



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2024 AND 2023

CPAs / ADVISORS



UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Union Health System, Inc.
Terre Haute, Indiana

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Union Health System, Inc. and Subsidiaries (the System), a nonprofit organization, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, consolidating statements of operations and changes in net assets, and consolidating statements of operations (Union Hospital, Inc. and Subsidiaries) as listed in the accompanying table of contents are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of property and equipment of mortgagor is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2025 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
April 22, 2025

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2024 AND 2023

| ASSETS | | |
|---|----------------|----------------|
| | 2024 | 2023 |
| Current assets | | |
| Cash and cash equivalents | \$ 46,580,987 | \$ 75,442,047 |
| Patient accounts receivable, net | 88,233,156 | 78,099,312 |
| Estimated third-party settlements | 5,148,584 | -0- |
| Inventories | 12,874,667 | 11,571,468 |
| Prepaid expenses and other current assets | 25,227,252 | 36,180,429 |
| Total current assets | 178,064,646 | 201,293,256 |
| Investments limited as to use | | |
| Funds held by trustee | 29,024,012 | 24,856,665 |
| Board designated | 272,094,558 | 249,323,910 |
| Total investments limited as to use | 301,118,570 | 274,180,575 |
| Property and equipment | | |
| Land and improvements | 42,272,883 | 40,456,478 |
| Buildings and fixed equipment | 435,102,445 | 431,960,815 |
| Movable equipment | 246,238,384 | 234,003,725 |
| | 723,613,712 | 706,421,018 |
| Less allowances for depreciation | 466,294,634 | 441,748,435 |
| | 257,319,078 | 264,672,583 |
| Construction in progress | 12,978,782 | 8,328,114 |
| Total property and equipment, net | 270,297,860 | 273,000,697 |
| Other assets | | |
| Due from Union Health Foundation, Inc. | 7,272,076 | 7,272,076 |
| Investment in joint ventures | 5,267,820 | 4,939,183 |
| Right-of-use assets under operating leases, net | 10,673,140 | 7,965,458 |
| Total other assets | 23,213,036 | 20,176,717 |
| Total assets | \$ 772,694,112 | \$ 768,651,245 |

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2024 AND 2023

| | 2024 | 2023 |
|---|----------------|----------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and other current liabilities | \$ 36,700,559 | \$ 41,815,093 |
| Salaries, wages, and related liabilities | 35,913,390 | 36,302,151 |
| Estimated third-party settlements | 847,125 | 21,775,817 |
| Current portion of long-term debt | 12,031,254 | 11,673,880 |
| Current portion of operating lease liabilities | 2,654,729 | 2,251,024 |
| Total current liabilities | 88,147,057 | 113,817,965 |
| Long-term liabilities | | |
| Long-term debt, less current portion | 237,364,441 | 248,748,505 |
| Operating lease liabilities, less current portion | 8,018,411 | 5,714,434 |
| Other long-term liabilities | 2,924,894 | 3,238,561 |
| Total long-term liabilities | 248,307,746 | 257,701,500 |
| Total liabilities | 336,454,803 | 371,519,465 |
| Net assets | | |
| Without donor restrictions | 426,134,877 | 387,480,059 |
| Noncontrolling interests in Union Hospital Therapy, LLC | 577,050 | 493,158 |
| Total net assets without donor restrictions | 426,711,927 | 387,973,217 |
| With donor restrictions | 9,527,382 | 9,158,563 |
| Total net assets | 436,239,309 | 397,131,780 |
| Total liabilities and net assets | \$ 772,694,112 | \$ 768,651,245 |

