



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2024 AND 2023

CPAS / ADVISORS



DEACONESS HEALTH SYSTEM

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
 Deaconess Health System
 Evansville, Indiana

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Deaconess Health System (the System), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 30, 2024 and 2023 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 System 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 System's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Board of Directors
Deaconess Health System
Evansville, Indiana

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 generally accepted auditing standards 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 System'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 supplementary information identified in the accompanying table of contents is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Board of Directors
Deaconess Health System
Evansville, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2025, on our consideration of the System'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 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 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 System's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
January 23, 2025

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2024 AND 2023

ASSETS

	2024	2023
Current assets		
Cash and cash equivalents	\$ 294,319,914	\$ 300,744,676
Funds held by trustee	5,327,808	2,762,435
Patient accounts receivable	269,312,313	218,006,664
Inventories	20,775,760	16,026,275
Prepaid expenses and other current assets	54,581,802	83,059,663
	<hr/>	<hr/>
Total current assets	644,317,597	620,599,713
Investments limited as to use		
Funds held by trustee	3,351,229	3,354,610
Board designated funds	1,330,871,451	947,554,975
Board designated funds - Foundation	15,080,162	11,921,645
Donor restricted - Foundation	25,411,465	9,305,706
	<hr/>	<hr/>
Total investments limited as to use	1,374,714,307	972,136,936
Property and equipment		
Land and improvements	48,499,638	43,326,840
Buildings and improvements	1,237,069,214	1,073,147,223
Furniture, fixtures and equipment	482,750,395	409,737,193
	<hr/>	<hr/>
Accumulated depreciation	1,768,319,247	1,526,211,256
	(934,139,296)	(833,289,461)
	<hr/>	<hr/>
Construction in progress	834,179,951	692,921,795
	74,194,672	46,807,507
	<hr/>	<hr/>
Total property and equipment, net	908,374,623	739,729,302
Other assets		
Investments in joint ventures	98,134,261	81,911,594
Operating lease right-of-use assets, net	40,748,533	37,528,259
Goodwill and other intangibles	256,445,572	247,085,507
Other	95,802,717	56,003,030
	<hr/>	<hr/>
Total other assets	491,131,083	422,528,390
	<hr/>	<hr/>
Total assets	\$ 3,418,537,610	\$ 2,754,994,341

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2024 AND 2023

LIABILITIES AND NET ASSETS

	2024	2023
Current liabilities		
Accounts payable and other accrued liabilities	\$ 69,104,215	\$ 82,525,478
Salaries, wages and related liabilities	140,524,901	119,410,282
Estimated third-party payor settlements	5,620,453	668,216
Accrued interest	4,041,405	3,296,001
Other current liabilities	2,997,753	620,486
Commercial paper	150,000,000	150,000,000
Current portion of operating lease liabilities	11,440,189	11,132,259
Current portion of long-term debt	<u>28,560,093</u>	<u>26,904,427</u>
Total current liabilities	412,289,009	394,557,149
Long-term liabilities		
Operating lease liabilities, less current portion	28,785,639	27,616,101
Long-term debt, less current portion	548,004,692	508,428,299
Other long-term liabilities	<u>20,279,975</u>	<u>36,738,091</u>
Total long-term liabilities	<u>597,070,306</u>	<u>572,782,491</u>
Total liabilities	1,009,359,315	967,339,640
Net assets		
Without donor restrictions		
Undesignated	1,020,829,749	806,664,459
Designated - capital improvements	1,330,871,451	947,554,975
Designated - Foundation	15,080,162	11,921,645
Non-controlling interest	<u>16,985,468</u>	<u>12,307,619</u>
Total without donor restrictions	2,383,766,830	1,778,448,698
With donor restrictions	<u>25,411,465</u>	<u>9,206,003</u>
Total net assets	<u>2,409,178,295</u>	<u>1,787,654,701</u>
Total liabilities and net assets	<u>\$ 3,418,537,610</u>	<u>\$ 2,754,994,341</u>

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	2024	2023
Revenue and other support		
Patient service revenue	\$ 2,085,529,383	\$ 1,702,416,616
Other revenue	165,530,971	124,998,622
Total revenue and other support	2,251,060,354	1,827,415,238
Expenses		
Salaries and wages	919,717,592	738,346,432
Employee benefits	192,472,124	174,156,016
Supplies	430,775,854	342,471,909
Contract services	220,543,580	175,788,805
Repairs and maintenance	73,407,860	61,242,792
Depreciation	93,179,937	79,003,461
Interest	28,077,141	23,346,936
Utilities	22,027,656	20,733,263
Other	160,587,768	131,494,563
Total expenses	2,140,789,512	1,746,584,177
Income from operations	110,270,842	80,831,061
Nonoperating revenues (expenses)		
Investment return	76,178,852	27,032,145
Net unrealized gain on investments	172,698,457	54,422,111
Net periodic pension cost	(734,144)	(5,026,970)
Contributions, gifts, and bequests	1,707,071	1,302,053
Grants	(3,580,802)	(3,853,490)
Total nonoperating revenues (expenses)	246,269,434	73,875,849
Revenues over expenses before other items	356,540,276	154,706,910
Excess assets acquired over liabilities assumed	265,336,925	104,616,759
Distributions to other entities	-0-	(41,491,429)
Revenues over expenses	621,877,201	217,832,240
Other changes in net assets without donor restrictions		
Benefit related changes other than net periodic benefit cost	15,141,370	14,864,393
Net assets released from restriction	460,616	2,522,402
Distributions to non-controlling interest	(32,161,055)	(27,727,988)
Change in net assets without donor restrictions	605,318,132	207,491,047
Net assets with donor restrictions		
Contributions, gifts and bequests	5,340,755	1,608,602
Change in beneficial interest in trusts	227,824	83,624
Excess assets acquired over liabilities assumed	10,020,452	-0-
Investment loss	(7,994)	(114,588)
Net unrealized gain on investments	1,085,041	745,483
Net assets released from restriction	(460,616)	(2,522,402)
Change in net assets with donor restrictions	16,205,462	(199,281)
Change in net assets	\$ 621,523,594	\$ 207,291,766

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	Without Donor Restrictions				
	Undesignated & Designated	Non-controlling Interest	Total	With Donor Restrictions	Total
Net assets					
September 30, 2022	\$ 1,563,167,096	\$ 7,790,555	\$ 1,570,957,651	\$ 9,405,284	\$ 1,580,362,935
Revenues over expenses	185,587,188	32,245,052	217,832,240	-0-	217,832,240
Benefit related changes other than net periodic benefit cost	14,864,393	-0-	14,864,393	-0-	14,864,393
Net assets released from restriction	2,522,402	-0-	2,522,402	(2,522,402)	-0-
Investment loss	-0-	-0-	-0-	(114,588)	(114,588)
Net unrealized gain on investments	-0-	-0-	-0-	745,483	745,483
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	1,692,226	1,692,226
Distributions to non-controlling interest, net	-0-	(27,727,988)	(27,727,988)	-0-	(27,727,988)
Change in net assets	202,973,983	4,517,064	207,491,047	(199,281)	207,291,766
September 30, 2023	1,766,141,079	12,307,619	1,778,448,698	9,206,003	1,787,654,701
Revenues over expenses	585,038,297	36,838,904	621,877,201	-0-	621,877,201
Benefit related changes other than net periodic benefit cost	15,141,370	-0-	15,141,370	-0-	15,141,370
Net assets released from restriction	460,616	-0-	460,616	(460,616)	-0-
Investment loss	-0-	-0-	-0-	(7,994)	(7,994)
Net unrealized gain on investments	-0-	-0-	-0-	1,085,041	1,085,041
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	5,568,579	5,568,579
Excess assets acquired over liabilities assumed	-0-	-0-	-0-	10,020,452	10,020,452
Distributions to non-controlling interest, net	-0-	(32,161,055)	(32,161,055)	-0-	(32,161,055)
Change in net assets	600,640,283	4,677,849	605,318,132	16,205,462	621,523,594
September 30, 2024	\$ 2,366,781,362	\$ 16,985,468	\$ 2,383,766,830	\$ 25,411,465	\$ 2,409,178,295

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	2024	2023
Operating activities		
Change in net assets	\$ 621,523,594	\$ 207,291,766
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	93,179,937	79,003,461
Net unrealized (gain) loss on investments	(173,783,498)	(55,167,594)
Net realized (gain) loss on investments	(45,639,289)	4,966,834
(Gain) loss on disposal of property and equipment	(229,136)	109,399
Unrealized gain on interest rate swap	237,376	(48,169)
Amortization of debt issue costs and original issue discount/premium	(324,495)	62,868
Distributions to non-controlling interest	32,161,055	69,219,417
Excess assets acquired over liabilities assumed	(275,357,377)	(104,616,759)
Changes in operating assets and liabilities		
Patient accounts receivable	(25,090,741)	(20,208,346)
Inventories	(4,749,485)	(1,449,767)
Prepaid expenses and other current assets	42,992,110	(29,592,540)
Investments in joint ventures and other assets	(65,382,419)	(85,231,589)
Operating lease right-of-use assets, net	(886,449)	41,792,972
Accounts payable and other accrued liabilities	(21,766,325)	(10,051,329)
Salaries, wages and related liabilities	21,114,619	15,541,162
Estimated third-party payor settlements	4,952,237	(14,988,398)
Accrued interest	745,404	1,743,749
Other current liabilities	(15,767,928)	(10,539,705)
Operating lease liabilities	(16,667,727)	(20,622,122)
Other long-term liabilities	(34,603,311)	(24,161,407)
Net cash flows from operating activities	136,658,152	43,053,903
Investing activities		
Cash paid for acquisitions	(7,800,000)	(50,600,327)
Cash received in acquisitions	52,853,973	2,460,920
Purchases of property and equipment	(119,316,178)	(181,853,208)
Proceeds from disposal of property and equipment	1,245	2,960
Purchases of investments limited as to use	(587,863,006)	(445,571,536)
Proceeds from investments limited as to use	573,879,195	439,733,421
Net cash flows from investing activities	(88,244,771)	(235,827,770)
Financing activities		
Distributions to non-controlling interest and other entities	(32,161,055)	(69,219,417)
Issuance of commercial paper	-0-	150,000,000
Proceeds from issuance of long-term debt	16,199,228	40,572,275
Payments on long-term debt	(38,750,784)	(12,226,899)
Net cash flows from financing activities	(54,712,611)	109,125,959
Change in cash and cash equivalents	(6,299,230)	(83,647,908)
Cash and cash equivalents		
Beginning of year	304,264,861	387,912,769
End of year	<u>\$ 297,965,631</u>	<u>\$ 304,264,861</u>
Reconciliation to consolidated balance sheets		
Cash and cash equivalents in current assets	\$ 294,319,914	\$ 300,744,676
Cash in funds held by trustee in current assets - restricted	3,645,717	2,762,435
Cash in funds held by trustee in investments - restricted	-0-	757,750
	<u>\$ 297,965,631</u>	<u>\$ 304,264,861</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Deaconess Health System (the System) is an integrated multi-facility health system providing comprehensive health care services to southern Indiana, southern Illinois and western Kentucky, with full-time equivalents in excess of 9,000 within the Tri-State area. The System also has affiliation and management agreements with eight hospitals throughout the Tri-State area to provide various management and clinical services.

