

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Financial Report
December 31, 2024

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Independent Auditor's Report

Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

Opinion

We have audited the consolidated financial statements of Beacon Health System, Inc. and Affiliated Corporations (the Corporation), which comprise the consolidated balance sheet as of December 31, 2024, the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

The financial statements of the Corporation, as of and for the year ended December 31, 2023, were audited by other auditors, whose report dated March 8, 2024, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

RSM US LLP

Cleveland, Ohio

March 6, 2025

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets
December 31, 2024 and 2023
(In Thousands)

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 175,214	\$ 115,964
Short-term investments	29,845	26,554
Patient accounts receivable	209,808	232,093
Due from third-party payors	36,499	49,704
Other receivables	25,353	16,851
Inventories	37,729	36,315
Prepaid expenses and other current assets	28,084	21,268
Total current assets	542,532	498,749
Assets limited as to use:		
Bond funds designated for capital projects	77,200	58,395
Restricted cash	11,910	6,778
Externally designated investments—insurance trust	2,997	2,884
Board-designated endowment	33,573	31,624
Endowment and temporarily restricted investments	12,298	11,220
	137,978	110,901
Property and equipment:		
Land	63,300	65,736
Buildings and improvements	974,469	973,765
Furniture and equipment	577,109	548,710
Construction in progress	116,935	60,737
	1,731,813	1,648,948
Less accumulated depreciation	951,427	904,417
	780,386	744,531
Investments	894,708	832,892
Deferred charges and other assets	76,749	79,446
Total assets	\$ 2,432,353	\$ 2,266,519

(Continued)

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets (Continued)
December 31, 2024 and 2023
(In Thousands)

	2024	2023
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 75,970	\$ 64,287
Accrued salaries and benefits	59,178	59,640
Accrued expenses	4,024	5,260
Due to third-party payors	5,056	2,121
Current maturities of long-term debt	15,126	13,873
Total current liabilities	159,354	145,181
Noncurrent liabilities:		
Long-term debt, less current maturities	377,495	344,734
Other liabilities	13,628	13,801
Interest rate and basis swaps	8,209	6,078
	399,332	364,613
Total liabilities	558,686	509,794
Net assets:		
Without donor restrictions	1,848,366	1,737,471
With donor restrictions	25,301	19,254
Total net assets	1,873,667	1,756,725
Total liabilities and net assets	\$ 2,432,353	\$ 2,266,519

See notes to consolidated financial statements.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2024 and 2023
(In Thousands)

	2024	2023
Unrestricted revenue, gains and other support:		
Patient service revenue	\$ 1,300,356	\$ 1,290,004
Other revenue	88,706	72,270
Net assets released from restrictions used for operations	1,407	1,197
	<u>1,390,469</u>	<u>1,363,471</u>
Expenses:		
Salaries and wages	631,176	620,270
Employee benefits	143,648	140,327
Supplies and other	348,333	336,087
Professional fees and purchased services	159,393	155,288
Depreciation and amortization	61,677	63,182
Interest	11,578	7,761
	<u>1,355,805</u>	<u>1,322,915</u>
Income from operations	34,664	40,556
Nonoperating income (expense):		
Investment income, net	75,334	70,870
Unrealized (loss) gain on swap transactions, net	(2,131)	4,953
Gain on lease termination	7	-
	<u>7</u>	<u>-</u>
Revenue and gains in excess of expenses	\$ 107,874	\$ 116,379

(Continued)

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended December 31, 2024 and 2023
(In Thousands)

	2024	2023
Net assets without donor restrictions:		
Revenue and gains in excess of expenses	\$ 107,874	\$ 116,379
Net assets released from restrictions used for capital purposes	3,021	228
Increase in net assets without donor restrictions	110,895	116,607
Net assets with donor restrictions:		
Purpose-restricted contributions	9,625	2,438
Investment income	850	1,074
Net assets released from restrictions used for operating and capital purposes	(4,428)	(1,425)
Increase in net assets with donor restrictions	6,047	2,087
Change in net assets	116,942	118,694
Net assets, beginning of year	1,756,725	1,638,031
Net assets, end of year	\$ 1,873,667	\$ 1,756,725

See notes to consolidated financial statements.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Cash Flows Years Ended December 31, 2024 and 2023 (In Thousands)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 116,942	\$ 118,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	61,677	63,182
Unrealized loss (gain) on swap transactions, net	2,131	(4,953)
Gain on lease termination	(7)	-
Unrealized loss (gain) on investments	36,726	(42,660)
Restricted contributions and investment income	(10,475)	(3,512)
Changes in operating assets and liabilities:		
Patient accounts receivable	22,285	(15,080)
Other receivables, inventories and prepaid expenses	(16,732)	18,060
Other assets	2,751	4,143
Investments—trading	(101,683)	7,229
Accounts payable, accrued salaries and benefits, and accrued expenses	9,985	(4,990)
Due to/from third-party payors, net	16,140	(20,453)
Other long-term liabilities	(356)	(630)
Net cash provided by operating activities	139,384	119,030
Cash flows from investing activities:		
Purchases of property and equipment	(101,243)	(80,663)
Proceeds from sale of property and equipment	4,863	4,315
Net cash used in investing activities	(96,380)	(76,348)
Cash flows from financing activities:		
Principal payments on long-term debt and other debt obligations	(14,761)	(17,653)
Proceeds from long-term debt	47,760	70,020
Payment of bond issue costs	-	(318)
Restricted contributions and investment income	10,475	3,512
Net cash provided by financing activities	43,474	55,561
Increase in cash and cash equivalents and restricted cash	86,478	98,243
Cash and cash equivalents and restricted cash, beginning of year	207,691	109,448
Cash and cash equivalents and restricted cash, end of year	\$ 294,169	\$ 207,691
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets:		
Cash and cash equivalents	\$ 175,214	\$ 115,964
Short-term investments	29,845	26,554
Bond funds designated for capital projects	77,200	58,395
Restricted cash included in assets limited as to use	11,910	6,778
	\$ 294,169	\$ 207,691
Supplemental disclosure of cash flow information:		
Interest paid	\$ 11,586	\$ 7,952

See notes to consolidated financial statements.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Beacon Health System, Inc. (the Corporation) and its various affiliated corporations under the control of the Corporation (collectively, BHS). The Corporation is an Indiana nonprofit corporation exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) and a public charity, as described in Section 509(a)(3). The Corporation is the sole corporate member of the following entities:

- Elkhart General Hospital, Inc. (EGH)
- Memorial Hospital of South Bend, Inc. (MHSB)
- Beacon Health Foundation, Inc. (BHF)
- Beacon Medical Group, Inc. (BMG)
- Beacon Health Ventures, Inc. (BHV)
- Beacon Occupational Health, LLC (BOH)
- CHA ACO, LLC (CHA ACO)
- Beacon Health, LLC (BH)
- Community Hospital of Bremen, Inc. (CHB)
- BPL Acquisitions, LLC
- Beacon Specialty Surgery, LLC (BSS)
- Three Rivers Health System, Inc. (TRH)

EGH, MHSB, CHB, BMG, TRH and BHF are also exempt from federal income tax under Section 501(a) of the Code as organizations described in Section 501(c)(3) and as public charities described in Sections 509(a)(1) and 509(a)(2). BHV and BOH are Indiana for-profit corporations. EGH is a 365-licensed-bed (254 available) acute care community hospital located in Elkhart, Indiana. MHSB is a 657-licensed-bed (409 available) acute care trauma center located in South Bend, Indiana. CHB is a 24-bed critical access hospital located in Bremen, Indiana. TRH is a 60-bed short-term acute-care facility located in Three Rivers, Michigan. EGH, MHSB, CHB and TRH (collectively, the Hospitals) provide inpatient, outpatient and 24-hour emergency care services for residents of Three Rivers, Michigan, and Elkhart; South Bend; and Bremen, Indiana, and the surrounding communities.

BHF is organized primarily to promote and encourage philanthropic activities for the support of the Corporation and its affiliates.

BHV manages the taxable operations of the Corporation, including home care and other nonacute health care services.

BOH primarily promotes population health management.

CHA ACO coordinates high-quality care for Medicare beneficiaries participating in the Medicare Shared Savings Programs.

BMG operates the physician enterprise of the Corporation.