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2024 AND 2023

| | 2024 | 2023 |
|--|----------------|----------------|
| Operating revenue | | |
| Net patient service revenue | \$ 759,165,958 | \$ 714,680,432 |
| Other revenue | 23,966,674 | 35,311,008 |
| Total operating revenue | 783,132,632 | 749,991,440 |
| Operating expenses | | |
| Physician, mid-level, and other provider salaries and wages | 76,984,729 | 70,851,618 |
| Other salaries and wages | 176,227,501 | 163,375,488 |
| Employee benefits | 55,307,787 | 49,992,920 |
| Medical supplies and drugs | 175,123,626 | 154,360,307 |
| Physician services | 42,782,244 | 40,450,924 |
| Contract services | 106,664,523 | 96,987,137 |
| Rent and leases | 4,884,807 | 5,494,561 |
| Utilities, supplies, and other | 72,299,680 | 70,954,289 |
| Hospital assessment fee | 24,050,436 | 41,052,188 |
| Depreciation and amortization | 24,573,991 | 24,793,970 |
| Interest | 10,255,287 | 10,690,597 |
| Total operating expenses | 769,154,611 | 729,003,999 |
| Income from operations | 13,978,021 | 20,987,441 |
| Non-operating gains (losses) | | |
| Investment return, net | 25,535,769 | 34,251,301 |
| Other | 211,081 | (84,563) |
| Total non-operating gains | 25,746,850 | 34,166,738 |
| Excess of revenue over expenses | 39,724,871 | 55,154,179 |
| Net assets without donor restrictions | | |
| Distribution to non-controlling interests | (1,333,953) | (1,042,541) |
| Net assets released for property and equipment | 347,792 | -0- |
| Change in net assets without donor restrictions | 38,738,710 | 54,111,638 |
| Net assets with donor restrictions | | |
| Other changes in receivable from Union Health Foundation, Inc. | 716,611 | (2,548) |
| Net assets released for property and equipment | (347,792) | -0- |
| Change in net assets with donor restrictions | 368,819 | (2,548) |
| Change in net assets | 39,107,529 | 54,109,090 |
| Net assets | | |
| Beginning of year | 397,131,780 | 343,022,690 |
| End of year | \$ 436,239,309 | \$ 397,131,780 |

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2024 AND 2023

| | 2024 | 2023 |
|--|---------------|---------------|
| Operating activities | | |
| Change in net assets | \$ 39,107,529 | \$ 54,109,090 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation of property and equipment | 24,573,991 | 24,793,970 |
| Amortization of long-term debt issuance costs | 350,460 | 365,867 |
| Distribution to non-controlling interests | 1,333,953 | 1,042,541 |
| (Gain) loss on disposal of property and equipment | (1,846) | 13,722 |
| Net realized and unrealized gain on investments | (16,007,779) | (26,091,281) |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (10,133,844) | 11,378,839 |
| Other current and noncurrent assets | 9,321,341 | (15,917,976) |
| Accounts payable and other current liabilities | (6,235,177) | (11,871) |
| Salaries, wages, and related liabilities | (388,761) | (347,970) |
| Estimated third-party settlements | (26,077,276) | 5,293,035 |
| Other long-term liabilities | (313,667) | (320,729) |
| Net cash flows from operating activities | 15,528,924 | 54,307,237 |
| Investing activities | | |
| Purchases of property and equipment | (20,803,544) | (16,193,673) |
| Proceeds from sale of property and equipment | 54,879 | 21,876 |
| Purchase of investments | (12,916,707) | (10,014,735) |
| Proceeds from sale of investments | 2,806,240 | 55,638 |
| Net cash flows from investing activities | (30,859,132) | (26,130,894) |
| Financing activities | | |
| Payments on long-term debt | (11,377,150) | (10,851,084) |
| Distribution to non-controlling interests | (1,333,953) | (1,042,541) |
| Net cash flows from financing activities | (12,711,103) | (11,893,625) |
| Change in cash and cash equivalents | (28,041,311) | 16,282,718 |
| Cash and cash equivalents | | |
| Beginning of year | 75,677,503 | 59,394,785 |
| End of year | \$ 47,636,192 | \$ 75,677,503 |
| Reconciliation of cash and cash equivalents to the consolidated balance sheets | | |
| Cash and cash equivalents | \$ 46,580,987 | \$ 75,442,047 |
| Investments limited as to use | 1,055,205 | 235,456 |
| Total cash and cash equivalents | \$ 47,636,192 | \$ 75,677,503 |
| Noncash investing and financing activities | | |
| Purchases of property and equipment included in accounts payable | \$ 1,120,643 | \$ 998,619 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$ 9,904,827 | \$ 10,324,730 |

See accompanying notes to consolidated financial statements.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

1. ORGANIZATION

Nature of Operations

Union Health System, Inc. (UHS), an Indiana nonprofit corporation, is the sole member of Union Hospital, Inc. (the Corporation). UHS and the Corporation are each 50% members of Union Associated Physicians Clinic, LLC (UAPC). UHS, UAPC, and the Corporation are collectively referred to as the System. The System was formed in November 2009 to provide vision and strategic direction in the formation of a regional health care system to expand and improve the delivery of health care services in order to meet the health care needs of residents in the System's service area.