Deaconess Health System, Inc. was formed to coordinate management and strategic planning and provide operational facilities for entities within the System, which include, among others, Deaconess Hospital, Inc. (the Hospital) and Deaconess Clinic, Inc. (the Clinic), not-for-profit corporations whose missions are to provide quality health care services with a compassionate and caring spirit to persons, families and communities of the Tri-State area.

The board of Deaconess Health System, Inc. is granted the authority to provide overall direction and control of the entities through their respective bylaws. Deaconess Health System, Inc. wholly owns the Clinic, Deaconess Care Integration, LLC, DCI Commercial ACO, LLC, OneCare, LLC, Healthcare Resource Solutions, LLC, Deaconess Regional Healthcare Services Illinois, LLC, Deaconess VNA Plus, LLC, Deaconess Specialty Physicians, Inc., Deaconess Health Kentucky, Inc., Deaconess Health Gibson, Inc., Deaconess Henderson, Inc., Deaconess Union County Hospital, Inc. and is the sole corporate member of the Hospital. The System previously held a 50% ownership in the Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital. Effective January 1, 2023, the System purchased the remaining 50% ownership in The Women's Hospital to become the sole owner. Also, during 2023, the System acquired two physician clinics in Illinois - Deaconess Illinois Specialty Clinic, Inc. and Deaconess Illinois Clinic, Inc. (the Illinois Clinics). During 2024, the System acquired Little Company of Mary Hospital, Inc. (Memorial Hospital and Health Care Center).

The Clinic is comprised of Deaconess employed physicians practicing primary care and multi-specialty medicine within outpatient physician offices located throughout southern Indiana, southeastern Illinois and western Kentucky and two urgent care centers located in Evansville, Indiana. The facilities provide illness and injury care, preventative care, lab and x-ray services. The Clinic also encompasses the Deaconess Clinical Research Institute which provides drug research studies for the pharmaceutical industry.

Deaconess Care Integration, LLC is as an accountable care organization with the purpose of developing a care delivery model focused on quality metrics and reductions in cost for the Medicare population. DCI Commercial ACO, LLC is a counterpart to Deaconess Care Integration, LLC, but with a focus on the commercial populations. Its purpose is to assist commercial clients with value-based coverage programs. OneCare, LLC was formed to develop a network of participating health care providers and pursue contracts, in concert with the aforementioned accountable care organizations, with provider-owned health plans, commercial payors, employers, providers, suppliers and other third parties to provide high quality, cost-effective and coordinated health care services to their enrollees. Healthcare Resource Solutions, LLC provides revenue cycle and billing services.

Deaconess Regional Healthcare Services Illinois, LLC manages activities such as pain management and other ancillary services in Illinois and owns the Illinois Clinics.

Deaconess VNA Plus, LLC provides home health and hospice care services.

Deaconess Specialty Physicians, Inc. (DSP) provides cardiology services to communities in the Tri-State area.

Deaconess Health Kentucky, Inc. (DHK) and its affiliates house the operations of the System in Kentucky.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Deaconess Henderson, Inc. (DH) provides health care services in Henderson, Kentucky and the surrounding communities.

Deaconess Health Gibson, Inc. (DHG) provides health care services in Princeton, Indiana and the surrounding communities.

Deaconess Union County Hospital, Inc. (DUC) provides health care services in Morganfield, Kentucky and the surrounding communities.

Memorial Hospital and Health Care Center provides health care services in Jasper, Indiana and the surrounding communities.

The System, located in Evansville, Indiana, is comprised of general acute care facilities, a mental health facility and more than 70 ambulatory sites. The inpatient services have a combined capacity of 945 intensive care, pediatric, medical/surgical, orthopedic and neurosurgical beds.

The System holds majority ownership interests in the following entities:

- Progressive Health of Indiana, LLC – 51%
- Tri-State Radiation Oncology, LLC – 51%
- Deaconess Health Plans, LLC – 97%
- Mainspring Managers, LLC – 51%
- Vascmed, LLC – 51%
- OrthoAlign, LLC and Ortho Prime, LLC – 51%
- Tri-State Healthcare Consultants, LLC – 51%
- Evansville Surgery Services, LLC – 51%

Progressive Health of Indiana, LLC provides physical, occupational and speech therapy services throughout southern Indiana.

Tri-State Radiation Oncology, LLC provides oncology and cancer services, including radiation therapy, pain management, counseling and rehabilitation.

Deaconess Health Plans, LLC is a preferred provider organization – managed care network formed to encourage collaboration in providing patient service and cost management.

Mainspring Managers, LLC provides neurology services to treat brain, spinal cord and nervous system injuries, diseases and disorders.

Vascmed, LLC provides services and manage the vascular service line of the Hospital.

OrthoAlign, LLC and Ortho Prime, LLC were created to manage the cost and quality of orthopedic procedures performed by the System.

Tri-State Healthcare Consultants, LLC was formed to manage the cost and quality of the obstetrics, gynecology and neonatal intensive care services within the System.

Evansville Surgery Services, LLC manages the care and quality of outpatient multi-specialty procedures performed by the System.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The System also encompasses a charitable Foundation supported by donations from the community. The Foundation, a department of the System, has a separate advisory board that carries out the mission of supporting medical, charitable and educational activities as designated by the donors.

Principles of Consolidation

The consolidated financial statements include the accounts of Deaconess Health System and its wholly owned and controlled subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation. Noncontrolling interest represents the portion of net assets that is owned by investors that are external to and not included in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including estimated third-party payor settlements, defined benefit plan obligations and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Cash Equivalents and Consolidated Statements of Cash Flows

Cash equivalents are defined as investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by arrangements under trust agreements, board designation or by donors. The System maintains its cash in accounts, which at times may exceed federally insured limits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents also include restricted cash from funds held by trustee. Additional cash flows information for 2024 and 2023 follows:

	2024	2023
Supplemental cash flows information		
Cash paid for interest, net	\$ 27,332,000	\$ 21,477,000
Property and equipment in liabilities	\$ 274,465	\$ 2,042,000
Patient accounts receivable obtained through acquisitions	\$ 26,214,908	\$ 16,821,000
Property and equipment obtained through acquisitions	\$ 142,736,971	\$ 6,599,000
Operating lease right-of-use assets obtained through acquisitions	\$ 2,333,825	\$ 31,388,000
Other assets obtained through acquisitions	\$ 195,460,024	\$ 204,567,000
Accounts payable assumed through acquisitions	\$ 8,070,597	\$ 12,912,000
Operating lease liabilities assumed through acquisitions	\$ 1,064,449	\$ 27,273,000
Other liabilities assumed through acquisitions	\$ 18,145,195	\$ 10,067,000
Long-term debt assumed through acquisitions	\$ 64,108,110	\$ 13,112,000
Investment in joint venture released in acquisitions	\$ -0-	\$ 2,739,000

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and commercial and managed care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of the System's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The System also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self pay receivables between pure self pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

Final settlements for some payors and programs are subject to adjustment based on administrative review and audit by third parties. As a result of these final settlements, the System has recorded amounts due to third-party.

Patient Service Revenue

Patient service revenue is recorded at the amount that reflects the consideration to which the System 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 includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the System receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes. The System measures the performance obligation from admission as an inpatient 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. The method of reimbursement for the System is primarily fee for service. The timing of revenue and recognition for healthcare services is transferred over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in the Financial Accounting Standards Board (the FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, 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 previously 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.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Charity Care, Community Benefit and Assistance to the Uninsured

The System provides care to patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. Essentially, these policies define charity services as those services for which no payment or reduced payment based upon a graduated scale, is anticipated, based on the Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue.

The System's charity care policy reflects the current economic conditions and other factors unique to the System's customer base. Charity care provided during 2024 and 2023, measured at established rates, was approximately \$71,491,000 and \$67,710,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of charity care.

Of the System's total expenses reported, an estimated \$23,351,000 and \$22,730,000 arose from providing services to charity patients during 2024 and 2023, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses to patient service revenue. The System modified its financial assistance policy during 2023. The System has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self pay discounts were an estimated \$42,695,000 and \$28,211,000 in 2024 and 2023, respectively.

Inventories

Inventories (principally pharmaceuticals and medical supplies) are stated at the lower of cost (first in, first out) or net realizable value.

Investments Limited as to Use

These investments are recorded at fair value in the consolidated balance sheets. Investments consist of short-term investments (principally cash equivalents), US Government and government agency obligations, marketable debt securities (corporate bonds and fixed income mutual funds), marketable equity securities (common and preferred corporate stock), equity mutual funds, exchange traded funds (ETF), commingled trust funds, and mortgage backed securities. Fair values for investments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Investments limited as to use include assets held by trustees under indenture agreements, amounts set aside by the Board of Directors for future capital improvements, retirement of debt over which the Board retains control and may at its discretion subsequently designate for other purposes and amounts designated by the Foundation and donor restrictions. Amounts required to meet current liabilities of the System have been classified as current assets.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Commingled trust and private equity funds invest in stocks, mutual funds, fixed income and other assets. Investments in these commingled trust funds are reported at fair value as determined by the individual manager of each fund. Although the manager uses its best judgement in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that these funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the commingled trust and private equity funds existed and the difference could be material. Commingled trust funds totaled approximately \$486,100,000 and \$576,210,000 (35% and 59.1% of investment portfolio) as of September 30, 2024 and 2023, respectively.