BH improves and expands delivery and quality of health care services for the Corporation. BPL Acquisitions, LLC is a real estate holding company established to purchase land.

BSS, previously a joint venture that is now fully owned by BMG, is an outpatient surgery center specializing in neurologic, spine, and pain control procedures.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 1. Organization and Basis of Consolidation (Continued)

All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation owns a less-than-majority ownership or controlling interest in the following:

- 50% interest in Community Health Alliance LLC, an Indiana physician hospital organization
- 25% interest in Magnetic Resonance Imaging, LLC, an imaging and radiology center
- 40% interest in Elkhart Health, Fitness & Aquatics, Inc., a health fitness and aquatics center
- 10% interest in Alick's Home Medical Equipment, Inc., a home medical equipment provider
- 66% interest in South Bend Specialty Surgery Center, LLC, an outpatient surgery center. Although the Corporation owns a majority financial interest in this entity, it does not possess a controlling interest in the entity and therefore does not consolidate the limited liability company (LLC)
- 50% interest in Franciscan Beacon Health, an acute care hospital located in LaPorte, Indiana, was sold in March 2024
- 49% interest in ASC Ventures LLC, an ambulatory surgery center located in Granger, Indiana
- 20% interest in Northern Indiana Ambulatory Surgery Center, LLC d/b/a/ Riverpointe Surgery Center, an ambulatory surgery center located in Elkhart, Indiana

Aggregate financial information relating to these investments is as follows:

	2024	2023
Assets	\$ 93,929	\$ 133,470
Liabilities	23,493	49,062
Net income	5,089	4,694

At December 31, 2024 and 2023, the Corporation has \$54,832 and \$59,782, respectively, related to these equity method investments recorded in deferred charges and other assets on the consolidated balance sheets. In 2024, the Corporation sold its interests in Franciscan Beacon Hospital. The loss was not material. In 2023, the Corporation sold its interests in LaPorte Medical Group Surgery Center, LLP and Michiana Information Health Network, Inc. The loss was not material.

Note 2. Summary of Significant Accounting Policies

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 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. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Cash equivalents and restricted cash: All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are reflected as cash equivalents. Cash equivalents include checking accounts, money market accounts, corporate credit card accounts, cash on account with vendors, and petty cash. The carrying value of cash equivalents approximates fair value. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of assets limited as to use are excluded from cash equivalents as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation has not experienced any losses on such accounts.

Short-term investments: Short-term investments include cash reinvested on a daily basis, accrued interest on investments, and money expected to be used in less than a year. Also included in short-term investments are restricted and unrestricted investment donations that are in the process of being liquidated.

Assets limited as to use: Assets limited as to use include assets set aside by the Board of Directors (the Board) for future capital improvements and community health enhancement initiatives that the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use also include assets held by trustees under self-funded insurance agreements, investments externally designated under indenture or donor restrictions, and money expected to be used as part of BHS's community benefit.

Investments: The Corporation classifies its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenue and gains in excess of expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividend and interest income, realized gains and losses, and changes to fair values of investments are reported as nonoperating investment income on the consolidated statements of operations and changes in net assets. Nonoperating investment income is reported net of internal and external investment costs.

The Corporation's alternative investments are measured at net asset value utilizing the practical expedient based on valuations provided by the respective fund managers and are based on historical costs, appraisals, and other estimates that require varying degrees of judgment.

Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year-end. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. Resulting differences could be material. The financial statements of the hedge funds, commingled funds, and private equity funds are audited annually. Equity earnings related to these alternative investments are included in nonoperating investment income. The Corporation's holding reflects net contributions to the hedge fund and an allocated share of realized and unrealized investment income and expense.

Inventories: Inventories are stated at the lower of cost (average-cost method) or market.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Unamortized bond issuance costs: Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related financing, which approximates the effective-interest method.

Fair value of financial instruments: The Corporation's carrying amount for its financial instruments, which include cash and cash equivalents, short-term investments and assets limited as to use, accounts receivable, debt, and interest rate and basis swaps at December 31, 2024 and 2023, approximates fair value. The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies.

Property and equipment: Property and equipment is carried at cost, except for donated assets, which are recorded at fair value at the date of donation. Allowances for depreciation and amortization are computed primarily utilizing the straight-line method over the estimated useful lives of the assets, which range from three to 40 years. Depreciation expense for the years ended December 31, 2024 and 2023, was \$60,525 and \$61,845, respectively.

Lease right-of-use (ROU) assets and liabilities: The Corporation records a lease ROU asset (that is, an asset that represents the Corporation's right to use the leased asset for the lease term) for leases with a term greater than 12 months and that do not meet the criteria as a sales-type lease or a direct financing lease.

The Corporation records financing lease ROU assets at the value of principal payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Financing ROU assets are amortized using the straight-line method over the related lease term. Amortization of financing lease ROU assets is included on the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expense. Lease right of use assets and liabilities were insignificant as of December 31, 2024 and 2023.

Asset impairment: The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. There were no impairments of long-lived assets in 2024 or 2023.

Deferred charges and other assets: Included in deferred charges and other assets are intangible assets, long-term portion of ROU assets, goodwill, and investments in unconsolidated affiliates.

The acquisition of a business entity can result in the recording of intangible assets. Acquired definite-lived intangible assets (excluding goodwill) are amortized over the useful life of the assets. Goodwill is carried at acquisition value, less any impairment reductions.

The carrying value of goodwill amounted to approximately \$12,038 at December 31, 2024 and 2023, respectively, and is included in deferred charges and other assets on the consolidated balance sheets. Goodwill is assessed for impairment on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill in 2024 or 2023.

The Corporation accounts for its investments in less than majority-owned and controlled affiliates using the equity method of accounting. Income from these investments is reflected in other revenue on the consolidated statements of operations and changes in net assets.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Endowment investments: Income is received directly by BHF from BHF board-designated quasi-endowment investments and quasi-endowments with restrictions and is included in investment income within both net assets with and without donor restrictions. EGH receives a portion of the income from investments in endowments directly as they are released from restriction. These endowment investments have perpetual existence.

Contributions: Unconditional pledges to give cash and other assets are reported at fair value at the date the pledge is received in the amount estimated to be collectible by the Corporation.

Net assets without donor restrictions: Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes.

Net assets with donor restrictions: Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

The Corporation reports pledges, gifts of cash, and other assets as revenue 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, the net assets are reclassified as net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported on the consolidated statements of operations and changes in net assets as additions to net assets without restrictions. Resources restricted by donors for specific operating purposes are reported in revenue without restrictions, gains, and other support to the extent expended within the period.

Some net assets have been restricted by donors to be maintained by the Corporation in perpetuity. In accordance with the restriction, a majority of the investment income and investment gains or losses from these net assets are restricted by the donor for a specific purpose. A specified portion of income earned by the net assets is released from restrictions and used for operations each year and, therefore, is included on the consolidated statements of operations and changes in net assets as other revenue.

Patient service revenue and patient accounts receivable: Patient service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which BHS expects to be entitled in exchange for providing patient care. BHS has agreements with various third-party payors that provide for payments to BHS at amounts different from its established rates. Third parties include Medicare, Medicaid, managed health care plans and other commercial plans. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 3). The Hospitals provide care to all patients regardless of their ability to pay. Charity care provided is excluded from patient service revenue (see Note 4).

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: The Corporation's concentration of credit risk relation to patient accounts receivable and related revenue is limited by the diversity and number of the Corporation's patients and payors. The Corporation receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. The Corporation does not believe there are significant credit risks associated with these government agencies, nor any other particular payer that would subject the Corporation to any significant credit risks in the collection of accounts receivable. Changes in general economic conditions, revenue cycle operations, payer mix, payer claim processing, or federal or state governmental health care coverage could affect collection of accounts receivable, cash flows and results of operations.

The collection of outstanding receivables from Medicare, Medicaid, managed care payers, other third-party payers and patients represents a significant source of cash and is critical to operation performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. These factors continuously change and can have an impact on collection trends and estimation processes.

Operating and nonoperating income (expense): The consolidated statements of operations and changes in net assets include an intermediate measure of operations, income from operations, which represents activities directly associated with the furtherance of the Corporation's mission. Nonoperating activities that result in gains or losses peripheral to the Corporation's mission are reflected as nonoperating income (expense). Nonoperating income (expense) activities include investment income, derivative instrument gains/losses, and gain on lease termination.