The Corporation is an Indiana not-for-profit corporation, which owns and operates Union Hospital (the Hospital), a 278 staffed-beds and regional referral center hospital located in Terre Haute, Indiana. The Hospital is a full-service, acute-care hospital with medical-surgical, obstetric, pediatric, coronary care, post-coronary care, intensive care, maximum care, and medical rehabilitation units. Additionally, as the largest hospital in west central Indiana, the Hospital is a referral center for such services as its newborn intensive care unit (Level II), open heart surgery, cardiac rehabilitation clinic, radiology, non-invasive cardiology services, cardiopulmonary services, and radiation therapy. The Hospital and its related consolidated entities provide comprehensive health care services to the residents of Terre Haute and the surrounding communities, west central Indiana, and east central Illinois through its acute, specialty care facilities, and physician medical practices.

UAPC is an Indiana, not-for-profit, limited liability company, which operates a multi-specialty physician clinic and consists of approximately 115 physicians and allied health professionals.

The consolidated financial statements include the accounts of UHS, the Corporation, Center for Occupational Health (COH), Union Hospital Therapy, LLC (UHT) and UAPC (collectively, the System). Union Hospital Clinton is a designated Medicare critical access hospital operating as a division of the Corporation. COH provides work related injury care and other occupational medicine services and is also a wholly owned tax-exempt subsidiary of the Corporation. All material intercompany accounts and transactions have been eliminated.

During 2014, UHT was formed for the purpose of providing physical, occupational, and speech therapy, and related rehabilitation services. The Corporation ownership interest in UHT is 51%. The Corporation maintains substantial participation in the operations of UHT in addition to an economic interest in UHT's financial position. The 49% non-controlling interest is owned by Clinical Management Solutions, LLC. All material intercompany accounts and transactions have been eliminated.

The System is also related to various organizations principally through overlapping board membership, which does not constitute control. These organizations include Union Health Foundation, Inc. (the Foundation), Union Hospital Health Services, Inc., and Visiting Nurse Association of the Wabash Valley, Inc. The majority of all fund-raising activities are conducted by the Foundation.

Accordingly, unrestricted gifts and bequests received without donor restrictions directly by the System are recorded as nonoperating gains. Restricted gifts and bequests received by the Foundation for the benefit of the Corporation are recorded by the Corporation as net assets with donor restrictions until expended by the System for their intended purpose.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, including money market deposit accounts within investments limited as to use. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value. The System maintains its cash in accounts, which at times may exceed federally insured limits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable, Net Patient Service Revenue and Estimated Third-Party Settlements

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

Patient accounts receivable are recognized at the net amount that management expects to be collected based on established collection history and review of individual balances. Amounts charged for goods and services that are not expected to be received representing contractual adjustments and implicit price concessions are recognized as a reduction of the related revenue. Management estimates an allowance for credit losses based on historical experience, the current economic environment, and management's expectations of future economic conditions based on reasonable and supportable forecasts. The System also applies adjustments for specific factors and current economic conditions, as needed, at each reporting date.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Management utilizes aging schedules for estimating expected credit losses. In evaluating loss rates, patient accounts receivable are pooled into categories based on days past due. Significantly aged receivables are evaluated individually by credit worthiness and any historical experience with the patients. Account balances are written off against the allowance when management deems the amount is uncollectible. Management has determined no allowance for credit losses is necessary at December 31, 2024 and 2023. Patient accounts receivable approximated \$89,478,000 as of January 1, 2023.

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

The method of reimbursement for the System is fee for service. The timing of revenue and recognition for healthcare services is transferred over time. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

Because all its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in the Financial Accounting Standards Board (the FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or net realizable value and principally valued using the average cost method.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Investments Limited as to Use

Investments limited as to use include investments set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes; and investments held by trustees under bond indenture agreements; and donor-restricted funds. Amounts that are required for obligations classified as current liabilities, and other amounts previously paid from operating cash that are to be reimbursed by the applicable funds, are reported in current assets.

Investments limited as to use are generally commingled for investment purposes and consist of common stocks, mutual funds, U.S. government obligations, money market mutual funds, money market deposit accounts, and private equity funds.

Investments limited as to use are stated at fair value on the consolidated balance sheets. Therefore, investment return, net includes interest, dividends, investment expenses, realized gains and losses, and unrealized gains and losses on investments as part of excess of revenue over expenses.