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the System's investments could occur in the near term and that such changes could materially affect the amounts reflected in the consolidated financial statements. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, ranging from 3 to 40 years, using the straight-line method. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

If circumstances require a long-lived asset or asset group be tested for possible impairment, the System first compares undiscounted cash flows expected to be generated by that asset or group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Investments in Joint Ventures

Investments in organizations where the System's ownership percentage is equal to or less than 50% are included in investments in joint ventures on the consolidated balance sheets. Investments in joint ventures approximated \$98,134,000 and \$81,912,000 as of September 30, 2024 and 2023, respectively. The System's portion of income from unconsolidated organizations is reported with other operating revenue and was \$14,552,806 and \$17,784,000 for 2024 and 2023, respectively. A summary of the significant investments in joint ventures follows:

- Prior to January 1, 2023, the System held a 50% ownership in The Women's Hospital which is a 74-bed facility dedicated to comprehensive women's care, including obstetrics, neonatal intensive care, cancer treatment and infertility and imaging services. Effective January 1, 2023, the System became the sole owner.
- As of September 30, 2023 the System held a 50% ownership interest in Evansville Surgery Center Associates, LLC (ESCA) which provided multispecialty outpatient surgery procedures and related care to patients. During 2024, the system transferred its ownership in ESCA to Evansville Surgery Services, LLC (ESS).
- The System holds 33.3% of the membership shares in The Healthcare Group, LLC, a preferred provider organization – managed care network. The Healthcare Group, LLC encourages collaboration in providing patient service and cost management.
- The System holds a 27.5% ownership interest in Encompass Health/Deaconess, LLC, d/b/a Encompass Health.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

- Deaconess Rehabilitation Hospital, a comprehensive facility dedicated to improving, maintaining or restoring physical strength, cognition and mobility through therapeutic methods and technologies for rehabilitation.
- The System is an equity member (approximately 7% ownership) in the Tecumseh Health Reciprocal Risk Retention Group which was formed to provide liability insurance, reinsurance and risk management services to the members.
- The System holds a 50% ownership interest in Crossroads Health Services which provides workers' compensation coverage.
- The System holds a 46% ownership interest in LoField Dialysis, LLC which was formed to provide dialysis and related services.
- The System, through DHK, holds a 50% ownership in Baptist Health Deaconess, LLC, which provides health care services to the residents of Madisonville, Kentucky and the surrounding communities.

Leases

The System determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, net and operating lease liabilities on the consolidated balance sheets. ROU assets represent the System's right to use an underlying asset for the lease term and lease liabilities represent the System's obligation to make lease payments arising from the lease. Operating lease ROU assets, net and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the System's leases do not provide an implicit rate, the System uses an incremental borrowing rate based on the estimated rate of interest for collateralized borrowing at commencement date. The operating lease ROU asset, net also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Business Combinations and Goodwill and Other Intangibles

The System accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is tested for impairment on an annual basis, or whenever an event occurs, or circumstances indicate the carrying value of the goodwill may be impaired. The System performed the required annual impairment test for goodwill as of September 30, 2024 and 2023 using the income approach of calculating the present value of the future cash flows. The System determined no impairment of goodwill existed as of September 30, 2024 and 2023.

As of September 30, 2024 and 2023, the System recorded goodwill and other intangibles of approximately \$256,446,000 and \$247,086,000 related to the acquisition of majority owned entities.

Effective January 1, 2023, the System purchased the remaining 50% ownership in The Women's Hospital to become the sole owner. The System previously recognized an equity interest of approximately \$2,739,000 through December 31, 2022. The System purchased the remaining 50% using cash of approximately \$50,600,000 and issuing promissory notes totaling approximately \$40,572,000. The purchase of the Women's Hospital resulted in the recognition of excess assets acquired over liabilities assumed of approximately \$104,617,000 in its 2023 consolidated statement of operations. Pushdown accounting was applied to this transaction and resulted in the Women's Hospital recognizing goodwill of approximately \$198,521,000. Also during 2023, the System acquired a 100% interest in the Illinois Clinics which did not result in the recognition of goodwill.

During 2024, the System became the sole member of the Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center (the Corporation). As a result of the transaction the System recognized the excess of assets acquired over liabilities in the consolidated statement of operations of approximately \$275,357,000 of which approximately \$265,337,000 is unrestricted and \$10,020,000 is donor restricted.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The following is a summary of the assets purchased and liabilities assumed during 2024 and 2023:

2024	
Assets	
Cash	\$ 52,853,973
Patient accounts receivable	26,214,908
Other current assets	10,065,350
Investments limited as to use	128,091,802
Property and equipment	142,736,971
Operating lease right-of-use assets, net	2,333,825
Other assets	<u>4,448,899</u>
Total assets	<u>366,745,728</u>
 Liabilities	
Accounts payable and other	8,070,597
Other liabilities	18,145,195
Lease liabilities	1,064,449
Long-term debt	<u>64,108,110</u>
Total liabilities	<u>91,388,351</u>
Excess assets acquired over liabilities assumed	<u><u>\$ 275,357,377</u></u>
2023	
Assets	
Cash	\$ 2,460,920
Patient accounts receivable	16,821,117
Other current assets	2,518,076
Property and equipment	6,599,345
Operating lease right-of-use assets, net	31,387,721
Other assets	<u>202,106,049</u>
Total assets	<u>261,893,228</u>
 Liabilities	
Accounts payable and other	12,912,483
Other liabilities	10,067,078
Lease liabilities	27,273,336
Long-term debt	<u>13,112,046</u>
Total liabilities	<u>63,364,943</u>
Equity interest previously recognized	2,739,251
Amount to previous 50% owners	<u>91,172,275</u>
Excess assets acquired over liabilities assumed	<u><u>\$ 104,616,759</u></u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Debt Issue Costs

Costs incurred in connection with the issuance of debt are amortized over the term of the related debt using the bonds outstanding method. Estimated annual amortization is approximately \$74,000.

Other Long-Term Liabilities

Other long-term liabilities include obligations related to the unfunded status of defined benefit plans, other employee benefit programs, derivative liabilities related to an interest rate swap and the long-term portion of accelerated payments received under the Medicare program.

Net Assets

Net assets without donor restrictions are comprised of net assets that are undesignated, board designated and held by non-controlling interest. The following net assets without donor restrictions were board designated as of September 30, 2024 and 2023:

	2024	2023
Board designated		
Capital improvements	\$ 1,330,871,451	\$ 947,554,975
Foundation	<u>15,080,162</u>	<u>11,921,645</u>
	<u>\$ 1,345,951,613</u>	<u>\$ 959,476,620</u>

Net assets with donor restrictions include those assets whose use by the System has been limited primarily for capital projects or a specified time period or purpose. Also included are net assets contributed with donor restrictions requiring they be held in perpetuity with income used to support the System's activities. The following is a summary of net assets with donor restrictions as of September 30, 2024 and 2023:

	2024	2023
Patient medical care	\$ 1,629,345	\$ 2,261,475
Education and scholarship	1,494,916	1,306,916
Capital projects	1,616,808	1,364,914
Beneficial interest in trusts	1,444,980	1,173,972
To be held in perpetuity	792,080	692,080
Memorial hospital and health center operational	14,074,231	-0-
Other System support	<u>4,359,105</u>	<u>2,406,646</u>
	<u>\$ 25,411,465</u>	<u>\$ 9,206,003</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Net assets were released from restriction during 2024 and 2023 for the following purposes:

	2024	2023
Patient medical care	\$ 279,420	\$ 777,164
Education and scholarship	(183,781)	449,127
Capital projects	144,141	469,058
Other System support	<u>220,836</u>	<u>827,053</u>
	<u><u>\$ 460,616</u></u>	<u><u>\$ 2,522,402</u></u>

Contributions

Unconditional promises to give cash and other assets to the System 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 with donor restrictions 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, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating revenues (expenses) in the accompanying consolidated financial statements.

In-kind donations are recorded as revenue and expense in the accompanying consolidated financial statements. These donations consist mainly of medical supplies and services which are recorded at their estimated fair values. The System also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

Performance Indicator

The consolidated statements of operations include a performance indicator, revenues over (under) expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, support, and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating revenues (expenses). Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice include pension related changes other than net periodic pension cost, 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) and contributions from/distributions to non-controlling interest.

Medical Malpractice

The System participates in the Indiana Medical Malpractice Act, IC 34-18 (the Act), which provides a maximum recovery of \$1,800,000. The Act requires the System to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the System to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The System is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the System's required portion of the insurance coverage pursuant to the Act, as well as its general liability insurance and excess coverage. Membership in THRRRG includes 14 hospitals as of September 30, 2024. Coverage through THRRRG provides protection from liability in an amount not to exceed \$500,000 per incident and aggregate liability protection not to exceed \$15,000,000 per year. In addition, the System maintains a commercial umbrella/excess liability policy with a limit of \$20,000,000 each occurrence and \$35,000,000 aggregate per member and \$35,000,000 total policy aggregate.

Income Taxes

Deaconess Health System, Inc., the Hospital, the Clinic, DSP, DHK, DH, DHG, DUC, Memorial Hospital and Health Care Center, The Women's Hospital and the Illinois Clinics are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and recognize a tax liability if the System has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the System and has concluded that as of September 30, 2024 and 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The remaining consolidated subsidiaries are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes related to these entities. These entities have filed their Federal and state income tax returns for periods through their most recent fiscal year ends (primarily December 31, 2023). These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Reclassification

Certain 2023 amounts in the consolidated financial statements have been reclassified to conform to the 2024 presentation. The reclassifications have no effect on previously reported net assets or changes in net assets.

Subsequent Events

The System evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was January 23, 2025.

2. CHANGE IN ACCOUNTING PRINCIPLE

On October 1, 2023, the System adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, utilizing the modified retrospective approach. This ASU replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The System applied the guidance to financial assets measured at amortized cost (primarily contract receivables and other receivables) that existed as of October 1, 2023 (the date of initial application). The adoption of this ASU did not have a material impact on the System's financial statements.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

3. INVESTMENTS

Investments at fair value consisted of the following as of September 30:

	2024	2023
Board designated funds		
Cash	\$ 5,127	\$ 498,015
Money market mutual funds	13,652,867	3,578,068
Common stocks	64,418,387	55,438,174
Mutual funds and ETF	338,464,406	82,876,627
US Government and government agency obligations	210,256,970	46,287,222
Corporate bonds	100,115,112	77,457,948
Mortgage backed securities	132,050,976	116,271,409
Commingled trusts and private equity	<u>471,907,606</u>	<u>565,147,512</u>
	1,330,871,451	947,554,975
Funds held by trustee		
Money market mutual funds	3,645,717	3,520,185
Mutual funds and ETF	5,033,320	2,596,860
Current portion	<u>(5,327,808)</u>	<u>(2,762,435)</u>
	3,351,229	3,354,610
Board designated - Foundation and donor restricted - Foundation		
Cash	2,379,484	1,784,126
Common stocks	4,641,192	446,076
Mutual funds and ETF	14,685,350	7,726,839
US Government and government agency obligations	3,874,759	184,797
Corporate bonds	654,134	
Commingled trusts	14,192,270	11,062,426
Accrued interest and other	<u>64,438</u>	<u>23,087</u>
	40,491,627	21,227,351
Investments limited as to use, net	<u>\$ 1,374,714,307</u>	<u>\$ 972,136,936</u>

Investments reported as current assets are those that the System has made available for use in operations within the next twelve months. Investments limited as to use that are required for obligations classified as current liabilities are also reported in current assets.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

A detail of investment return for both net assets with and without donor restrictions for 2024 and 2023 is as follows:

	2024	2023
Interest and dividends and other	\$ 30,768,945	\$ 31,836,222
Net realized gain (loss)	45,639,289	(4,966,834)
Unrealized gain (loss) on interest rate swap	<u>(237,376)</u>	<u>48,169</u>
Investment return, net	<u><u>\$ 76,170,858</u></u>	<u><u>\$ 26,917,557</u></u>

For net assets without donor restrictions, the unrealized gain on investments was approximately \$172,698,000 in 2024 and approximately \$54,422,000 in 2023. These amounts are reported under nonoperating revenues (expenses) in the consolidated statements of operations.