Performance indicator: The consolidated statements of operations and changes in net assets include a performance indicator, revenue and gains in excess of expenses. Changes in net assets without donor restrictions, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets.

Allocation of costs: The Corporation's ability to exercise control over consolidated entities could result in the entities having a financial position or operating results that are significantly different from those that would have been obtained if the entities were autonomous. The manner of allocating certain shared and centralized costs, such as accounts payable processing, information technology support, and other Corporation-managed administration costs, is determined by the Corporation utilizing Internal Revenue Service transfer pricing guidance and is not audited. Alternate methods of accounting for these cost allocations may produce significantly different operating results for each of the consolidated entities.

Interest rate and basis swaps: All interest rate and basis swaps are measured at fair value based on techniques consistent with the market approach. None of the swaps are designated as hedging instruments; therefore, the unrealized gains or losses on the fair value of the swaps are included in revenue and gains in excess of expenses on the consolidated statements of operations and changes in net assets.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Asset retirement obligations: The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements by recognizing an expense and accreting a liability over the life of the asset to cover potential legal obligations at the end of the asset's useful life. The asset retirement obligation primarily relates to future asbestos remediation related to buildings on MHSB's campus, as well as ground/soil remediation associated with the removal of underground fuel tanks. The carrying value of the obligation amounted to approximately \$5,743 and \$5,560 at December 31, 2024 and 2023, respectively, and is reflected in other liabilities on the consolidated balance sheets.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation. A reclassification entry of approximately \$58,000 from short term investments to assets limited as to use was made to correct an error in classification at December 31, 2023. Such reclassifications had no impact on previously reported revenue and gains in excess of expenses and changes in net assets as well as the statement of cash flows.

New accounting pronouncements: In August 2023, the FASB issued ASU 2023-05, *Business Combinations-Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, which requires that a joint venture, upon formation, apply a new basis of accounting. The amendments in this ASU are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. The Corporation is evaluating the impact of this new guidance on its consolidated financial statements.

Note 3. Revenue and Accounts Receivable

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

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption 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 above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 3. Revenue and Accounts Receivable (Continued)

The Corporation uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analyses, the Corporation believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Corporation determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and/or implicit price concessions based on the historical collection experience of patient accounts.

The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. A summary of the payment arrangements with major third-party payors follows:

Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Disproportionate Share Hospital (DSH) payments by the state of Indiana (the State), if eligible, are paid according to the fiscal year of the State, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the State's fiscal year. MHSB recorded patient service revenue of \$15,075 and \$16,998 for the years ended December 31, 2024 and 2023, respectively, related to the State DSH program. The amounts recorded for prior state fiscal years represent changes in estimates from prior period estimates. The following is a summary by SFY:

	2024	2023
SFY 2025	\$ 7,539	\$ -
SFY 2024	7,856	7,223
SFY 2023	634	5,914
SFY 2022	(954)	4,898
SFY 2021	-	(2,297)
SFY 2020	-	1,260
	<u>\$ 15,075</u>	<u>\$ 16,998</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 3. Revenue and Accounts Receivable (Continued)

The Indiana Hospital Assessment Fee program (HAF) was approved by the Centers for Medicare & Medicaid Services (CMS). The current state budget extended HAF through June 30, 2025. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the State's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the Hospitals from the State (included in patient service revenue) and an assessment (included in supplies and other expenses) against the Hospitals, which is paid to the State the same year. BHS recognized HAF revenues and assessments as follows:

	Year Recognized		Total
	2024	2023	
Year ended December 31, 2024, HAF:			
Revenue	\$ 131,876	\$ -	\$ 131,876
Assessments	(55,343)	-	(55,343)
Year ended December 31, 2023, HAF:			-
Revenue	-	132,466	132,466
Assessments	(82)	(52,306)	(52,388)
Year ended December 31, 2022, HAF:			
Revenue	-	-	-
Assessments	(2,964)	2,623	(341)
Year ended December 31, 2021, HAF:			
Assessments	-	602	602
	<u>\$ 73,487</u>	<u>\$ 83,385</u>	<u>\$ 156,872</u>

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Corporation's historical settlement activity, including an assessment to ensure that it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, or investigations.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 3. Revenue and Accounts Receivable (Continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Estimates for DSH, settlements with third-party payors, and other contractual adjustments can differ from actual reimbursement based on the results of subsequent reviews, government regulatory changes, and cost report audits. For the years ended December 31, 2024 and 2023, patient service revenue has been increased by approximately \$1,496 and \$12,499, respectively, for changes in estimates of third-party payor settlements related to prior years. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

Management has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors and service lines that render services to patients. Patient service revenue recognized for the years ended December 31 from major payor sources is as follows:

	2024		2023	
Payor:				
Anthem	\$ 293,178	23 %	\$ 289,218	22 %
Commercial	343,151	27 %	343,804	27 %
Medicare	426,649	31 %	406,173	31 %
Medicaid	222,942	18 %	228,288	18 %
Self-pay	14,436	1 %	22,521	2 %
Patient service revenue	<u>\$ 1,300,356</u>	<u>100 %</u>	<u>\$ 1,290,004</u>	<u>100 %</u>

The composition of patient service revenue based on service lines the Corporation operates for the years ended December 31 is as follows:

	2024		2023	
Service lines:				
Hospitals	\$ 1,112,897	86 %	\$ 1,108,537	86 %
Medical Group	172,088	13 %	166,838	13 %
Other	15,371	1 %	14,629	1 %
Patient service revenue	<u>\$ 1,300,356</u>	<u>100 %</u>	<u>\$ 1,290,004</u>	<u>100 %</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 3. Revenue and Accounts Receivable (Continued)

Credit is granted without collateral to patients, most of whom are local residents and are insured under third-party arrangements. The composition of patient accounts receivable for years ended December 31 by major payor sources is as follows:

	2024	2023
Payor:		
Anthem	21 %	24 %
Commercial	40 %	40 %
Medicare	27 %	20 %
Medicaid	7 %	9 %
Self-pay	5 %	7 %
	<u>100 %</u>	<u>100 %</u>

The Corporation has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that services will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. The beginning balance of patient accounts receivable for the year ended December 31, 2023 was \$217,013.

The Corporation has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Other revenue: Other revenues consist of revenues associated with retail services, such as pharmacy and cafeteria, ancillary services and strategic initiatives with entities with less than majority ownership or noncontrolling interests (joint ventures) by the Corporation, health and fitness membership, and leased space rental agreements with third parties. Revenues associated with pharmacy services are estimated as prescriptions are filled and collected by patients. Retail sales are recorded at the time of service. Revenues associated with joint ventures are recognized on the equity method. Health and fitness revenue is recognized over the membership period and leased space rental revenue is recognized over the term of the lease.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 3. Revenue and Accounts Receivable (Continued)

The composition of other revenue for the years ended December 31 is as follows:

	2024	2023
Service lines:		
Retail service revenue	\$ 25,875	\$ 25,397
Joint venture income (loss)	3,227	(1,133)
Grant revenue*	17,404	6,433
Health and fitness revenue	9,231	9,592
Rental revenue	4,337	3,414
Other revenue	28,632	28,567
	<u>\$ 88,706</u>	<u>\$ 72,270</u>

* As of December 31, 2024, the Corporation received \$12,880 of funding from the Federal Emergency Management Agency (FEMA) for reimbursement of costs incurred in response to the COVID-19 pandemic. No FEMA funds were received for the year ended December 31, 2023.

Note 4. Charity Care

Patients who meet the Corporation'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.

Charity care represents unreimbursed costs for services rendered at a reduced fee, or no fee, due to the inability of the patient to pay for services. The amount of the charity care provided was approximately \$4,927 and \$4,951 for the years ended December 31, 2024 and 2023, respectively, at estimated cost. The Corporation utilized a cost to charge ratio methodology for the cost analysis. The only reimbursement for financial assistance care received by the Corporation is determined through a settlement process in the Hospitals' annual Medicare cost report filing. Financial assistance care reimbursement was approximately \$873 and \$1,110 for the years ended December 31, 2024 and 2023, respectively.

