194,956	-	2,191,720	-	-	2,386,676
Net assets released from restrictions	(189,669)	-	(1,386,059)	-	-	(1,575,728)
Increase in Net Assets with Donor Restrictions	5,287	-	805,661	-	-	810,948
Change in Net Assets	117,504,563	(33,348,274)	1,854,955	(2,938,283)	2,938,283	86,011,244
Net Assets, Beginning of Year	940,442,693	(234,022,247)	11,387,780	5,299,633	(5,299,633)	717,808,226
Net Assets, End of Year	<u>\$ 1,057,947,256</u>	<u>\$ (267,370,521)</u>	<u>\$ 13,242,735</u>	<u>\$ 2,361,350</u>	<u>\$ (2,361,350)</u>	<u>\$ 803,819,470</u>

Supplementary Information

Augusta Health Care, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Fund (PRF)	93.498			\$ 6,469,195
				<u>\$ 6,469,195</u>

Augusta Health Care, Inc. and Affiliates
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Augusta Health Care, Inc. and Affiliates (the "Company") under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Expenditures and lost revenues for the Provider Relief Fund ("PRF"), are based upon the PRF reports for the year ended December 31, 2023.

Note 3. Indirect Cost Rate

The Company has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Contingencies

The grant programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under terms of the grants. Management believes disallowances, if any, will not be material.

Note 5. Categorization of Expenditures and Other Matters

The categorization of expenditures by program included in the Schedule is based upon the grant documents. Changes in the categorization of expenditures occur based upon revisions to the Assistance Listing, which is issued typically in June and December of each year. The Schedule for the year ended December 31, 2023 reflects Assistance Listing changes through April 2023.

Augusta Health Care, Inc. and Affiliates
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Note 6. Provider Relief Funds

As outlined in the May 2023 *OMB Compliance Supplement*, the amounts reported in the accompanying Schedule related to the PRF Assistance Listing No. 93.498, are reported based upon the PRF reporting portal submission guidelines established by the Health Resource and Service Administration ("HRSA"). Seven separate reporting periods were established by HRSA based on the dates of receipt of PRF payments. Each reporting period has a specific period of availability which begins on January 1, 2020 and extends through specified deadlines, as indicated below:

Period	Payment Received Period	Period of Availability for Eligible Expenses	Period of Availability for Lost Revenues	Reporting Time Period
1	April 10, 2020, to June 30, 2020	January 1, 2020, to June 30, 2021	January 1, 2020, to June 30, 2021	July 1, 2021, to September 30, 2021
2	July 1, 2020, to December 31, 2020	January 1, 2020, to December 31, 2021	January 1, 2020, to December 31, 2021	January 1, 2022, to March 31, 2022
3	January 1, 2021, to June 30, 2021	January 1, 2020, to June 30, 2022	January 1, 2020, to June 30, 2022	July 1, 2022, to September 30, 2022
4	July 1, 2021, to December 31, 2021	January 1, 2020, to December 31, 2022	January 1, 2020, to December 31, 2022	January 1, 2023, to March 31, 2023
5	January 1, 2022, to June 30, 2022	January 1, 2020, to June 30, 2023	January 1, 2020, to June 30, 2023	July 1, 2023, to September 30, 2023
6	July 1, 2022, to December 31, 2022	January 1, 2020, to December 31, 2023	January 1, 2020, to June 30, 2023	January 1, 2024, to March 31, 2024
7	January 1, 2023, to June 30, 2023	January 1, 2020, to June 30, 2024	January 1, 2020, to June 30, 2023	July 1, 2024, to September 30, 2024

The accompanying Schedule includes those qualifying expenditures and lost revenues that were reported in the HRSA PRF portal for Period 5. Of that amount, approximately \$6,500,000 in PRF payments was recognized by the Company in their consolidated statements of operations as other operating revenue during the year ended December 31, 2022.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Augusta Health Care, Inc. and Affiliates
Fishersville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Augusta Health Care, Inc. and Affiliates (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

**Tysons, Virginia
April 24, 2024**



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Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Directors
Augusta Health Care, Inc. and Affiliates
Fishersville, Virginia

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Augusta Health Care, Inc. and Affiliates' (the "Company") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Company's major federal program for the year ended December 31, 2023. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Company's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS, LLP

**Tysons, Virginia
May 3, 2024**

Augusta Health Care, Inc. and Affiliates
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section I – Summary of Auditor’s Results

Consolidated Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

☒ **Unmodified** ☐ **Qualified** ☐ **Adverse** ☐ **Disclaimer**

2. Internal control over financial reporting:

Material weakness(es) identified? ☐ **Yes** ☒ **No**

Significant deficiency(ies) identified? ☐ **Yes** ☒ **None Reported**

Noncompliance material to the financial statements noted? ☐ **Yes** ☒ **No**

Federal Awards

3. Internal control over major federal awards programs:

Material weakness(es) identified? ☐ **Yes** ☒ **No**

Significant deficiency(ies) identified? ☐ **Yes** ☒ **None Reported**

4. Type of auditor’s report issued on compliance for the major federal award program:

☒ **Unmodified** ☐ **Qualified** ☐ **Adverse** ☐ **Disclaimer**

5. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ **Yes** ☒ **No**

6. Identification of the major federal programs

Assistance Listing Number	Name of Federal Program or Cluster
93.498	COVID-19 Provider Relief Fund (PRF)

7. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

8. Auditee qualified as a low-risk auditee? ☒ **Yes** ☐ **No**

Section II – Financial Statement Findings

No findings relating to the financial statements reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

No findings related to Compliance for the Major Federal Awards Program.