For net assets with donor restrictions, the unrealized gain on investments was approximately \$1,085,000 in 2024 and approximately \$745,000 in 2023. These amounts are included in changes in net assets with donor restrictions on the consolidated statements of operations for the respective years.

See Note "Derivative Financial Instruments – Interest Rate Swaps" for additional information on unrealized gain or loss on interest rate swap.

The following schedules summarize the fair value of debt securities included in investments limited as to use that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of September 30, 2024 and 2023. The schedules further segregate the debt securities that have been in a gross unrealized position as of September 30, 2024 and 2023, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary. The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in 2025. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of September 30, 2024 and 2023.

Description of Securities	September 30, 2024					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stocks	\$ 5,020,157	\$ 406,068	\$ 11,227,733	\$ 3,721,585	\$ 16,247,890	\$ 4,127,653
Corporate bonds	5,353,550	154,099	40,832,030	3,416,602	46,185,580	3,570,701
US Government and government agency obligations	31,478,086	590,056	51,023,186	6,477,827	82,501,272	7,067,883
Commingled trusts	-0-	-0-	49,262,496	1,212,061	49,262,496	1,212,061
Total temporarily impaired securities	<u><u>\$ 41,851,793</u></u>	<u><u>\$ 1,150,223</u></u>	<u><u>\$ 152,345,445</u></u>	<u><u>\$ 14,828,075</u></u>	<u><u>\$ 194,197,238</u></u>	<u><u>\$ 15,978,298</u></u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Description of Securities	September 30, 2023					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	\$ 41,146,628	\$ 5,325,404	\$ 34,505,392	\$ 3,510,320	\$ 75,652,020	\$ 8,835,724
US Government and government agency obligations	39,594,717	5,759,778	6,593,199	263,036	46,187,916	6,022,814
Mortgage backed securities	57,422,707	3,887,320	52,781,545	7,173,225	110,204,252	11,060,545
Total temporarily impaired securities	<u>\$ 138,164,052</u>	<u>\$ 14,972,502</u>	<u>\$ 93,880,136</u>	<u>\$ 10,946,581</u>	<u>\$ 232,044,188</u>	<u>\$ 25,919,083</u>

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2024 and 2023:

- *Common stocks:* Valued based on the closing price reported on the active market on which the individual securities are traded.
- *Mutual Funds and ETF:* Valued based on quoted net asset value (NAV) of the shares held by the System at year-end. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The NAV is quoted in an active market.
- *Money market mutual funds:* Valued based at the subscription and redemption activity at a \$1 stable NAV. However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

- *US Government and government agency obligations:* Valued based on the closing price reported on the active market on which the securities are traded.
- *Corporate bonds and mortgage backed securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Commingled trusts and private equity:* Valued at the NAV of units of the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The commingled trust investments consist of investments in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the NAV of the fund and, consequently, the fair value of the System's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the System were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.
- *Derivative (Interest rate swap agreement):* Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the Note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2024 and 2023 are as follows:

	September 30, 2024			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Money market mutual funds	\$ 17,298,584	\$ -0-	\$ 17,298,584	\$ -0-
Common stocks				
Consumer	16,694,113	16,694,113	-0-	-0-
Financial services	7,279,012	7,279,012	-0-	-0-
Industrial and materials	16,252,534	16,252,534	-0-	-0-
Technology	9,122,576	9,122,576	-0-	-0-
Healthcare	5,402,514	5,402,514	-0-	-0-
Other	<u>14,308,830</u>	<u>14,308,830</u>	<u>-0-</u>	<u>-0-</u>
Total common stocks	69,059,579	69,059,579	-0-	-0-
Mutual funds and ETF				
Large blend	176,410,895	176,410,895	-0-	-0-
Multisector bond	91,328,878	91,328,878	-0-	-0-
Intermediate term bond	24,552,954	24,552,954	-0-	-0-
Mid cap blend	26,087,527	26,087,527	-0-	-0-
Other	<u>39,802,822</u>	<u>39,802,822</u>	<u>-0-</u>	<u>-0-</u>
Total mutual funds and ETF	358,183,076	358,183,076	-0-	-0-
US Government and government agency obligations	214,131,729	214,131,729	-0-	-0-
Corporate bonds				
Utilities	9,073,821	-0-	9,073,821	-0-
Financial services	29,301,905	-0-	29,301,905	-0-
Industrial and materials	28,862,101	-0-	28,862,101	-0-
International	14,649,435	-0-	14,649,435	-0-
Other	<u>18,227,850</u>	<u>-0-</u>	<u>18,227,850</u>	<u>-0-</u>
Total corporate bonds	100,115,112	-0-	100,115,112	-0-
Mortgage backed securities	<u>132,050,976</u>	<u>-0-</u>	<u>132,050,976</u>	<u>-0-</u>
	890,839,056	<u>\$ 641,374,384</u>	<u>\$ 249,464,672</u>	<u>\$ -0-</u>
Cash	2,384,611			
Commingled trusts and private equity (a)	486,099,876			
Accrued interest and other	<u>64,438</u>			
	<u><u>\$ 1,379,387,981</u></u>			
Derivative asset	<u>\$ 85,949</u>	<u>\$ -0-</u>	<u>\$ 85,949</u>	<u>\$ -0-</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

	September 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Money market mutual funds	\$ 7,098,253	\$ -0-	\$ 7,098,253	\$ -0-
Common stocks				
Consumer	10,299,379	10,299,379	-0-	-0-
Financial services	6,576,471	6,576,471	-0-	-0-
Industrial and materials	13,615,882	13,615,882	-0-	-0-
Technology	9,169,013	9,169,013	-0-	-0-
Healthcare	4,635,263	4,635,263	-0-	-0-
Other	11,588,242	11,588,242	-0-	-0-
Total common stocks	55,884,250	55,884,250	-0-	-0-
Mutual funds and ETF				
Large blend	79,673,418	79,673,418	-0-	-0-
Intermediate term bond	8,694,697	8,694,697	-0-	-0-
Other	4,832,211	4,832,211	-0-	-0-
Total mutual funds and ETF	93,200,326	93,200,326	-0-	-0-
US Government and government agency obligations	46,472,019	46,472,019	-0-	-0-
Corporate bonds				
Consumer	6,489,109	-0-	6,489,109	-0-
Financial services	20,675,263	-0-	20,675,263	-0-
Industrial and materials	22,831,149	-0-	22,831,149	-0-
International	10,856,195	-0-	10,856,195	-0-
Other	16,606,232	-0-	16,606,232	-0-
Total corporate bonds	77,457,948	-0-	77,457,948	-0-
Mortgage backed securities	116,271,409	-0-	116,271,409	-0-
	396,384,205	\$ 195,556,595	\$ 200,827,610	\$ -0-
Cash	2,282,141			
Commingled trusts (a)	576,209,938			
Accrued interest and other	23,087			
	<u>\$ 974,899,371</u>			
Derivative asset	<u>\$ 323,325</u>	<u>\$ -0-</u>	<u>\$ 323,325</u>	<u>\$ -0-</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated balance sheets.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The following table summarizes the commingled trust investments measured at fair value based on NAV per share as of September 30, 2024 and 2023:

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2024	2023			
Commingled trusts - emerging markets	\$ 82,075,267	\$ 65,794,581	None	Daily	None
Commingled trusts - domestic	244,182,766	317,687,663	None	Daily	None to 10 days
Commingled trusts - international	139,517,616	89,460,104	None	Daily	None
Commingled trusts - other	974,737	103,267,590	None	Daily	None to 15 days
Private equity	19,349,490	-0-	\$ 3,472,865	None	None
	<u>\$ 486,099,876</u>	<u>\$ 576,209,938</u>			

Realized gain and loss are reported in the consolidated statements of operations as a component of investment return. A net realized gain of approximately \$45,639,000 was recorded during 2024 while a net realized loss of approximately \$4,967,000 was recorded during 2023. Differences between market value and cost of investments are classified as unrealized gains or losses. The unrealized gain or loss is included in earnings for the period attributable to the change in unrealized gain or loss relating to assets held as of September 30, 2024 and 2023 is reported in the consolidated statements of operations as net unrealized gain or loss on investments.

The System holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

5. PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

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 limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The System believes that it is in compliance with all applicable laws and regulations.

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 System'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. Adjustments arising from a change in the transaction price were not significant for 2024 and 2023. As of September 30, 2024 Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2020.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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. For 2024 and 2023, adjustments were recognized due to changes in the System's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant.

Management estimates an allowance for credit losses based on historical experience, the current economic environment, and management's expectations of future economic conditions based on reasonable and supportable forecasts. The System also applies adjustments for specific factors and current economic conditions, as needed, at each reporting date. Management utilizes aging schedules for estimating expected credit losses. In evaluating loss rates, accounts receivable are pooled into categories based on days past due. Significantly aged receivables are evaluated individually by credit worthiness and any historical experience with the patients. Account balances are written off against the allowance when management deems the amount is uncollectible. Management has determined no allowance for credit losses is necessary at September 30, 2024 and 2023.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System 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 System expects to collect based on its collection history with those patients.

Patients who meet the System'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.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

A summary of patient service revenue, including information on service lines, for 2024 and 2023 follows:

	2024	2023
Patient service revenue	\$ 6,554,085,741	\$ 5,202,858,019
Explicit price concessions and other		
Charity care	(71,490,861)	(67,709,983)
Uninsured self pay discounts	(42,964,556)	(28,211,494)
Contractual adjustments	<u>(4,312,865,054)</u>	<u>(3,380,114,533)</u>
Total adjustments	<u>(4,427,320,471)</u>	<u>(3,476,036,010)</u>
	2,126,765,270	1,726,822,009
Implicit price concessions	<u>(41,235,887)</u>	<u>(24,405,393)</u>
Patient service revenue	<u>\$ 2,085,529,383</u>	<u>\$ 1,702,416,616</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

	2024	2023
Payor type		
Medicare	\$ 690,474,431	\$ 582,627,667
Medicaid	281,682,780	241,846,592
Commercial and managed care	1,105,122,975	873,622,037
Self pay and other	<u>8,249,197</u>	<u>4,320,320</u>
	<u><u>\$ 2,085,529,383</u></u>	<u><u>\$ 1,702,416,616</u></u>
Service line		
Hospital - inpatient	\$ 709,440,203	\$ 593,394,229
Hospital - outpatient	939,636,222	683,495,399
Physician services	<u>436,452,958</u>	<u>425,526,988</u>
	<u><u>\$ 2,085,529,383</u></u>	<u><u>\$ 1,702,416,616</u></u>

The following is mix of patient accounts receivable and patient service revenue as of September 30, 2024 and 2023 and for the years then ended:

	Receivable		Revenue	
	2024	2023	2024	2023
Medicare	28.1%	36.6%	33.1%	34.2%
Medicaid	13.3%	13.4%	13.5%	14.2%
Commercial and managed care	42.7%	36.9%	53.0%	51.3%
Self pay and other	<u>15.9%</u>	<u>13.1%</u>	<u>0.4%</u>	<u>0.3%</u>
	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

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

Medicare

Inpatient acute care services, outpatient services and physician services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain outpatient services and defined medical education costs related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Inpatient non-acute care services are generally reimbursed based upon cost reimbursement methodologies.