Note 5. Retirement Plans

The Corporation maintains a defined contribution employee retirement and savings plan for all employees who have attained 21 years of age and have completed 12 months of continuous service. The Corporation's contributions are based on 100% of the employee's contributions, up to 4% of the employee's salary. Both employee and corporation contributions are subject to certain limitations. The benefit plan expense for the years ended December 31, 2024 and 2023, was approximately \$18,587 and \$17,410, respectively, and is recorded within employee benefits within the consolidated statements of operations and changes in net assets.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 6. Long-Term Debt

Long-term debt consists of the following at December 31:

	2024	2023
Tax-exempt bonds issued on behalf of BHS by the Indiana Finance Authority:		
BHS Revenue Bonds, Series 2018, bearing interest at a variable rate of 4.40% at December 31, 2024, due in varying annual installments on December 15 of each year through 2043, with a mandatory tender date of December 15, 2028.	\$ 28,000	\$ 29,000
BHS Revenue Refunding Bonds, Series 2017A, bearing interest at variable rates with a floating fixed interest rate of 4.40% at December 31, 2024, due in varying annual installments on August 15 of each year through 2033, with a mandatory tender date of May 1, 2028.	35,465	35,745
BHS Revenue Refunding Bonds, Series 2017B, bearing interest at a variable rate of 4.40% at December 31, 2024, due annually on May 1 of each year through 2033.	31,775	33,200
BHS Revenue Bonds, Series 2023, bearing interest at a fixed rate of 1.46%, due in varying annual installments on August 15 of each year through 2034.	51,465	59,515
Tax-exempt bonds issued on behalf of BHS by the Hospital Authority of St. Joseph County:		
BHS Revenue Bonds, Series 2022, bearing interest at a fixed rate of 2.17% until June 2037, due in varying annual installments on June 30 of each year through 2052.	150,000	102,240
BHS Revenue Bonds, Series 2016, bearing interest at a fixed rate of 3.92%, due in varying annual installments on August 15 of each year through 2046.	41,115	42,790
BHS Revenue Bonds, Series 2013C, bearing interest at fixed rates between 3.75% and 5.00%, due in varying annual installments on August 15 of each year through 2044.	46,130	46,130
Loan payable to Bank of America, dated October 22, 2021, monthly payments of principal and interest at a fixed rate of 1.94%. Due November 27, 2031, and secured by personal property.	2,584	2,934
Loan payable to Bank of America, dated September 29, 2021, monthly payments of principal and interest at a fixed rate of 1.46%. Due September 3, 2031, and secured by personal property.	7,809	8,902
	394,343	360,456
Bond issuance costs	(1,342)	(1,449)
Unamortized premium	(380)	(400)
	392,621	358,607
Less current portion	15,126	13,873
	<u>\$ 377,495</u>	<u>\$ 344,734</u>

In May 2022, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2022 (2022 Bonds) in the principal amount of \$150,000 to be drawn down in installments through June 2024, at which point it will be held in escrow until needed to fund capital projects. The interest rate for the 2022 Bonds is a fixed rate of 2.17% due in annual installments through 2052.

In 2024, the Corporation drew down the remaining principal amount of \$47,760 on the 2022 Bonds. The total principal amount of \$150,000 was drawn as of June 2024.

In June 2023, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2023 (2023 Bonds) in the principal amount of \$60,685. The 2023 Bonds are tax-exempt bonds. The 2023 Bonds are private placement bonds, bearing interest at a fixed monthly interest rate. The proceeds from the 2023 Bonds were utilized to refund the BHS Revenue Bonds, Series 2021.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 6. Long-Term Debt (Continued)

The Corporation is the Obligated Group Agent for the Obligated Group under the Master Trust Indentures. The Obligated Group includes the Corporation, MHSB, EGH, and BMG. BHF and BHV constitute designated affiliates under the terms of the Master Trust Indentures. The bonds are secured by pledged revenues of the Obligated Group and contain various covenants, including achievement of specified financial ratios and limitations on additional debt.

The loan agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants.

Interest capitalized for the years ended December 31, 2024 and 2023, was approximately \$0 and \$1,836, respectively.

Maturities of long-term debt and other obligations for each of the next five years are as follows:

2025	\$	15,126
2026		16,774
2027		17,133
2028		17,082
2029		18,011
Thereafter		308,495
	\$	<u>392,621</u>

Note 7. Interest Rate and Basis Swaps

MHSB has various derivative instruments related to long-term debt obligations to manage the exposure on interest rates and MHSB's interest expense. Through the use of derivative financial instruments, MHSB is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of the derivative contract is positive, the counterparty owes MHSB, which creates credit risk to MHSB. When the fair value of the derivative contract is negative, MHSB owes the counterparty, and there is no credit risk to MHSB at that point in time. MHSB minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The management of market risk associated with interest rate changes is defined in MHSB's Swap Management Policy (the Policy). The Policy includes continuous monitoring of market conditions, emergent opportunities, and risks. Swap management is meant to be long term in nature, and any modifications to the program are reviewed for the long-term costs and benefits.

Management also mitigates risk through periodic reviews of its derivative position in the context of its total blended cost of capital.

The derivative instruments require adherence to collateral posting thresholds. In May 2023, Deutsche Bank was replaced as counterparty with The Bank of New York Mellon. For the year ended December 31, 2024 and 2023, the mark-to-market valuation on the swap portfolio was below the required collateral posting threshold of \$30,000 with Morgan Stanley, \$25,000 with Wells Fargo, and \$25,000 with The Bank of New York Mellon, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 7. Interest Rate and Basis Swaps (Continued)

The following is a summary of the outstanding fixed payor rate swaps as of December 31:

2024				
Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 35,465	61.90% of SOFR (plus 0.11448%) plus 0.31%	3.5150 %	August 2033
March 2003	\$ 5,600	65.00% of SOFR (plus 0.11448%) plus 0.45%	3.8100 %	August 2034
2023				
Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 35,745	61.90% of SOFR (plus 0.11448%) plus 0.31%	3.5150 %	August 2033
March 2003	\$ 5,900	65.00% of SOFR (plus 0.11448%) plus 0.45%	3.8100 %	August 2034

The following is a summary of the outstanding basis rate swaps as of December 31:

2024				
Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
January 2023	\$ 42,000	74.600% of SOFR (plus 0.11448%)	SIFMA tax-exempt index + 0.0715%	January 2041
July 2009	\$ 63,000	74.600% of SOFR (plus 0.11448%)	SIFMA tax-exempt index + 0.1700%	January 2041
2023				
Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
January 2023	\$ 42,000	74.600% of SOFR (plus 0.11448%)	SIFMA tax-exempt index + 0.0715%	January 2041
July 2009	\$ 63,000	74.600% of SOFR (plus 0.11448%)	SIFMA tax-exempt index + 0.1700%	January 2041

Net interest paid or received under the above swap agreements is included in interest expense. The net differential for MHSB as a result of the swap agreements amounted to payments received of approximately \$597 and \$486 for the years ended December 31, 2024 and 2023, respectively, which is reflected as a decrease in interest expense. The swap agreements do not qualify for hedge accounting; therefore, the change in the fair value of the swap agreements is recorded as an unrealized nonoperating (loss) gain of approximately \$(2,131) and \$4,953 for the years ended December 31, 2024 and 2023, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 7. Interest Rate and Basis Swaps (Continued)

The fair value of derivative instruments at December 31 is as follows:

	Consolidated Balance Sheet Location	2024	2023
Derivatives not designated as hedging instruments	Interest rate and basis swaps	\$ (8,209)	\$ (6,078)
		<u>\$ (8,209)</u>	<u>\$ (6,078)</u>

Note 8. Liquidity and Availability of Resources

As of December 31, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

	2024	2023
Cash and cash equivalents	\$ 175,214	\$ 115,964
Short-term investments	29,845	26,554
Patient accounts receivable	209,808	232,093
Due from third-party payors	36,499	49,704
Other receivables	25,353	15,946
Restricted cash	11,910	6,778
Bond funds designated for capital projects	77,200	58,395
Externally designated investments—insurance trust	2,997	2,884
Board-designated endowment	33,573	31,624
Endowment investments	12,298	11,220
Investments*	894,708	832,892
Total financial assets	<u>1,509,405</u>	<u>1,384,054</u>
Less amounts unavailable for general expenditure due to:		
Bond funds designated for capital projects	(77,200)	(58,395)
Restricted by donors with purpose restrictions	(24,901)	(18,854)
Restricted by donors in perpetuity	(400)	(400)
Restricted for insurance trust	(2,997)	(2,884)
Board-designated endowment	(33,573)	(31,624)
Total financial assets available for general expenditure within one year	<u>\$ 1,370,334</u>	<u>\$ 1,271,897</u>

* Investments include \$165,508 and \$123,826 of private equity funds at December 31, 2024 and 2023, respectively. These private equity funds have limited redemption opportunities with the general partner or in the secondary market.