The fair value of assets is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The cost of securities sold is based on the specific identification method.

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

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows: land improvements 3 to 30 years, buildings 5 to 40 years, and equipment 3 to 25 years. The System's policy is to designate certain available net assets without donor restrictions for expansion and renovation.

The System periodically evaluates whether circumstances have occurred that would indicate whether the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, an estimate is made of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable in accordance with accounting standards.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are amortized using the bonds outstanding method, which approximates the amortization under the effective interest rate method and are included in interest expense in the accompanying consolidated statements of operations and changes in net assets. The unamortized debt issuance costs are included in the consolidated balance sheets as a reduction in related long-term debt.

Medical Malpractice Insurance

The System has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The System makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. The Act requires the System to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 in the annual aggregate.

The Act also requires the System to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The System has malpractice insurance through a captive insurance company up to the Act thresholds per occurrence and aggregate amounts. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The System makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The System also provides medical malpractice insurance for its employed physicians who practice in the state of Illinois with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the System's claim experience, an accrual for estimated malpractice claims costs was approximately \$1,547,000 and \$1,497,000 at December 31, 2024 and 2023, respectively. It is reasonably possible that this estimate could change materially in the near term.

Malpractice insurance coverage provided through the Fund and the captive insurance company is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Net Assets and Financial Statement Presentation

The System is required to report information regarding its financial position and operations according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based upon the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent the part of the net assets of the System that is not restricted by donor-imposed stipulations. Net assets with donor restrictions are those assets whose use by the System has been limited by donors primarily for a specified time period or purpose. When a donor restriction expires or is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released for property and equipment. Property and equipment donated to the System are recorded as additions to net assets with donor restrictions at their fair value at the date of receipt and as a transfer to net assets without donor restrictions when the assets are placed in service. There were no significant contributed nonfinancial assets during 2024 and 2023.

Net assets with donor restrictions include approximately \$7,272,000 of funds held by the Foundation for the benefit of the System at December 31, 2024 and 2023. These amounts represent planned contributions of property and equipment received on behalf of the System by the Foundation and other amounts the Foundation has granted to the System and are included within Due from Union Health Foundation Inc. on the consolidated balance sheets. Other miscellaneous funds are held as net assets with donor restrictions in the approximate amounts of \$2,255,000 and \$1,887,000 as of December 31, 2024 and 2023, respectively, and held for future capital improvements.

Health Insurance

The System's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. For the Corporation, the specific annual attachment point for an individual is \$360,000 with no policy period maximum. There is no aggregate limit on claims for the Corporation. For UAPC, the specific annual attachment point for an individual is \$325,000 with no lifetime maximum on claims. The maximum annual aggregate reimbursement under the policy is \$1,000,000 per year. Total health insurance expense for the Corporation was approximately \$19,961,000 and \$17,263,000 during 2024 and 2023, respectively. Total health insurance expense for UAPC was approximately \$12,413,000 and \$11,778,000 during 2024 and 2023, respectively. Health insurance expense for the Corporation and UAPC is included in employee benefits in the consolidated statements of operations and changes in net assets.

Income Taxes

UHS and the Corporation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. Effective January 1, 2018, UAPC was granted exemption from income taxes under Section 501(c)(3) as a not-for-profit limited liability company. Prior to receiving this exemption, UAPC was a limited liability company, whereby net taxable income is taxed directly to the members of the limited liability company. As such, UHS, the Corporation, and UAPC are generally exempt from income taxes. However, these entities are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by UHS, the Corporation, and UAPC, and recognize a tax liability if UHS, the Corporation, and UAPC have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by UHS, the Corporation, and UAPC, and has concluded that as of December 31, 2024 and 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. UHS, the Corporation, and UAPC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Filings are current through 2023. The impact of the subsidiaries' tax consequences is immaterial to these consolidated financial statements.

Operating Indicator

The System's operating indicator, income from operations, includes all unrestricted net income, gains and support, and expenses from System operations directly related to recurring and ongoing health care operations during the reporting period. The operating indicator excludes net investment return and gains and losses from investments in joint ventures deemed by management not to be directly related to providing health care services.

Performance Indicator

The System's performance indicator, excess of revenues over expenses, includes all changes in net assets without donor restrictions with exception of other changes in net assets without donor restrictions for distribution to non-controlling interests and excludes changes in net assets with donor restrictions for other changes in receivable from Union Health Foundation, Inc.