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

Medicaid services are paid at prospectively determined rates per day or per discharge for inpatients or per occasion of service for outpatients. To the extent that services to Medicare and Medicaid program beneficiaries are reimbursed based on cost reimbursement methodologies, final settlement is determined after submission of annual cost reports and audits thereof by the fiscal intermediary.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The System participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures. The State of Kentucky has a similar program to fund its Medicaid program. Historically, the Kentucky tax has been 2.5% of patient service revenue received with long-term care services taxed at 2% with an overall annual cap. During 2024 and 2023, the System recognized HAF and HIP program expense from Indiana and Kentucky of approximately \$66,507,000 and \$59,133,000 respectively, which resulted in Medicaid rate increases. HAF and HIP program expense is included in other expenses on the consolidated statements of operations while the Medicaid rate increases are recorded in patient service revenue.

The System also entered into payment agreements with certain other commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

6. OPERATING LEASES – RIGHT OF USE ASSETS, NET AND RELATED LIABILITIES

The System recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. All leases were classified as operating leases as of September 30, 2024 and 2023.

The System has operating leases for medical offices and equipment. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The System's lease agreements do not contain any material restrictive covenants. The leases have remaining terms through 2039.

The System's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The System utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases unless the System can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The System has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset, net also includes any lease payments made and excludes lease incentives, if any.

Short-term leases used for minor equipment and related purposes (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term, which are not material to the consolidated financial statements.

In evaluating contracts to determine if they qualify as a lease, the System considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the System can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the System assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgement.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The components of the System's operating lease cost for 2024 and 2023 are as follows:

	2024	2023
Operating lease cost	\$ 23,781,751	\$ 15,546,614
Short-term lease cost	<u>9,451,509</u>	<u>2,606,090</u>
Total lease expense	<u>\$ 33,233,260</u>	<u>\$ 18,152,704</u>

The System's ROU assets and lease liabilities as of and for the years ended September 30, 2024 and 2023 are as follows:

	2024	2023
Operating leases		
Operating lease ROU assets, net	<u>\$ 40,748,533</u>	<u>\$ 37,528,259</u>
Operating lease liabilities		
Current portion	\$ 11,440,189	\$ 11,132,259
Long-term	<u>28,785,639</u>	<u>27,616,101</u>
	<u>\$ 40,225,828</u>	<u>\$ 38,748,360</u>

	2024	2023
Cash paid for amounts in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 23,781,751	\$ 15,546,614
ROU assets obtained in exchange for new operating lease liabilities	\$ 13,771,518	\$ 6,663,789
Weighted average remaining lease term - operating leases	4.41 years	6.10 years
Weighted average discount rate - operating leases	3.79%	3.66%

The subsequent maturities of the lease liabilities are as follows:

Year Ending September 30,	
2025	\$ 8,945,299
2026	7,191,511
2027	6,069,603
2028	5,172,752
2029	3,518,661
Thereafter	<u>12,078,765</u>
Total payments	42,976,591
Less interest	<u>2,750,763</u>
	<u>\$ 40,225,828</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

7. COMMERCIAL PAPER

The System has Taxable Commercial Paper Notes, up to \$175,000,000 through U.S. Bank Trust Company, National Association. Interest which is based on the System's rating is variable and approximated 5.2% and 5.5% as of September 30, 2024 and 2023, respectively. The notes are issued in various increments with a maturity date of 270 days after issuance. As of September 30 2024 and 2023, the balance outstanding was \$150,000,000.

8. LONG-TERM DEBT

The following is a summary of long-term debt as of September 30, 2024 and 2023:

	2024	2023
Hospital Revenue Bonds		
Series 2013B term bonds	\$ 8,075,285	\$ 9,520,000
Series 2015A term bonds	6,895,000	7,365,000
Series 2016A serial and term bonds	49,190,000	49,665,000
Series 2021A serial and term bonds	322,795,000	327,985,000
Series 2021B term bonds	32,530,000	34,020,000
Series 2023A term bonds	13,936,609	-0-
Series 2016 Term Loan	42,000,000	44,100,000
Series 2020 Term Loan	-0-	13,411,112
Series 2021 Bonds	61,525,000	-0-
USDA note	5,625,088	5,784,449
Promissory notes	30,572,785	40,572,275
Other notes	<u>5,045,235</u>	<u>4,210,612</u>
	578,190,002	536,633,448
Current portion	(28,560,093)	(26,904,427)
Original issue premiums (discounts), net	177,164	210,203
Debt issue costs	<u>(1,802,381)</u>	<u>(1,510,925)</u>
Long-term debt, net of current portion	<u><u>\$ 548,004,692</u></u>	<u><u>\$ 508,428,299</u></u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Debt Issue	Maturity	Payment Range (in thousands)	Interest rate as of September 30,	
			Interest	2024
Series 2013B term bonds	March 2029	\$1,000 to \$1,735	Variable (1)(2)	4.973%
Series 2015A term bonds	March 2035	\$425 to \$710	Fixed	3.25% to 5.00%
Series 2016A serial bonds	March 2039	\$405 to \$1,920	Fixed	3.00% to 5.00%
Series 2016A term bonds	March 2044	\$31,100	Fixed	3.125%
Series 2021A serial bonds	March 2039	\$2,625 to \$10,740	Fixed	.502% to 2.926%
Series 2021A term bonds	March 2051	\$56,010 to \$151,155	Fixed	3.026% to 3.313%
Series 2021B term bonds	March 2039	\$36,810	Variable (3)	2 to 4.85%
Series 2023A term bonds	January 2029	\$500 to \$1308	Fixed	4.980%
Series 2016 term loan	August 2026	\$2,100 to \$39,900	Fixed	2.500%
Series 2020 term loan	August 2025	\$1,133 to \$12,372	Variable (4)	6.775%
Series 2021 Bonds	November 2040	\$370,000+ to \$4,735,000	Fixed	1.15% to 3.87%
USDA note	August 2048	\$154 to \$316	Fixed	3.250%
Promissory notes	January 2028	\$9,996	Fixed	5.000%
Other notes	October 2025	\$17 to \$368	Fixed	2.95% to 5.00%

(1) 70% of LIBOR plus 115 basis points

(2) Rate is fixed at 2.78% through interest rate swap. See Derivative Financial Instrument note

(3) Rate is based on SIFMA plus 30 basis points set through February 2027

(4) LIBOR plus 140 basis points with floor of 50 basis points (6.900% as of September 30, 2023)

In 2024, the System issued through the Indiana Finance Authority (the Authority), the Series 2023A for \$14,500,000. These bond proceeds were used for acquiring, constructing, renovating, expanding and equipping certain facilities consisting of two medical office buildings constituting health facility property.

In 2024, the System acquired the Series 2021 bonds through a business combination (see Note 1) for approximately \$62,000,000. Originally, In April 2021, the Hospital Authority of the City of Jasper issued \$63,470,000 (par value) of Fixed Rate Revenue and Refunding Bonds, Series 2021 (the Series 2021 Bonds), dated April 1, 2021. The Series 2021 Bonds are collateralized by a security interest in substantially all assets of the Corporation and all proceeds therefrom, with the exception of donor-restricted contributions.

In 2022, the System issued through the Indiana Finance Authority (the Authority) the Series 2021A bonds for \$334,035,000. The Series 2021A bonds consist of taxable serial and term bonds. The Series 2021A bond proceeds were used to retire the Series 2011A term bonds and partially retire the Series 2013A, 2015A, and 2016A term bonds, in addition to providing new funds of approximately \$150,000,000.

In 2022, the System issued through the Authority the Series 2021B bonds for \$36,810,000. The Series 2021B bond proceeds were used to retire the 2013C bonds. The Series 2021B bonds mature in March 2039, but are subject to a mandatory tender of \$29,315,000 in February 2027 at which time the remaining principal would be remarketed under the current market conditions or converted to a different interest rate mode. The System recognized a loss on the retirement of these debt issues of approximately \$12,481,000 during 2022.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

The System, the Authority and Fifth Third Bank (Fifth Third) entered into Bond Purchase Contracts (the Contracts) whereby Fifth Third purchased from the Authority all of the Series 2012B (paid in full during 2022) and 2013B bonds in a private placement. The Contract for the Series 2013B bonds is through March 2029 which is also the maturity date. The System entered into an interest rate swap agreement with Fifth Third on the Series 2013B bonds. See the Note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information. The Series 2013C bonds were purchased from the Authority by Bank of America in a private placement and retired in 2022 through the issuance of the Series 2021B bonds.

The Series 2016 term loan with Bank of America requires annual principal payments of \$2,100,000 through January 2025 with a final payment of \$39,900,000 due in August 2026. The Series 2020 term loan with Fifth Third required principal payments based on a 15-year amortization schedule with a final payment of approximately \$13,143,000 in August 2025, but was paid in full during 2024.

All of the Hospital Revenue Bonds, the Series 2016 term loan and the Series 2021 bonds are secured by a security interest in the System's revenue. The System covenants that it will not permit any lien or security interest on the System facility other than certain permitted encumbrances. In addition, the various agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. As of September 30, 2024 and 2023, the System believed it was in compliance with the restrictive covenants.

The note from the United States Department of Agriculture (USDA) is secured by assets with a net book value of approximately \$5,625,000 and \$5,784,000 as of September 30, 2024 and 2023, respectively.

The promissory notes were issued in conjunction with the System's purchase of the remaining 50% ownership of The Women's Hospital. The notes are unsecured and do not contain restrictive covenants.

As of September 30, 2024, the System had commitments outstanding related to property and equipment of approximately \$10,855,000.