BHS has various investments to maintain and strengthen its financial wellbeing and liquidity. The management of investments is defined by the Corporation's investment policy and is under the direction of an investment committee consisting of external advisors and BHS employees with the knowledge and understanding to undertake the monitoring of market conditions, emergent opportunities, and risks to help maximize the financial strength of the investments while considering the liquidity needs of BHS.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 9. Investments

Total investment return for the years ended December 31 is summarized as follows:

	2024	2023
Investment return:		
Net unrealized (losses) gains on investments	\$ (45,350)	\$ 42,683
Net realized gains on investments	114,060	30,526
Net equity gains (losses) on alternative investments	8,624	(24)
	<u>\$ 77,334</u>	<u>\$ 73,185</u>
Reported as:		
Investment income, net (nonoperating)	\$ 75,334	\$ 70,870
Investment income (net assets with donor restrictions)	850	1,074
Other revenue (unrestricted revenue, gains and other support)	1,150	1,241
	<u>\$ 77,334</u>	<u>\$ 73,185</u>

The Corporation's investments are exposed to various kinds and levels of risk. Equity mutual funds expose the Corporation to market risk, performance risk and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a corporation's operating performance. Fixed-income securities expose the Corporation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Liquidity risk tends to be higher for equities related to small capitalization companies. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value, resulting in additional gains and losses in the near term.

Alternative investments have similar risks as income and equity securities, although there may be additional risks. These investments consist principally of noncontrolling interests in limited liability partnerships (LLPs) and LLCs. Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to one year from December 31, 2024, which may reduce liquidity. Some private equity and real asset funds have limited redemption opportunities with the general partner or in the secondary market.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 10. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, deferred compensation investments, and accounts payable and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

Accounting Standards Codification (ASC) 820-10-50-2, Fair Value Measurement—Overall—Disclosure, establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or a liability as of the measurement date. The three levels are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in an active market and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried as of December 31, by caption, on the consolidated balance sheets by the valuation hierarchy defined above for those instruments carried at fair value, as well as the alternative investments that are measured at net asset value.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 10. Fair Value of Financial Instruments (Continued)

	2024			Assets at		
	Level 1	Level 2	Level 3	Fair Value	Net Asset Value	Carrying Value
Assets:						
Externally designated investment—						
insurance trust:						
Fixed income (a)	\$ 2,997	\$ -	\$ -	\$ 2,997	\$ -	\$ 2,997
Board-designated endowment :						
Mutual funds: (a)						
Equities	1,723	-	-	1,723	-	1,723
Blended fund	17,986	-	-	17,986	-	17,986
Fixed income (a) (b)	425	48	-	473	-	473
Equities (a)	7	-	-	7	-	7
Alternatives	-	-	-	-	13,384	13,384
Total board-designated	20,141	48	-	20,189	13,384	33,573
Endowment and temporarily restricted investments:						
Mutual funds: (a)						
Blended fund	7,049	-	-	7,049	-	7,049
Equities (a)	3	-	-	3	-	3
Alternatives	-	-	-	-	5,246	5,246
Total endowment and temporarily restricted investments	7,052	-	-	7,052	5,246	12,298
Investments:						
Blended fund	417,372	-	-	417,372	-	417,372
Total mutual funds	417,372	-	-	417,372	-	417,372
Common stock (a)	23,205	-	-	23,205	-	23,205
Alternatives:						
Hedge funds	-	-	-	-	43,519	43,519
Emerging markets	-	-	-	-	67,790	67,790
Private debt	-	-	-	-	12,202	12,202
Private equity	-	-	-	-	210,038	210,038
Real estate investment trust	-	-	-	-	58,944	58,944
Commingled funds	-	-	-	-	23,805	23,805
Long/short equity	-	-	-	-	3,210	3,210
Relative value	-	-	-	-	24,079	24,079
Tactical trading	-	-	-	-	10,544	10,544
Total alternatives	-	-	-	-	454,131	454,131
Total investments	440,577	-	-	440,577	454,131	894,708
Total	\$ 470,767	\$ 48	\$ -	\$ 470,815	\$ 472,761	\$ 943,576
Liabilities:						
Swaps (c)	\$ -	\$ -	\$ (8,209)	\$ (8,209)	\$ -	\$ (8,209)
Total	\$ -	\$ -	\$ (8,209)	\$ (8,209)	\$ -	\$ (8,209)

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 10. Fair Value of Financial Instruments (Continued)

	2023			Assets at		
	Level 1	Level 2	Level 3	Fair Value	Net Asset Value	Carrying Value
Assets:						
Externally designated investment— insurance trust:						
Fixed income (a)	\$ 2,884	\$ -	\$ -	\$ 2,884	\$ -	\$ 2,884
Board-designated endowment :						
Mutual funds: (a)						
Equities	1,545	-	-	1,545	-	1,545
Blended fund	15,872	-	-	15,872	-	15,872
Fixed income (a) (b)	427	48	-	475	-	475
Equities (a)	5	-	-	5	-	5
Alternatives	-	-	-	-	13,727	13,727
Total board-designated endowment	17,849	48	-	17,897	13,727	31,624
Endowment and temporarily restricted investments:						
Mutual funds: (a)						
Blended fund	6,016	-	-	6,016	-	6,016
Equities (a)	2	-	-	2	-	2
Alternatives	-	-	-	-	5,202	5,202
Total endowment and temporarily restricted investments	6,018	-	-	6,018	5,202	11,220
Internally designated investments:						
Blended fund	309,081	-	-	309,081	-	309,081
Total mutual funds	309,081	-	-	309,081	-	309,081
Common stock (a)	20,401	-	-	20,401	-	20,401
Alternatives:						
Hedge funds	-	-	-	-	54,301	54,301
Emerging markets	-	-	-	-	52,129	52,129
Private debt	-	-	-	-	18,125	18,125
Private equity	-	-	-	-	204,270	204,270
Real estate investment trust	-	-	-	-	65,271	65,271
Commingled funds	-	-	-	-	57,961	57,961
Long/short equity	-	-	-	-	5,983	5,983
Relative value	-	-	-	-	29,796	29,796
Tactical trading	-	-	-	-	15,574	15,574
Total alternatives	-	-	-	-	503,410	503,410
Total investments	329,482	-	-	329,482	503,410	832,892
Total	\$ 356,233	\$ 48	\$ -	\$ 356,281	\$ 522,339	\$ 878,620
Liabilities:						
Swaps (c)	\$ -	\$ -	\$ (6,078)	\$ (6,078)	\$ -	\$ (6,078)
Total	\$ -	\$ -	\$ (6,078)	\$ (6,078)	\$ -	\$ (6,078)

(a) Pricing for mutual funds, equities, common stock and fixed income securities is based on the open market and is valued on a daily basis.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 10. Fair Value of Financial Instruments (Continued)

- (b) Pricing is based on the fair value of the securities and is valued on a monthly basis. Information used to value this account is provided by International Data Corp. (IDC). In the event that a security is not actively traded in the open market, the characteristics are matched to a comparable issue from the IDC data to appropriately value the holding.
- (c) Pricing is based on discounted cash flows to reflect a credit spread adjustment in order to reflect nonperformance risk. The credit spread adjustment is derived from how other comparable entities' bonds price and trade in the market. As the credit spread adjustment is a significant component of the swap valuation and is an unobservable input, the swaps have been classified as Level 3.

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 swaps for the years ended December 31:

	2024	2023
Balance, beginning of year	\$ (6,078)	\$ (11,031)
Unrealized (losses) gains, net	(2,131)	4,953
Balance, end of year	<u>\$ (8,209)</u>	<u>\$ (6,078)</u>

For the year ended December 31, 2024, the Corporation recorded approximately \$2,131 in nonoperating losses, which primarily relates to losses of \$2,133 due to the change in the swaps' value and gains of \$2 to reflect the fair value of the uncollateralized portion of the swap balance. For the year ended December 31, 2023, the Corporation recorded approximately \$4,953 in nonoperating gains, which primarily relates to gains of \$5,358 due to the change in the swaps' value and losses of \$405 to reflect the fair value of the uncollateralized portion of the swap balance.