Reclassifications

Certain amounts from the 2023 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications did not impact previously reported net assets or changes in net assets.

Subsequent Events

The System has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which is April 22, 2025.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

3. NET PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The System believes that it is in compliance with all applicable laws and regulations.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For 2024 and 2023, adjustments were recognized due to changes in the System's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. As of December 31, 2024, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through December 31, 2020.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio basis, are recorded as bad debt expense.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

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

The composition of net patient service revenue by primary payor for 2024 and 2023 is as follows:

| | 2024 | 2023 |
|---------------------------------------|-----------------------|-----------------------|
| Medicare | \$ 292,356,613 | \$ 288,271,970 |
| Medicaid | 154,975,479 | 117,795,389 |
| Managed care and commercial insurance | 308,950,854 | 305,726,729 |
| Self-pay and other | 2,883,012 | 2,886,344 |
| | <u>\$ 759,165,958</u> | <u>\$ 714,680,432</u> |

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

| | 2024 | 2023 |
|--------------------------------|-----------------------|-----------------------|
| Inpatient services | \$ 812,327,103 | \$ 715,329,289 |
| Outpatient services | 1,577,864,357 | 1,507,966,082 |
| Physician practice services | 198,333,818 | 171,063,192 |
| | <u>2,588,525,278</u> | <u>2,394,358,563</u> |
| Less financial assistance | 9,847,708 | 9,024,803 |
| Less contractual adjustments | 1,766,205,086 | 1,628,583,251 |
| | <u>1,776,052,794</u> | <u>1,637,608,054</u> |
| | 812,472,484 | 756,750,509 |
| Less implied price concessions | 53,306,526 | 42,070,077 |
| | <u>\$ 759,165,958</u> | <u>\$ 714,680,432</u> |

For the years ended December 31, 2024 and 2023, substantially all of the net patient service revenue related to goods and services that transfer to the customer over time. The System grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of gross receivables and net revenue from patients and third-party payors for 2024 and 2023 follows:

| | Receivables | | Revenue | |
|---------------------------------------|-------------|-------------|-------------|-------------|
| | 2024 | 2023 | 2024 | 2023 |
| Medicare | 27% | 38% | 39% | 40% |
| Medicaid | 7% | 14% | 20% | 16% |
| Managed care and commercial insurance | 46% | 34% | 40% | 43% |
| Self-pay and other | 20% | 14% | 1% | 1% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

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

- *Medicare:* The System is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The System is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the System's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the System.
- *Medicaid:* The System is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The System is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- *Other:* The System has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the System under these arrangements is a discount from established charges and fee schedule payments.

The Centers for Medicare and Medicaid Services (CMS) has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to the System. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General or the United States Department of Justice. Therefore, the System is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the System's financial position, results of operations, and cash flows.

Financial Assistance, Community Benefit and Assistance to the Uninsured

The System provides care to patients regardless of their ability to pay. A patient qualifies for financial assistance based on certain established policies of the System. Essentially, these policies define financial assistance as those services for which no payment is anticipated, up to 300% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as revenue.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Financial assistance provided during 2024 and 2023, measured at established rates, was approximately \$9,848,000 and \$9,025,000, respectively. The System did not materially modify its financial assistance policy in 2024 or 2023. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of financial assistance. Of the System's total expenses reported during 2024 and 2023, an estimated \$2,926,000 and \$2,748,000, respectively, arose from providing services to charity patients. The estimated costs of providing financial assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses to gross patient service revenue.

Medicaid and Hospital Assessment Fee (HAF) and Healthy Indiana Plan (HIP) Programs

The System participates in the State of Indiana's HAF Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the hospital assessment fee expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims.

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2024 and 2023, the System recognized HAF and HIP program expense of approximately \$24,050,000 and \$41,052,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the consolidated statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of operations and changes in net assets.