Aggregate maturities of long-term debt are:

Year Ending September 30,	
2025	\$ 28,560,093
2026	63,415,447
2027	63,237,339
2028	12,307,632
2029	12,063,451
Thereafter	398,606,040
	<u>\$ 578,190,002</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The System makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs. As of September 30, 2024 and 2023, the System had outstanding an interest rate swap agreement with Fifth Third, having a notional amount of \$8,075,285 and \$9,520,000, respectively. The agreement effectively changes the System's interest rate exposure on its Series 2013B bonds through March 2029 to a fixed 2.78%. The interest rate swap agreement matures at the time the related long-term debt matures. The System is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the System does not anticipate nonperformance by the counterparties. The derivative is not designated as a hedging instrument and is marked-to-market on the consolidated balance sheet at fair value. The related gains and losses are included in excess revenues over expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statement of cash flows. The asset derivatives are reported in the consolidated balance sheets as other assets. The liability derivatives are reported as derivative liabilities in the other long-term liabilities. As of September 30, 2024 and 2023, the fair values of derivative recorded in the consolidated balance sheets are as follows:

	2024	2023
Other long-term assets		
Derivative asset	\$ 85,949	\$ 323,325

See Notes "Investments, Fair Value Measurements, and Long-Term Debt" for additional information interest rate swaps.

During 2024 and 2023, the amount of gain or loss recognized in the consolidated statements of operations and reported as a component of investment income under nonoperating revenues (expenses) is as follows:

	2024	2023
Nonoperating revenues (expenses)		
Investment return		
Unrealized gain (loss) on derivative	\$ (237,376)	\$ 48,169

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

10. DEFINED BENEFIT PENSION PLAN

The System offers a noncontributory defined benefit pension plan covering eligible employees. Benefits are based on each participant's years of service and compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The defined benefit pension plan is closed to new participants. Participants should refer to the plan documents for more complete information. Effective January 1, 2024, the System's plan was frozen. The following tables set forth the funded status of the benefit plans and amounts recognized in the consolidated financial statements as of September 30, 2024 and 2023 and for the years then ended.

	<u>2024</u>	<u>2023</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 267,094,689	\$ 283,077,919
Service cost	373,674	1,924,108
Interest cost	13,858,608	14,408,958
Plan settlements	-0-	-0-
Benefits paid	(12,752,221)	(14,960,003)
Plan combinations	-0-	-0-
Actuarial (gain) loss	<u>15,248,837</u>	<u>(17,356,293)</u>
Benefit obligation, end of year	<u>\$ 283,823,587</u>	<u>\$ 267,094,689</u>
Changes in plan assets		
Fair value of plan assets, beginning of year	\$ 244,230,286	\$ 244,296,203
Actual return on plan assets	43,514,671	6,890,086
Employer contributions	8,004,000	8,004,000
Plan settlements	-0-	-0-
Benefits paid	(12,752,221)	(14,960,003)
Plan combinations	-0-	-0-
Fair value of plan assets, end of year	<u>\$ 282,996,736</u>	<u>\$ 244,230,286</u>
Funded status		
Funded status of the plan, end of period	<u>\$ (826,851)</u>	<u>\$ (22,864,403)</u>
Amounts recognized in the consolidated balance sheets consist of		
Other long-term liabilities	<u>\$ (826,851)</u>	<u>\$ (22,864,403)</u>
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Prior service (cost) credit	\$ -0-	\$ -0-
Accumulated gain (loss)	<u>(27,994,842)</u>	<u>(43,136,212)</u>
Other changes in unrestricted net assets	(27,994,842)	(43,136,212)
Cumulative employer contributions in excess (deficit) of net periodic benefit cost	<u>27,167,991</u>	<u>20,271,809</u>
Net amount recognized in the consolidated balance sheets	<u>\$ (826,851)</u>	<u>\$ (22,864,403)</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Other pension disclosures for 2024 and 2023 include:

	2024	2023
Components of net periodic benefit cost		
Service cost	\$ 373,674	\$ 1,924,108
Interest cost	13,858,608	14,408,958
Expected return on plan assets	(13,797,886)	(12,581,644)
Settlement (gain) loss	-0-	-0-
Amortization of (gain) loss	673,422	3,199,656
Net periodic benefit cost	<u>\$ 1,107,818</u>	<u>\$ 6,951,078</u>
Other changes in unrestricted net assets		
Net (gain) loss arising during year	\$ (14,467,948)	\$ (11,664,737)
Amortization of prior service cost	-0-	-0-
Amortization of gain (loss)	(673,422)	(3,199,656)
Total other changes in unrestricted net assets	<u>\$ (15,141,370)</u>	<u>\$ (14,864,393)</u>
Weighted-average actuarial assumptions to determine benefit obligations of September 30		
Discount rate	4.97%	5.86%
Rate of compensation increase	0.00%	3.50%
Measurement date	9/30/2024	9/30/2023
Weighted-average actuarial assumptions to determine net periodic benefit cost as of September 30		
Discount rate	5.86%	5.39%
Expected long-term rate of return	5.35%	5.25%
Rate of compensation increase	3.50%	3.50%
Additional year end information		
Projected benefit obligation	\$ 283,823,587	\$ 267,094,689
Accumulated benefit obligation	\$ 283,823,587	\$ 257,540,278
Fair value of plan assets	\$ 282,996,736	\$ 244,230,286

The following is a schedule by year of expected benefit payments for the years after September 30, 2024:

Year Ending September 30,	
2025	\$ 17,321,183
2026	16,821,749
2027	17,415,429
2028	17,945,239
2029	18,204,525
2030-2034	<u>95,164,752</u>
	<u><u>\$ 182,872,877</u></u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

Determination of net periodic pension cost for the years ended September 30, 2024 and 2023 is based on assumptions and census data as of January 1, 2024 and 2023, respectively. The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the pension benefits plan.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The pension benefits plan allocation includes growth assets (60%) and fixed income (40%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The allocation strategy for the pension benefits plans comprised approximately 30% to 75% growth investments (target of 50%) and 25% to 70% fixed-income investments (target of 50%). Within the growth investment classification, the plans asset strategy encompasses equity and equity-like instruments that were expected to represent approximately 60% of the System's plans asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies. As the plan was frozen effective January 1, 2024, the plan has adjusted the asset allocation. The weighted-average asset allocations for the plan as of September 30, 2024 and 2023, were as follows:

	2024	2023
Growth securities	17%	49%
Fixed income securities	82%	50%
Cash equivalents	1%	1%
	<u>100%</u>	<u>100%</u>

Fair value of mutual funds, exchange traded funds and marketable equity securities are based on the quoted prices in active markets. The commingled trust fund investments are valued at the NAV on a market that is not active. However, the underlying investments are traded on an active market. The following is an analysis of fair value of the major classes of pension benefits plan assets of September 30, 2024 and 2023:

	2024	2023
Level 1		
Mutual funds and ETF		
Infrastructure	\$ 3,076,734	\$ 5,756,612
Cash equivalents	1,951,184	1,958,212
Commingled trusts - not classified	<u>277,968,818</u>	<u>236,515,462</u>
	<u>\$ 282,996,736</u>	<u>\$ 244,230,286</u>

See the Note disclosure "Fair Value Measurements" for additional information.

As the plan is frozen and nearly fully funded the System expects to contribute on an as needed basis in 2025.

The System also offers a 401(k) plan to eligible employees where the System makes base contributions to eligible employees based on years of service in addition to matching contributions (ranging from 25% to 60% of employee deferral up to 6% of eligible earnings) based on the eligible employees' contribution to the 401(k) plan. Total expense for the System's contributions for eligible employees for 2024 and 2023 was approximately \$19,625,000 and \$22,035,000, respectively.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

11. RELATED PARTY TRANSACTIONS

The System was a joint-owner of The Women's Hospital. The System owns the building in which The Women's Hospital is located and leases the space to The Women's Hospital currently at approximately \$230,000 per month with an option to increase that amount annually through 2031. The System provides ancillary services (lab, radiology) for The Women's Hospital. Ancillary services provided were approximately \$1,151,000 in 2023. The System acquired the Women's Hospital during 2023.

The System was a joint owner of Evansville Surgery Center Associates, LLC (Surgery Center). The System recorded contract service expense related to the Surgery Center of approximately \$25,941,908 and \$28,485,000 in 2024 and 2023, respectively. As of September 30, 2024 and 2023, the System had a liability to the Surgery Center of approximately \$0 and \$3,585,000, respectively.

Related party transactions between the System and other joint ventures in 2024 and 2023 were not significant to the System's overall consolidated financial statements.

12. COMMITMENTS AND CONTINGENCIES

Litigation

The System is involved in litigation and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position, results from operations or cash flows.

Health Insurance

The System's employee health care insurance is provided through a combination of insured, self-insured and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The self-insured health coverage carries a stop-loss maximum of \$600,000 per case with no aggregate limit.

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2024 consolidated balance sheet date approximate \$563,632,000 and are comprised of \$294,320,000 in cash and cash equivalents and \$269,312,000 of patient accounts receivable. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. Patient accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

As a part of the System's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System periodically invests excess cash in investments. The System has board designated investments of approximately \$1,330,871,000 as of September 30, 2024. Although the System does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2023 consolidated balance sheet date of \$518,752,000 and are comprised of \$300,745,000 in cash and cash equivalents and \$218,007,000 of patient accounts receivable.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2024 AND 2023

14. FUNCTIONAL EXPENSES

The System provides health care services to patients in the community and the surrounding areas. Expenses related to providing these services for 2024 and 2023 are as follows. Fundraising expenses were not significant in 2024 and 2023.

	2024			
	Healthcare Services	General and Administrative	Total	
Expenses				
Salaries and wages	\$ 832,383,713	\$ 87,333,879	\$ 919,717,592	
Employee benefits	164,467,259	28,004,865	192,472,124	
Supplies	427,069,705	3,706,149	430,775,854	
Contract services	203,043,464	17,500,116	220,543,580	
Repairs and maintenance	52,391,991	21,015,869	73,407,860	
Depreciation	63,440,728	29,739,209	93,179,937	
Interest	16,541,565	11,535,576	28,077,141	
Utilities	13,576,092	8,451,564	22,027,656	
Other	<u>143,897,292</u>	<u>16,690,476</u>	<u>160,587,768</u>	
Total expenses	<u>\$ 1,916,811,809</u>	<u>\$ 223,977,703</u>	<u>\$ 2,140,789,512</u>	
 2023				
	Healthcare Services	General and Administrative	Total	
	Services	Administrative	Total	
Expenses				
Salaries and wages	\$ 667,188,711	\$ 71,157,721	\$ 738,346,432	
Employee benefits	148,816,161	25,339,855	174,156,016	
Supplies	339,525,477	2,946,432	342,471,909	
Contract services	161,839,988	13,948,817	175,788,805	
Repairs and maintenance	43,710,004	17,532,788	61,242,792	
Depreciation	53,788,801	25,214,660	79,003,461	
Interest	13,754,779	9,592,157	23,346,936	
Utilities	12,780,294	7,952,969	20,733,263	
Other	<u>117,827,854</u>	<u>13,666,709</u>	<u>131,494,563</u>	
Total expenses	<u>\$ 1,559,232,069</u>	<u>\$ 187,352,108</u>	<u>\$ 1,746,584,177</u>	

Certain costs such as salaries and wages and employee benefits have been allocated among healthcare services and general and administrative categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based upon time spent by the System's personnel. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include repairs and maintenance, depreciation, and interest, which are allocated based on statistics such as square footage. Although the methods used were appropriate, alternative methods may provide different results.