Note 11. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to health care services are associated with entities performing health care services (MHSB, EGH, CHB, BMG, TRH, BH and certain entities with BHV). Expenses related to administrative functions are associated with entities that perform administrative functions (all entities other than those listed previously). Any cost not attributable to a specific entity is allocated using an allocation base that is appropriate such as square footage or full-time-equivalents. Expenses related to this and general and administrative functions for the years ended December 31 are as follows:

	2024			2023		
	Health Care Services	Administrative Functions	Total	Health Care Services	Administrative Functions	Total
Salaries and wages	\$ 565,021	\$ 66,155	\$ 631,176	\$ 559,629	\$ 60,641	\$ 620,270
Employee benefits	120,588	23,060	143,648	118,444	21,883	140,327
Supplies and other	330,511	17,822	348,333	319,120	16,967	336,087
Professional fees and purchased services	84,560	74,833	159,393	88,762	66,526	155,288
Depreciation and amortization	50,442	11,235	61,677	54,999	8,183	63,182
Interest	11,112	466	11,578	7,291	470	7,761
Total	<u>\$ 1,162,234</u>	<u>\$ 193,571</u>	<u>\$ 1,355,805</u>	<u>\$ 1,148,245</u>	<u>\$ 174,670</u>	<u>\$ 1,322,915</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 12. Commitments

The Corporation has total commitments to invest \$278,000 in certain hedge funds and alternative investments. During the years ended December 31, 2024 and 2023, the Corporation invested approximately \$19,971 and \$25,684, respectively. The Corporation had a remaining uncalled commitment of approximately \$103,626 and \$110,076 at December 31, 2024 and 2023, respectively.

The Corporation has entered into various capital projects, including related commitments to construction managers, architects, and other vendors for software implementation. The commitments under these agreements was approximately \$238,670, of which approximately \$54,375 was paid at December 31, 2024. The Corporation has made additional payments related to these projects subsequent to December 31, 2024, and through the date of this report of approximately \$4,147.

Note 13. Professional Liability Insurance

The Corporation is involved in lawsuits and various governmental investigations, audits, reviews, and administrative proceedings arising in the ordinary course of business. Additionally, the Corporation may be subject to additional claims alleging professional liability for medical malpractice. The Corporation has a claims-made policy that covers all entities. The policy has no deductible as of October 1, 2023, prior to that the policy had a \$50,000 deductible per claim. Historically, MHSB and EGH have obtained separate professional liability insurance coverage under claims-made policies. The claims-made policy covers all years other than years that were self-funded. MHSB was self-funded for its professional and general liability coverage for the period from December 1, 2003 to November 30, 2009. EGH was self-funded for its professional and general liability coverage for the period from March 1, 2010 to April 1, 2012. The Indiana Medical Malpractice Act has provided recovery of up to \$1,250, per occurrence, with the first \$250 covered by the respective entity, for claims prior to July 1, 2017. For the period from July 1, 2017 to June 30, 2019, the coverage limit was \$1,650, per occurrence, with the first \$400 covered by the respective entity. Effective July 1, 2019, the coverage limit was increased to \$1,800, per occurrence, with the first \$500 covered by the respective entity. MHSB maintains a trust fund for its self-insurance program, which it will continue to maintain until all claims have been settled. The fair value of the trust fund at December 31, 2024 and 2023, was approximately \$2,997 and \$2,884, respectively. The amount of malpractice and general liability claims, including a component for incurred but not reported claims, was approximately \$4,778 and \$4,801, gross of an insurance recoverable at December 31, 2024 and 2023, respectively, which is included in other liabilities. The interest rate used to discount these claims was 3% at December 31, 2024 and 2023. In addition, at December 31, 2024 and 2023, the Corporation recognized a recoverable insurance asset of approximately \$4,287, which is included in deferred charges and other assets.

Note 14. Income Taxes

The Corporation and its related affiliates, except for BHV, have been determined to qualify as exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Code.

Most of the income received by the Corporation and its related affiliates, except for BHV, is exempt from taxation as the income is related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. However, some of the income received by exempt entities is subject to taxation as unrelated business income. The Corporation and its subsidiaries file federal and various state income tax returns in the United States.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 14. Income Taxes (Continued)

ASC 740, Income Taxes, requires that realization of an uncertain income tax position be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the consolidated financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended December 31, 2024 or 2023.

Note 15. Net Assets Without Donor Restrictions

Net assets without donor restrictions are composed of the following at December 31:

	2024	2023
Undesignated	\$ 1,814,793	\$ 1,705,847
Board-designated	33,573	31,624
	<u>\$ 1,848,366</u>	<u>\$ 1,737,471</u>

Board-designated endowment: The Board has designated a portion of net assets without donor restrictions as a board-designated endowment for the purpose of funding BHF's operational expenses.

Note 16. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	2024	2023
Net assets currently available for:		
Children's services	\$ 3,307	\$ 3,233
Education	4,007	3,629
Patient care	16,112	10,026
System priorities	1,077	1,326
Community impact	366	610
Quasi-endowments	432	430
	<u>\$ 25,301</u>	<u>\$ 19,254</u>

The various purposes of the above donor-restricted amounts are as follows:

Children's services: Children's services are programs and services for pediatric patients throughout the Corporation.

Education: This consists of formal and continuing education.

Patient care: This refers to specific patient care services lines (i.e., cancer, cardiac, and trauma)

System priorities: System priorities are specific system initiatives as determined throughout the Corporation requiring formal approval and funding.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Note 16. Net Assets With Donor Restrictions (Continued)

Community impact: Community impact includes initiatives that focus on preventive care and education throughout the community,

Quasi-endowments: Quasi-endowments are designated to be held in perpetuity, income generated to be used for indigent care and/or area of greatest need.

Note 17. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to December 31, 2024 through March 6, 2025, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

Independent Auditor's Report on the Supplementary Information

The Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

We have audited the consolidated financial statements of Beacon Health System, Inc. and Affiliated Corporations (the Corporation) as of and for the year ended December 31, 2024, and have issued our report thereon dated March 6, 2025, which contains an unmodified opinion on those consolidated financial statements. The financial statements of the Corporation, as of and for the year ended December 31, 2023, were audited by other auditors, whose report, dated March 8, 2024, expressed an unmodified opinion on those statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the year ended December 31, 2024, as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information as of and for the year ended December 31, 2024 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 information as of and for the year ended December 31, 2024 is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The supplementary information as of and for the year ended December 31, 2023, was audited by other auditors whose report, dated March 8, 2024, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

RSM US LLP

Cleveland, Ohio
March 6, 2025

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Balance Sheet December 31, 2024 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ 175,214	\$ -	\$ 11,710	\$ 4,970	\$ 231	\$ 67	\$ 8,727	\$ 129,135	\$ (133)	\$ 20,507
Short-term investments	29,845	-	-	-	1,334	-	-	28,511	-	-
Patient accounts receivable	209,808	(6,421)	120,504	16,738	-	364	57,298	1,563	6,800	12,962
Due from third-party payors	36,499	-	30,626	820	-	-	585	-	213	4,255
Other receivables	25,353	-	4,789	1,487	-	559	11,081	6,602	250	585
Inventories	37,729	-	22,615	-	-	156	12,609	919	403	1,027
Prepaid expenses and other current assets	28,084	-	1,919	284	-	4	842	24,680	135	220
Due from affiliates	-	(28,913)	-	27	-	-	-	28,886	-	-
Total current assets	542,532	(35,334)	192,163	24,326	1,565	1,150	91,142	220,296	7,668	39,556
Assets limited as to use:										
Bond funds designated for capital projects	77,200	-	77,200	-	-	-	-	-	-	-
Restricted cash	11,910	-	-	-	11,910	-	-	-	-	-
Externally designated investments—insurance trust	2,997	-	2,966	21	-	10	-	-	-	-
Board-designated endowment	33,573	-	-	-	33,573	-	-	-	-	-
Endowment and temporarily restricted investments	12,298	-	-	-	3,399	-	8,899	-	-	-
	137,978	-	80,166	21	48,882	10	8,899	-	-	-
Property and equipment:										
Land	63,300	-	24,870	5,826	-	-	4,974	20,349	779	6,502
Buildings and improvements	974,469	-	528,450	86,512	94	1,931	282,934	51,085	10,103	13,360
Furniture and equipment	577,109	-	264,886	35,043	164	2,165	147,085	113,610	5,394	8,762
Construction in progress	116,935	-	95,885	4,579	-	2	5,859	9,242	151	1,217
	1,731,813	-	914,091	131,960	258	4,098	440,852	194,286	16,427	29,841
Less accumulated depreciation	951,427	-	517,175	63,515	249	3,393	275,435	78,765	6,491	6,404
	780,386	-	396,916	68,445	9	705	165,417	115,521	9,936	23,437
Investments	894,708	-	-	-	-	-	-	894,708	-	-
Deferred charges and other assets	76,749	(12,367)	8,731	12,672	12	31,046	3,692	31,121	1,842	-
Total assets	\$ 2,432,353	\$ (47,701)	\$ 677,976	\$ 105,464	\$ 50,468	\$ 32,911	\$ 269,150	\$ 1,261,646	\$ 19,446	\$ 62,993