4. INVESTMENTS LIMITED AS TO USE

All investments are considered trading securities by management. A description and the carrying value of the investments limited as to use by the Board of Directors is as follows as of December 31, 2024 and 2023:

| | 2024 | 2023 |
|-------------------------------|-----------------------|-----------------------|
| Common stocks | \$ 2,734 | \$ 1,146 |
| Mutual funds | 249,885,647 | 226,417,988 |
| U.S. Government obligations | 21,283,430 | 23,042,950 |
| Money market mutual funds | 19,765,915 | 14,086,987 |
| Money market deposit accounts | 1,055,205 | 235,456 |
| Private equity funds | 9,125,639 | 10,396,048 |
| | <u>\$ 301,118,570</u> | <u>\$ 274,180,575</u> |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Investment return, net consists of the following:

| | 2024 | 2023 |
|------------------------|----------------------|----------------------|
| Interest and dividends | \$ 9,527,990 | \$ 8,160,020 |
| Realized gains | 2,806,240 | 55,640 |
| Unrealized gains | 13,201,539 | 26,035,641 |
| | <u>\$ 25,535,769</u> | <u>\$ 34,251,301</u> |

5. FAIR VALUE MEASUREMENTS

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2024 and 2023.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
 - *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the System are deemed to be actively traded.
 - *US Government obligations*: Valued based upon the active market on which the individual securities are traded.
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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

- *Money market mutual funds:* Valued based at the subscription and redemption activity at a \$1 stable NAV. However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities.
- *Private equity funds:* Consist of investments in a variety of private companies valued at the NAV of units as reported by the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the NAV of the fund and, consequently, the fair value of the System's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the System were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

Assets measured at fair value on a recurring basis as of December 31, 2024 and 2023 are as follows:

| | December 31, 2024 | | | |
|-------------------------------------|-------------------|----------------|---------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments limited as to use | | | | |
| Common stocks | | | | |
| Information technology | \$ 2,734 | \$ 2,734 | \$ -0- | \$ -0- |
| Mutual funds | | | | |
| Fixed income funds | 65,426,275 | 65,426,275 | -0- | -0- |
| Large cap funds | 115,386,178 | 115,386,178 | -0- | -0- |
| Small cap funds | 5,058,790 | 5,058,790 | -0- | -0- |
| International funds | 64,014,404 | 64,014,404 | -0- | -0- |
| Total mutual funds | 249,885,647 | 249,885,647 | -0- | -0- |
| U.S. Government obligations | 21,283,430 | 21,283,430 | -0- | -0- |
| Money market mutual funds | 19,765,915 | -0- | 19,765,915 | -0- |
| | 290,937,726 | \$ 271,171,811 | \$ 19,765,915 | \$ -0- |
| Money market deposit accounts | 1,055,205 | | | |
| Private equity funds * | 9,125,639 | | | |
| Total investments limited as to use | \$ 301,118,570 | | | |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

| | December 31, 2023 | | | |
|-------------------------------------|-------------------|----------------|---------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments limited as to use | | | | |
| Common stocks | | | | |
| Information technology | \$ 1,146 | \$ 1,146 | \$ -0- | \$ -0- |
| Mutual funds | | | | |
| Fixed income funds | 62,930,181 | 62,930,181 | -0- | -0- |
| Large cap funds | 97,970,608 | 97,970,608 | -0- | -0- |
| Small cap funds | 4,583,323 | 4,583,323 | -0- | -0- |
| International funds | 60,933,876 | 60,933,876 | -0- | -0- |
| Total mutual funds | 226,417,988 | 226,417,988 | -0- | -0- |
| U.S. Government obligations | 23,042,950 | 23,042,950 | -0- | -0- |
| Money market mutual funds | 14,086,987 | -0- | 14,086,987 | -0- |
| | 263,549,071 | \$ 249,462,084 | \$ 14,086,987 | \$ -0- |
| Money market deposit accounts | 235,456 | | | |
| Private equity funds * | 10,396,048 | | | |
| Total investments limited as to use | \$ 274,180,575 | | | |

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

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

Fair Value of Investments in Entities that Use NAV

The following table summarizes investments measured at fair value based on NAV per share as of December 31, 2024 and 2023.

| Investment | Fair Value | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|----------------------|--------------|---------------|----------------------|----------------------|--------------------------|
| | 2024 | 2023 | | | |
| Private equity funds | \$ 9,125,639 | \$ 10,396,048 | None | Quarterly | 90 Days |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

6. LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2024 and 2023:

| | 2024 | 2023 |
|--|-----------------------|-----------------------|
| Mortgage note payable (project 073-22274) in the original amount of approximately \$266,600,000 bearing fixed interest on the unpaid balance at 3.33%, payable in monthly installments of principal and interest of approximately \$1,310,000, maturing on September 1, 2041, collateralized by property and equipment with a net book value of approximately \$270,298,000 as of December 31, 2024. | \$ 200,933,933 | \$ 209,807,729 |
| Mortgage note payable (project 073-22333) in the original amount of approximately \$60,600,000 bearing fixed interest on the unpaid balance at 2.28%, payable in monthly installments of principal and interest of approximately \$307,000, maturing on September 1, 2041, collateralized by property and equipment with a net book value of approximately \$270,298,000 as of December 31, 2024. | 51,014,449 | 53,502,533 |
| Other | 532,547 | 547,817 |
| Total long-term debt | 252,480,929 | 263,858,079 |
| Less current portion | 12,031,254 | 11,673,880 |
| Less unamortized debt issue costs | 3,085,234 | 3,435,694 |
| | <u>\$ 237,364,441</u> | <u>\$ 248,748,505</u> |

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

| Year Ending December 31, | |
|-----------------------------|-----------------------|
| 2025 | \$ 12,031,254 |
| 2026 | 12,056,907 |
| 2027 | 12,436,590 |
| 2028 | 12,828,462 |
| 2029 | 13,232,925 |
| Thereafter | 189,894,791 |
| | <u>\$ 252,480,929</u> |

During December 2020, the System financed the purchase of several properties, of which the System was leasing space, with an approximate \$60,600,000 mortgage loan insured by the U.S. Department of Housing and Urban Development (HUD), authorized pursuant to Section 242 of the National Housing Act and the corresponding Regulations issued thereunder. The lender of this mortgage is Jones Lang LaSalle Multifamily, LLC. The agreement has monthly principal and interest payments of approximately \$307,000 from February 2021 through September 2041.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

During August 2016, the System refinanced outstanding debt (Series 2011, 2007, 1993, and 2014A bonds) with an approximate \$266,600,000 mortgage loan insured by the U.S. Department of Housing and Urban Development (HUD), authorized pursuant to Section 242 of the National Housing Act and the corresponding Regulations issued thereunder. The lender of this mortgage is Jones Lang LaSalle Multifamily, LLC. The agreement has monthly principal and interest payments of approximately \$1,310,000 from September 2016 through September 2041.

The System is also required to meet certain financial covenants. The System believes it is in compliance with all covenants as of December 31, 2024 and 2023.

7. LEASES

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

The System has operating leases for medical offices and equipment. Leasing arrangements require fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The System's lease agreements do not contain any material restrictive covenants. The leases have remaining terms through December 2032.

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

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are rather expensed on a straight-line basis over the lease term. The System has short-term leases for medical offices and equipment.

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

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

The components of the System's lease cost, right-of-use assets and lease liabilities as of and for the year ended December 31, 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|----------------------|---------------------|
| Lease cost | | |
| Operating lease cost | \$ 2,773,440 | \$ 2,845,496 |
| Short-term lease cost | 2,111,367 | 2,649,065 |
| Total lease cost | <u>\$ 4,884,807</u> | <u>\$ 5,494,561</u> |
| Right-of-use assets | | |
| Operating lease assets, net | \$ 10,673,140 | \$ 7,965,458 |
| Lease liabilities | | |
| Operating lease liabilities, current | \$ 2,654,729 | \$ 2,251,024 |
| Operating lease liabilities, noncurrent | 8,018,411 | 5,714,434 |
| Total lease liabilities | <u>\$ 10,673,140</u> | <u>\$ 7,965,458</u> |

Additional information regarding cash payments under the System's operating and finance leases during 2024 and 2023, as well as the inputs used in determining the ROU assets and liabilities at December 31, 2024 and 2023, are as follows:

| | 2024 | 2023 |
|--|--------------|--------------|
| Cash paid for amount included in measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 2,773,440 | \$ 2,845,496 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ 4,987,325 | \$ 4,017,268 |
| Weighted-average remaining lease term - operating leases | 4.6 years | 5.5 years |
| Weighted-average discount rate - operating leases | 4.9% | 4.7% |

Future payments of lease liabilities as of December 31, 2024 are as follows:

| Year Ending December 31, | |
|------------------------------------|----------------------|
| 2025 | \$ 3,123,588 |
| 2026 | 2,812,843 |
| 2027 | 2,779,024 |
| 2028 | 1,668,919 |
| 2029 | 679,777 |
| Thereafter | 834,255 |
| Total lease payments | 11,898,406 |
| Less interest | (1,225,266) |
| Present value of lease liabilities | <u>\$ 10,673,140</u> |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