SUPPLEMENTARY INFORMATION

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2024

	Credit Group												Consolidated Deaconess Health System	
	Obligated Group				Total									
	Deaconess Health System, Inc.	Deaconess Hospital, Inc.	Deaconess Health System	Deaconess Obligated Group	Deaconess Clinic, Inc.	Deaconess Specialty Physicians, Inc.	Deaconess Health Kentucky, Inc.	Deaconess Henderson, Inc.	Memorial Hospital	Deaconess Health System	Total Other Affiliates	Deaconess Health System		
	System	Hospital	Eliminations	Obligated	Clinic	Physicians	Kentucky	Henderson	Hospital	Eliminations	Credit Group	Affiliates	Eliminations	
Assets														
Current assets														
Cash and cash equivalents	\$ 28,465,434	\$ 97,872,025	\$ -0-	\$ 126,337,459	\$ -0-	\$ -0-	\$ 1,426,766	\$ 3,057,193	\$ 28,031,777	\$ -0-	\$ 158,853,195	\$ 135,466,719	\$ -0- \$ 294,319,914	
Funds held by trustee	-0-	2,825,155	-0-	2,825,155	-0-	-0-	-0-	-0-	6,434	-0-	2,831,589	2,496,219	-0- 5,327,808	
Patient accounts receivable	-0-	172,513,391	-0-	172,513,391	18,917,900	2,048,211	-0-	15,386,177	20,415,125	-0-	229,280,804	40,031,509	-0- 269,312,313	
Estimated third-party payor settlements	-0-	-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0- -0-	
Inventories	23,660	10,865,744	-0-	10,889,404	-0-	-0-	-0-	1,682,866	3,722,988	-0-	16,295,258	4,480,502	-0- 20,775,760	
Prepaid expenses and other current assets	(301,582,207)	464,783,223	-0-	163,201,016	1,971,747	5,440,005	(20,518,161)	24,653,560	5,656,435	(118,619,273)	61,785,329	53,266,563	(60,470,090) 54,581,802	
Total current assets	(273,093,113)	748,859,538	-	475,766,425	20,889,647	7,488,216	(19,091,395)	44,779,796	57,832,759	(118,619,273)	469,046,175	235,741,512	(60,470,090) 644,317,597	
Investments limited as to use														
Funds held by trustee	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,351,229	-0-	-0-	3,351,229	-0-	-0- 3,351,229	
Board designated funds	-0-	1,153,891,188	-0-	1,153,891,188	-0-	-0-	-0-	14,195,148	162,785,115	-0-	1,330,871,451	-0-	-0- 1,330,871,451	
Board designated funds - Foundation	-0-	12,110,018	-0-	12,110,018	-0-	-0-	-0-	-0-	2,970,144	-0-	15,080,162	-0-	-0- 15,080,162	
Donor restricted - Foundation	-0-	11,337,234	-0-	11,337,234	-0-	-0-	-0-	-0-	14,074,231	-0-	25,411,465	-0-	-0- 25,411,465	
Total investments limited as to use	-0-	1,177,338,440	-0-	1,177,338,440	-0-	-0-	-0-	17,546,377	179,829,490	-0-	1,374,714,307	-0-	-0- 1,374,714,307	
Property and equipment														
Land and improvements	6,836,759	35,118,870	-0-	41,955,629	-0-	-0-	-0-	874,959	1,240,159	-0-	44,070,747	4,428,891	-0- 48,499,638	
Buildings and improvements	26,978,356	989,654,278	-0-	1,016,632,634	-0-	-0-	-0-	53,560,116	110,382,739	-0-	1,180,575,489	56,493,725	-0- 1,237,069,214	
Furniture, fixtures and equipment	11,641,612	340,860,759	-0-	352,502,371	22,801,284	3,795,139	-0-	20,501,387	40,125,107	-0-	439,725,288	43,025,107	-0- 482,750,395	
Accumulated depreciation	45,456,727	1,365,633,907	-0-	1,411,090,634	22,801,284	3,795,139	-0-	74,936,462	151,748,005	-0-	1,664,371,524	103,947,723	-0- 1,768,319,247	
(24,478,860)	(792,399,258)	-0-	(816,878,118)	(12,245,223)	(1,235,154)	-0-	(28,486,868)	(10,491,055)	-0-	(869,336,418)	(64,802,878)	-0-	(934,139,296)	
Construction in progress	20,977,867	573,234,649	-0-	594,212,516	10,556,061	2,559,985	-0-	46,449,594	141,256,950	-0-	795,035,106	39,144,845	-0- 834,179,951	
Construction in progress	18,492,467	43,899,129	-0-	62,391,596	1,517,841	44,870	-0-	6,658,767	493,555	-0-	71,106,629	3,088,043	-0- 74,194,672	
Total property and equipment, net	39,470,334	617,133,778	-0-	656,604,112	12,073,902	2,604,855	-0-	53,108,361	141,750,505	-0-	866,141,735	42,232,888	-0- 908,374,623	
Other assets														
Investments in joint ventures	565,151,106	188,976,352	-0-	754,127,458	573,719	-0-	151,189,585	-0-	1,471,159	(417,513,672)	489,848,249	5,837,924	(397,551,912) 98,134,261	
Operating lease right-of-use assets, net	-0-	29,780,137	(2,696,061)	27,084,076	49,482,072	5,724,702	-0-	2,683,843	2,333,825	(46,593,063)	40,715,455	30,536,243	(30,503,165) 40,748,533	
Goodwill and other intangibles	-0-	57,551,124	-0-	57,551,124	372,950	-0-	-0-	-0-	-0-	-0-	57,924,074	198,521,498	-0- 256,445,572	
Other	24,601,096	70,521,834	(73,229)	95,049,701	12,246,533	2,945,023	-0-	194,909	1,442,787	(13,627,110)	98,251,843	9,785,527	(12,234,653) 95,802,717	
Total other assets	589,752,202	346,829,447	(2,769,290)	933,812,359	62,675,274	8,669,725	151,189,585	2,878,752	5,247,771	(477,733,845)	686,739,621	244,681,192	(440,289,730) 491,131,083	
Total assets	\$ 356,129,423	\$ 2,890,161,203	\$ (2,769,290)	\$ 3,243,521,336	\$ 95,638,823	\$ 18,762,796	\$ 132,098,190	\$ 118,313,286	\$ 384,660,525	\$ (596,353,118)	\$ 3,396,641,838	\$ 522,655,592	\$ (500,759,820) \$ 3,418,537,610	

See report of independent auditors on pages 1 through 3.

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2024

	Credit Group												Consolidated					
	Obligated Group				Deaconess													
	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess	Deaconess						
	Health	Hospital, Inc.	Eliminations	Health System	Deaconess	Specialty	Health	Deaconess	Memorial	Deaconess	Health System	Total	Other	Affiliates	Deaconess Health System			
System, Inc.				Clinic, Inc.	Physicians, Inc.	Kentucky, Inc.	Henderson, Inc.	Hospital		Eliminations	Credit Group				Health			
Liabilities and net assets																		
Current liabilities																		
Accounts payable and other accrued liabilities	\$ 15,393,096	\$ 52,463,387	-0-	\$ 67,856,483	\$ 131,913,203	\$ 5,390,458	\$ -0-	\$ 6,946,223	\$ 10,837,957	\$ (118,619,273)	\$ 104,325,051	\$ 25,249,254	\$ (60,470,090)	\$ 69,104,215				
Salaries, wages and related liabilities	19,005,806	50,588,900	-0-	69,594,706	14,650,272	3,192,668	-0-	5,624,337	20,731,021	-0-	113,793,004	26,731,897	-0-	140,524,901				
Estimated third-party payor settlements	-0-	5,205,747	-0-	5,205,747	-0-	-0-	-0-	(2,415,659)	(1,651,828)	-0-	1,138,260	4,482,193	-0-	5,620,453				
Accrued interest	-0-	2,359,727	-0-	2,359,727	-0-	-0-	-0-	-0-	813,812	-0-	3,173,539	867,866	-0-	4,041,405				
Other current liabilities	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,997,753	-0-	2,997,753				
Commercial paper	-0-	150,000,000	-0-	150,000,000	-0-	-0-	-0-	-0-	-0-	-0-	150,000,000	-0-	-0-	150,000,000				
Current portion of operating lease liabilities	-0-	7,505,713	(483,359)	7,022,354	8,458,112	700,024	-0-	638,969	-0-	(6,915,651)	9,903,808	5,757,422	(4,221,041)	11,440,189				
Current portion of long-term debt	-0-	22,117,293	-0-	22,117,293	-0-	-0-	-0-	1,268,166	1,832,302	-0-	25,217,761	3,342,332	-0-	28,560,093				
Total current liabilities	34,398,902	290,240,767	(483,359)	324,156,310	155,021,587	9,283,150	-0-	12,062,036	32,563,264	(125,534,924)	407,551,423	69,428,717	(64,691,131)	412,289,009				
Long-term liabilities																		
Operating lease liabilities, less current portion	-0-	22,122,280	(2,212,702)	19,909,578	40,746,919	5,024,678	-0-	2,044,874	1,064,449	(39,677,412)	29,113,086	25,954,677	(26,282,124)	28,785,639				
Long-term debt, less current portion	-0-	492,979,457	-0-	492,979,457	-0-	-0-	-0-	5,700,539	61,759,742	(13,627,110)	546,812,628	13,426,717	(12,234,653)	548,004,692				
Other long-term liabilities	7,509,832	5,616,959	-0-	13,126,791	5,201,081	650,352	-0-	-0-	837,276	-0-	19,815,500	464,475	-0-	20,279,975				
Total long-term liabilities	7,509,832	520,718,696	(2,212,702)	526,015,826	45,948,000	5,675,030	-0-	7,745,413	63,661,467	(53,304,522)	595,741,214	39,845,869	(38,516,777)	597,070,306				
Total liabilities	41,908,734	810,959,463	(2,696,061)	850,172,136	200,969,587	14,958,180	-0-	19,807,449	96,224,731	(178,839,446)	1,003,292,637	109,274,586	(103,207,908)	1,009,359,315				
Net assets																		
Without donor restrictions																		
Undesignated	312,273,754	901,703,391	(73,229)	1,213,903,916	(105,330,764)	3,804,616	132,098,190	84,310,689	110,713,148	(417,513,672)	1,021,986,123	413,381,006	(414,537,380)	1,020,829,749				
Designated - capital improvements	-0-	1,153,891,188	-0-	1,153,891,188	-0-	-0-	-0-	14,195,148	162,785,115	-0-	1,330,871,451	-0-	-0-	1,330,871,451				
Designated - Foundation	-0-	12,110,018	-0-	12,110,018	-0-	-0-	-0-	-0-	2,970,144	-0-	15,080,162	-0-	-0-	15,080,162				
Non-controlling interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	16,985,468	16,985,468			
Total net assets without donor restrictions	312,273,754	2,067,704,597	(73,229)	2,379,905,122	(105,330,764)	3,804,616	132,098,190	98,505,837	276,468,407	(417,513,672)	2,367,937,736	413,381,006	(397,551,912)	2,383,766,830				
With donor restrictions	1,946,935	11,497,143	-0-	13,444,078	-0-	-0-	-0-	-0-	11,967,387	-0-	25,411,465	-0-	-0-	25,411,465				
Total net assets	314,220,689	2,079,201,740	(73,229)	2,393,349,200	(105,330,764)	3,804,616	132,098,190	98,505,837	288,435,794	(417,513,672)	2,393,349,201	413,381,006	(397,551,912)	2,409,178,295				
Total liabilities and net assets	\$ 356,129,423	\$ 2,890,161,203	\$ (2,769,290)	\$ 3,243,521,336	\$ 95,638,823	\$ 18,762,796	\$ 132,098,190	\$ 118,313,286	\$ 384,660,525	\$ (596,353,118)	\$ 3,396,641,838	\$ 522,655,592	\$ (500,759,820)	\$ 3,418,537,610				

See report of independent auditors on pages 1 through 3.