(Continued)

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Balance Sheet (Continued)

December 31, 2024

(In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Liabilities and Net Assets										
Current liabilities:										
Accounts payable	\$ 75,970	\$ -	\$ 22,273	\$ 18,400	\$ 1	\$ 71	\$ 13,930	\$ 16,806	\$ 1,170	\$ 3,319
Accrued salaries and benefits	59,178	(6,421)	23,785	13,723	-	46	10,933	14,139	15	2,958
Accrued expenses	4,024	-	1,811	-	-	-	1,225	759	149	80
Due to third-party payors	5,056	-	2,010	-	-	-	34	-	259	2,753
Due to affiliates	-	(28,913)	72	-	-	28,831	-	10	-	-
Current maturities of long-term debt	15,126	-	6,452	-	-	-	4,533	2,675	1,109	357
Total current liabilities	159,354	(35,334)	56,403	32,123	1	28,948	30,655	34,389	2,702	9,467
Noncurrent liabilities:										
Long-term debt, less current maturities	377,495	-	258,445	-	-	-	44,018	66,105	6,700	2,227
Other liabilities	13,628	-	8,869	23	-	10	1,619	3,024	83	-
Interest rate and basis swaps	8,209	-	8,209	-	-	-	-	-	-	-
	399,332	-	275,523	23	-	10	45,637	69,129	6,783	2,227
Total liabilities	558,686	(35,334)	331,926	32,146	1	28,958	76,292	103,518	9,485	11,694
Net assets:										
Without donor restrictions	1,848,366	(12,367)	346,050	73,318	34,065	3,953	183,959	1,158,128	9,961	51,299
With donor restrictions	25,301	-	-	-	16,402	-	8,899	-	-	-
Total net assets	1,873,667	(12,367)	346,050	73,318	50,467	3,953	192,858	1,158,128	9,961	51,299
Total liabilities and net assets	\$ 2,432,353	\$ (47,701)	\$ 677,976	\$ 105,464	\$ 50,468	\$ 32,911	\$ 269,150	\$ 1,261,646	\$ 19,446	\$ 62,993

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Balance Sheet December 31, 2023 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ 115,964	\$ -	\$ 21,531	\$ 11,055	\$ 151	\$ 900	\$ 14,493	\$ 46,011	\$ 2,767	\$ 19,056
Short-term investments	26,554	-	-	-	1,261	-	-	25,293	-	-
Patient accounts receivable	232,093	(5,714)	134,963	26,046	-	306	62,386	1,645	4,406	8,055
Due from third-party payors	49,704	-	40,056	1,836	-	-	3,692	-	603	3,517
Other receivables	15,946	-	2,562	1,442	2	335	840	9,998	225	542
Inventories	36,315	-	20,100	-	-	147	11,540	3,160	337	1,031
Prepaid expenses and other current assets	22,173	-	1,405	691	-	7	522	19,178	150	220
Due from affiliates	-	(32,042)	-	20	-	-	-	32,022	-	-
Total current assets	498,749	(37,756)	220,617	41,090	1,414	1,695	93,473	137,307	8,488	32,421
Assets limited as to use:										
Bond funds designated for capital projects	58,395	-	58,395	-	-	-	-	-	-	-
Restricted cash	6,778	-	-	-	6,778	-	-	-	-	-
Externally designated investments—insurance trust	2,884	-	2,853	21	-	10	-	-	-	-
Board-designated endowment	31,624	-	-	-	31,624	-	-	-	-	-
Endowment and temporarily restricted investments	11,220	-	-	-	2,799	-	8,421	-	-	-
	110,901	-	61,248	21	41,201	10	8,421	-	-	-
Property and equipment:										
Land	65,736	-	27,003	5,796	-	-	4,974	20,759	779	6,425
Buildings and improvements	973,765	-	537,628	81,719	94	1,931	278,533	52,028	10,084	11,748
Furniture and equipment	548,710	-	259,502	33,758	164	2,161	141,455	99,087	4,983	7,600
Construction in progress	60,737	-	47,501	3,587	-	-	4,402	4,882	52	313
	1,648,948	-	871,634	124,860	258	4,092	429,364	176,756	15,898	26,086
Less accumulated depreciation	904,417	-	502,614	58,166	239	3,277	260,715	69,430	5,572	4,404
	744,531	-	369,020	66,694	19	815	168,649	107,326	10,326	21,682
Investments	832,892	-	-	-	-	-	-	832,892	-	-
Deferred charges and other assets	79,446	(12,367)	6,616	12,672	12	30,889	3,692	35,991	1,941	-
Total assets	\$ 2,266,519	\$ (50,123)	\$ 657,501	\$ 120,477	\$ 42,646	\$ 33,409	\$ 274,235	\$ 1,113,516	\$ 20,755	\$ 54,103

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Balance Sheet (Continued) December 31, 2023 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Liabilities and Net Assets										
Current liabilities:										
Accounts payable	\$ 64,287	\$ -	\$ 20,472	\$ 17,560	\$ 17	\$ 54	\$ 11,928	\$ 10,745	\$ 1,072	\$ 2,439
Accrued salaries and benefits	59,640	(5,714)	24,833	12,993	-	58	11,370	12,855	257	2,988
Accrued expenses	5,260	-	2,678	17	-	-	1,549	679	151	186
Due to third-party payors	2,121	-	19	-	-	-	98	-	27	1,977
Due to affiliates	-	(32,042)	33	-	-	32,009	-	-	-	-
Current maturities of long-term debt	13,873	-	5,673	-	-	-	4,082	2,675	1,093	350
Total current liabilities	145,181	(37,756)	53,708	30,570	17	32,121	29,027	26,954	2,600	7,940
Noncurrent liabilities:										
Long-term debt, less current maturities	344,734	-	217,062	-	-	-	48,527	68,752	7,809	2,584
Other liabilities	13,801	-	9,048	23	-	11	1,633	2,904	182	-
Interest rate and basis swaps	6,078	-	6,078	-	-	-	-	-	-	-
	364,613	-	232,188	23	-	11	50,160	71,656	7,991	2,584
Total liabilities	509,794	(37,756)	285,896	30,593	17	32,132	79,187	98,610	10,591	10,524
Net assets:										
Without donor restrictions	1,737,471	(12,367)	371,605	89,884	31,796	1,277	186,627	1,014,906	10,164	43,579
With donor restrictions	19,254	-	-	-	10,833	-	8,421	-	-	-
Total net assets	1,756,725	(12,367)	371,605	89,884	42,629	1,277	195,048	1,014,906	10,164	43,579
Total liabilities and net assets	\$ 2,266,519	\$ (50,123)	\$ 657,501	\$ 120,477	\$ 42,646	\$ 33,409	\$ 274,235	\$ 1,113,516	\$ 20,755	\$ 54,103