DEACONESS HEALTH SYSTEM

CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED SEPTEMBER 30, 2024

	Credit Group												Consolidated Deaconess	
	Obligated Group			Credit Group										
	Deaconess Health System, Inc.	Deaconess Hospital, Inc.	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Specialty Physicians, Inc.	Deaconess Health Kentucky, Inc.	Deaconess Henderson, Inc.	Memorial Hospital	Deaconess Eliminations	Deaconess Credit Group	Total Deaconess Affiliates	Total	
Revenue and other support														Consolidated Deaconess
Patient service revenue	\$ 0-	\$ 1,274,962,621	\$ 0-	\$ 1,274,962,621	\$ 161,766,464	\$ 20,862,146	\$ 0-	\$ 163,704,826	\$ 185,470,981	\$ 0-	\$ 1,806,767,038	\$ 279,008,314	\$ (245,969)	\$ 2,085,529,383
Other revenue (expense)	(39,690,687)	149,016,379	(663,635)	108,662,057	9,844,820	139,431	47,422,310	6,082,843	3,964,162	(9,709,109)	166,406,514	155,055,908	(155,931,451)	165,530,971
Total revenue and other support	(39,690,687)	1,423,979,000	(663,635)	1,383,624,678	171,611,284	21,001,577	47,422,310	169,787,669	189,435,143	(9,709,109)	197,3,173,552	434,064,222	(156,177,420)	2,251,060,354
Expenses														Consolidated Deaconess
Salaries and wages	70,050,894	352,674,298	-0-	422,725,192	152,305,702	34,720,149	-0-	41,868,854	80,510,121	-0-	732,130,018	187,587,574	-0-	919,717,592
Employee benefits	13,456,917	86,594,762	-0-	100,051,679	24,294,347	3,749,544	-0-	11,023,513	14,426,932	-0-	153,546,015	38,926,109	-0-	192,472,124
Supplies	1,306,625	299,152,780	-0-	300,459,405	23,037,085	164,654	-0-	26,497,273	29,851,445	-0-	380,099,862	50,765,992	-0-	430,775,854
Contract services	(149,024,939)	335,294,208	-0-	186,629,269	26,123,440	(1,770,172)	-0-	36,402,192	27,963,577	(1,227,306)	273,761,000	73,499,275	(126,716,695)	220,543,580
Repairs and maintenance	46,416,665	18,362,301	-0-	64,778,966	993,127	24,163	-0-	3,231,622	-0-	-0-	69,027,878	4,379,982	-0-	73,407,860
Depreciation	11,509,177	55,611,829	-0-	67,121,006	1,891,551	577,111	-0-	6,168,488	10,511,813	-0-	86,269,969	6,909,968	-0-	93,179,937
Interest	24,383	24,608,765	-0-	24,633,148	-0-	-0-	-0-	1,302,647	1,355,508	-0-	27,291,303	785,838	-0-	28,077,141
Utilities	3,105,095	12,622,484	-0-	15,727,579	1,039,892	65,123	-0-	1,718,216	-0-	-0-	18,550,810	3,476,846	-0-	22,027,656
Other	9,210,087	82,857,621	(663,635)	91,404,073	16,186,927	1,956,292	305,200	8,991,546	25,666,806	(8,198,254)	136,312,590	25,962,016	(1,686,838)	160,587,768
Total expenses	6,054,904	1,267,779,048	(663,635)	1,273,170,317	245,872,071	39,486,864	305,200	137,204,351	190,286,202	(9,425,560)	1,876,899,445	392,293,600	(128,403,533)	2,140,789,512
Income (loss) from operations	(45,745,591)	156,199,952	-0-	110,454,361	(74,260,787)	(18,485,287)	47,117,110	32,583,318	(851,059)	(283,549)	96,274,107	41,770,622	(27,773,887)	110,270,842
Nonoperating revenues (expenses)														Consolidated Deaconess
Investment return	6,006,078	55,166,199	-0-	61,172,277	168,398	111,840	-0-	1,271,000	11,212,000	-0-	73,935,515	2,243,337	-0-	76,178,852
Net unrealized gain on investments	-0-	171,577,763	-0-	171,577,763	-0-	-0-	-0-	1,416,881	-0-	-0-	172,994,644	(296,187)	-0-	172,698,457
Net periodic pension cost	-0-	(734,144)	-0-	(734,144)	-0-	-0-	-0-	-0-	-0-	-0-	(734,144)	-0-	-0-	(734,144)
Other	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Contributions, gifts, and bequests	858,802	848,269	-0-	1,707,071	-0-	-0-	-0-	-0-	770,541	(770,541)	1,707,071	-0-	-0-	1,707,071
Grants	-0-	(1,633,867)	-0-	(1,633,867)	-0-	-0-	-0-	-0-	-0-	(1,946,935)	(3,580,802)	-0-	-0-	(3,580,802)
Total nonoperating revenues (expenses)	6,864,880	225,224,220	-0-	232,089,100	168,398	111,840	-0-	2,687,881	11,982,541	(2,717,476)	244,322,284	1,947,150	-0-	246,269,434
Excess revenues over (under) expenses before other items	(38,880,711)	381,424,172	-0-	342,543,461	(74,092,389)	(18,373,447)	47,117,110	35,271,199	11,131,482	(3,001,025)	340,596,391	43,717,772	(27,773,887)	356,540,276
Excess assets acquired over liabilities assumed	275,357,377	-0-	-0-	275,357,377	-0-	-0-	-0-	-0-	265,336,925	(275,357,377)	265,336,925	-0-	-0-	265,336,925
Distributions to other entities	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Excess revenues over (under) expenses	236,476,666	381,424,172	-0-	617,900,838	(74,092,389)	(18,373,447)	47,117,110	35,271,199	276,468,407	(278,358,402)	605,933,316	43,717,772	(27,773,887)	621,877,201
Other changes in net assets without donor restrictions														Consolidated Deaconess
Benefit related changes other than net periodic benefit cost	15,141,370	-0-	-0-	15,141,370	-0-	-0-	-0-	-0-	-0-	-0-	15,141,370	-0-	-0-	15,141,370
Net assets released from restriction	-0-	460,616	-0-	460,616	-0-	-0-	-0-	-0-	-0-	-0-	460,616	-0-	-0-	460,616
Transfers/distributions	(48,870,510)	28,868,239	-0-	(20,002,271)	(31,647,608)	21,151,739	(3,876,731)	-0-	-0-	14,372,608	(20,002,263)	52,060,391	(64,219,183)	(32,161,055)
Change in net assets without donor restrictions	202,747,526	410,753,027	-0-	613,500,553	(105,739,997)	2,778,292	43,240,379	35,271,199	276,468,407	(263,985,794)	601,533,039	95,778,163	(91,993,070)	605,318,132
Net assets with donor restrictions														Consolidated Deaconess
Contributions, gifts, and bequests	1,946,935	1,446,885	-0-	3,393,820	-0-	-0-	-0-	-0-	1,946,935	-0-	5,340,755	-0-	-0-	5,340,755
Change in beneficial interest	-0-	227,824	-0-	227,824	-0-	-0-	-0-	-0-	-0-	-0-	227,824	-0-	-0-	227,824
Excess assets acquired over liabilities assumed	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	10,020,452	-0-	10,020,452	-0-	-0-	10,020,452
Investment return	-0-	(7,994)	-0-	(7,994)	-0-	-0-	-0-	-0-	-0-	-0-	(7,994)	-0-	-0-	(7,994)
Net unrealized gain on investments	-0-	1,085,041	-0-	1,085,041	-0-	-0-	-0-	-0-	-0-	-0-	1,085,041	-0-	-0-	1,085,041
Net assets released from restriction	-0-	(460,616)	-0-	(460,616)	-0-	-0-	-0-	-0-	-0-	-0-	(460,616)	-0-	-0-	(460,616)
Change in net assets with donor restrictions	1,946,935	2,291,140	-0-	4,238,075	-0-	-0-	-0-	-0-	11,967,387	-0-	16,205,462	-0-	-0-	16,205,462
Change in net assets	\$ 204,694,461	\$ 413,044,167	\$ -0-	\$ 617,738,628	\$ (105,739,997)	\$ 2,778,292	\$ 43,240,379	\$ 35,271,199	\$ 288,435,794	\$ (263,985,794)	\$ 617,738,501	\$ 95,778,163	\$ (91,993,070)	\$ 621,523,594
Net assets														Consolidated Deaconess
Beginning of year	109,526,228	1,666,157,573	(73,229)	1,775,610,572	409,233	1,026,324	88,857,811	63,234,638	-0-	(153,527,878)	1,775,610,700	317,602,843	(305,558,842)	1,787,654,701
End of year	\$ 314,220,689	\$ 2,079,201,740	\$ (73,229)	\$ 2,393,349,200	\$ (105,330,764)	\$ 3,804,616	\$ 132,098,190	\$ 98,505,837	\$ 288,435,794	\$ (417,513,672)	\$ 2,393,349,201	\$ 413,381,006	\$ (397,551,912)	\$ 2,409,178,295

See report of independent auditors on pages 1 through 3.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL
 CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
 BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
 IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
 Deaconess Health System
 Evansville, Indiana

Report on the Consolidated Financial Statements

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, the consolidated financial statements of (the System), which comprise the consolidated balance sheet as of September 30, 2024 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 January 23, 2025.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's consolidated 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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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*.

Board of Directors
Deaconess Health System
Evansville, Indiana

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 effectiveness of the System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
January 23, 2025