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Statement of Operations and Changes in Net Assets Year Ended December 31, 2024 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Unrestricted revenue, gains and other support:										
Patient service revenue	\$ 1,300,356	\$ (132)	\$ 671,289	\$ 160,580	\$ -	\$ 3,191	\$ 350,553	\$ 12,312	\$ 30,465	\$ 72,098
Other revenue	88,706	(46,383)	31,031	49,466	1,412	6,626	21,877	21,673	314	2,690
Net assets released from restrictions used for operations	1,407	-	700	2	235	-	71	395	2	2
	<u>1,390,469</u>	<u>(46,515)</u>	<u>703,020</u>	<u>210,048</u>	<u>1,647</u>	<u>9,817</u>	<u>372,501</u>	<u>34,380</u>	<u>30,781</u>	<u>74,790</u>
Expenses:										
Salaries and wages	631,176	-	194,869	220,955	769	3,574	97,469	71,811	10,910	30,819
Employee benefits	143,648	(368)	48,835	35,607	327	952	24,952	24,660	2,761	5,922
Supplies and other	348,333	(4,836)	177,412	28,270	875	1,214	106,158	18,351	5,906	14,983
Management fees	-	-	85,709	24,121	222	919	46,525	(168,143)	3,855	6,792
Professional fees and purchased services	159,393	(41,311)	64,234	9,674	85	367	33,941	79,735	4,365	8,303
Depreciation and amortization	61,677	-	26,147	5,742	9	116	15,003	11,594	1,019	2,047
Interest	11,578	-	9,061	-	-	-	1,876	466	121	54
	<u>1,355,805</u>	<u>(46,515)</u>	<u>606,267</u>	<u>324,369</u>	<u>2,287</u>	<u>7,142</u>	<u>325,924</u>	<u>38,474</u>	<u>28,937</u>	<u>68,920</u>
Income (loss) from operations	34,664	-	96,753	(114,321)	(640)	2,675	46,577	(4,094)	1,844	5,870
Nonoperating income (expense):										
Investment income, net	75,334	-	3,622	102	2,204	1	312	68,307	94	692
Unrealized loss on swap transactions, net	(2,131)	-	(2,131)	-	-	-	-	-	-	-
Gain on Lease Termination	7	-	-	-	-	-	-	7	-	-
Revenue and gains in excess of (less than) expenses	<u>\$ 107,874</u>	<u>\$ -</u>	<u>\$ 98,244</u>	<u>\$ (114,219)</u>	<u>\$ 1,564</u>	<u>\$ 2,676</u>	<u>\$ 46,889</u>	<u>\$ 64,220</u>	<u>\$ 1,938</u>	<u>\$ 6,562</u>

(Continued)

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Statement of Operations and Changes in Net Assets (Continued) Year Ended December 31, 2024 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Net assets without donor restrictions:										
Revenue and gains in excess of expenses	\$ 107,874	\$ -	\$ 98,244	\$ (114,219)	\$ 1,564	\$ 2,676	\$ 46,889	\$ 64,220	\$ 1,938	\$ 6,562
Net assets released from restrictions used for capital purposes	3,021	-	537	2,084	-	-	400	-	-	-
Other	-	-	(124,336)	95,569	706	-	(49,958)	79,002	(2,141)	1,158
Increase (decrease) in net assets without donor restrictions	110,895	-	(25,555)	(16,566)	2,270	2,676	(2,669)	143,222	(203)	7,720
Net assets with donor restrictions:										
Purpose-restricted contributions	9,625	-	-	-	9,625	-	-	-	-	-
Investment income	850	-	-	-	371	-	479	-	-	-
Net assets released from restrictions used for operating and capital purposes	(4,428)	-	-	-	(4,428)	-	-	-	-	-
Increase in net assets with donor restrictions	6,047	-	-	-	5,568	-	479	-	-	-
Change in net assets	116,942	-	(25,555)	(16,566)	7,838	2,676	(2,190)	143,222	(203)	7,720
Net assets, beginning of year	1,756,725	(12,367)	371,605	89,884	42,629	1,277	195,048	1,014,906	10,164	43,579
Net assets, end of year	<u>\$ 1,873,667</u>	<u>\$ (12,367)</u>	<u>\$ 346,050</u>	<u>\$ 73,318</u>	<u>\$ 50,467</u>	<u>\$ 3,953</u>	<u>\$ 192,858</u>	<u>\$ 1,158,128</u>	<u>\$ 9,961</u>	<u>\$ 51,299</u>

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Statement of Operations and Changes in Net Assets Year Ended December 31, 2023 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Unrestricted revenue, gains and other support:										
Patient service revenue	\$ 1,290,004	\$ (7)	\$ 677,491	\$ 166,838	\$ -	\$ 3,295	\$ 338,972	\$ 11,341	\$ 26,252	\$ 65,822
Other revenue	72,270	(12,467)	29,132	16,683	1,535	6,540	11,313	17,045	309	2,180
Net assets released from restrictions used for operations	1,197	-	511	2	218	-	63	403	-	-
	<u>1,363,471</u>	<u>(12,474)</u>	<u>707,134</u>	<u>183,523</u>	<u>1,753</u>	<u>9,835</u>	<u>350,348</u>	<u>28,789</u>	<u>26,561</u>	<u>68,002</u>
Expenses:										
Salaries and wages	620,270	-	197,344	213,760	687	3,239	101,423	66,405	10,291	27,121
Employee benefits	140,327	(373)	48,156	34,338	291	913	24,464	23,595	2,719	6,224
Supplies and other	336,087	(6,733)	167,263	34,524	696	2,623	101,583	17,668	4,795	13,668
Management fees	-	-	81,336	21,320	212	890	42,556	(156,000)	3,235	6,451
Professional fees and purchased services	155,288	(5,368)	40,407	13,693	126	334	18,144	70,702	4,480	12,770
Depreciation and amortization	63,182	-	29,271	5,537	17	144	16,119	8,898	1,043	2,153
Interest	7,761	-	5,610	-	-	-	1,483	470	137	61
	<u>1,322,915</u>	<u>(12,474)</u>	<u>569,387</u>	<u>323,172</u>	<u>2,029</u>	<u>8,143</u>	<u>305,772</u>	<u>31,738</u>	<u>26,700</u>	<u>68,448</u>
Income (loss) from operations	40,556	-	137,747	(139,649)	(276)	1,692	44,576	(2,949)	(139)	(446)
Nonoperating income (expense):										
Investment income, net	70,870	-	918	130	2,336	1	191	66,910	50	334
Unrealized gains on swap transactions, net	4,953	-	4,953	-	-	-	-	-	-	-
Revenue and gains in excess of (less than) expenses	\$ 116,379	\$ -	\$ 143,618	\$ (139,519)	\$ 2,060	\$ 1,693	\$ 44,767	\$ 63,961	\$ (89)	\$ (112)

(Continued)

Beacon Health System, Inc. and Affiliated Corporations

Consolidating Statement of Operations and Changes in Net Assets (Continued) Year Ended December 31, 2023 (In Thousands)

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Net assets without donor restrictions:										
Revenue and gains in excess of expenses	\$ 116,379	\$ -	\$ 143,618	\$ (139,519)	\$ 2,060	\$ 1,693	\$ 44,767	\$ 63,961	\$ (89)	\$ (112)
Net assets released from restrictions used for capital purposes	228	-	128	-	-	-	50	-	50	-
Other	-	-	(122,024)	142,384	161	-	(32,580)	(5,552)	1,546	16,065
Increase in net assets without donor restrictions	116,607	-	21,722	2,865	2,221	1,693	12,237	58,409	1,507	15,953
Net assets with donor restrictions:										
Purpose-restricted contributions	2,438	-	-	-	2,438	-	-	-	-	-
Investment income	1,074	-	-	-	468	-	606	-	-	-
Net assets released from restrictions used for operating and capital purposes	(1,425)	-	-	-	(1,425)	-	-	-	-	-
Increase in net assets with donor restrictions	2,087	-	-	-	1,481	-	606	-	-	-
Change in net assets	118,694	-	21,722	2,865	3,702	1,693	12,843	58,409	1,507	15,953
Net assets, beginning of year	1,638,031	(12,367)	349,883	87,019	38,927	(416)	182,205	956,497	8,657	27,626
Net assets, end of year	<u>\$ 1,756,725</u>	<u>\$ (12,367)</u>	<u>\$ 371,605</u>	<u>\$ 89,884</u>	<u>\$ 42,629</u>	<u>\$ 1,277</u>	<u>\$ 195,048</u>	<u>\$ 1,014,906</u>	<u>\$ 10,164</u>	<u>\$ 43,579</u>