8. NET ASSETS

Net assets consist of the following as of December 31, 2024 and 2023:

| | 2024 | 2023 |
|---|----------------|----------------|
| Net assets without donor restrictions | | |
| Undesignated | \$ 154,040,319 | \$ 138,156,149 |
| Board designated primarily for future capital needs | 272,094,558 | 249,323,910 |
| Noncontrolling interests in Union Hospital Therapy, LLC | 577,050 | 493,158 |
| Total net assets without donor restrictions | 426,711,927 | 387,973,217 |
| Net assets with donor restrictions | | |
| Subject to expenditure for specific purpose | | |
| Capital items | 2,255,306 | 1,886,487 |
| Funds held by Foundation for program expenditures | 7,272,076 | 7,272,076 |
| Total net assets with donor restrictions | 9,527,382 | 9,158,563 |
| Total net assets | \$ 436,239,309 | \$ 397,131,780 |

The Board of Directors of the System established an operating reserve with the objective of setting funds aside to be drawn in the event of financial distress, immediate liquidity needs, or to fund future capital needs.

9. NONCONTROLLING INTEREST

The following table depicts the changes in consolidated net assets attributable to the controlling interest of the Corporation and the 49% non-controlling interest Clinical Management Solutions, LLC holds in UHT.

| | Controlling Interest | Noncontrolling Interest | Total |
|---|----------------------|-------------------------|----------------|
| Balance December 31, 2022 | \$ 333,278,981 | \$ 582,598 | \$ 333,861,579 |
| Excess of revenue over expenses | 54,201,078 | 953,101 | 55,154,179 |
| Net assets without donor restrictions | -0- | (1,042,541) | (1,042,541) |
| Change in net assets without donor restrictions | 54,201,078 | (89,440) | 54,111,638 |
| Balance December 31, 2023 | \$ 387,480,059 | \$ 493,158 | \$ 387,973,217 |
| Excess of revenue over expenses | 38,307,026 | 1,417,845 | 39,724,871 |
| Net assets without donor restrictions | 347,792 | (1,333,953) | (986,161) |
| Change in net assets without donor restrictions | 38,654,818 | 83,892 | 38,738,710 |
| Balance December 31, 2024 | \$ 426,134,877 | \$ 577,050 | \$ 426,711,927 |

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

10. AFFILIATED ENTITY AND RELATED PARTY TRANSACTIONS

The Corporation provided management and other services for the Foundation and other related organizations for the years ended December 31, 2024 and 2023. These amounts are immaterial to the consolidated financial statements as a whole. In addition, the Corporation received contributions from the Foundation for the years ended December 31, 2024 and 2023 that were immaterial to the consolidated financial statements. These amounts are recorded within other revenue in the consolidated statements of operations and changes in net assets.

UAPC participates in a joint venture, Oncology Services Group, LLC (OSG). The Corporation contracts with OSG to provide staffing related to oncology and chemotherapy. These expenses totaled approximately \$3,116,000 and \$3,000,000 for the years ended December 31, 2024 and 2023, respectively, and are included in contract services in the consolidated statements of operations and changes in net assets. At December 31, 2024 and 2023, the Corporation had a receivable from OSG in the amount of approximately \$6,000 and \$-0-, respectively. Balances as of December 31, 2024 and 2023 are reflected in accounts payable and other current liabilities in the consolidated balance sheets.

11. INVESTMENTS IN JOINT VENTURES

The Corporation is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as means to comply with the Corporation's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes 14 hospitals as of December 31, 2024 and 2023. While the Corporation's ownership percentage is approximately 7% as of December 31, 2024 and 2023, the investment in THRRRG is accounted for under the equity method due to the Corporation's ability to exercise significant influence. The Corporation's investment in THRRRG amounts to approximately \$4,746,000 as of December 31, 2024 and 2023. During 2024 and 2023, the share of income or loss was not significant and there were no contributions to THRRRG or distributions from THRRRG.

The Corporation has ownership interest in other joint ventures accounted for under the equity method, the effects of which are immaterial to the consolidated financial statements as a whole. The interest is recorded in investments in joint ventures on the consolidated balance sheets and the Corporation's gain on its investment in these joint ventures are recorded in other non-operating gains (losses) on the consolidated statements of operations and changes in net assets. OSG, which is reflected in Note 11, is considered to have immaterial effects as noted herein.

12. POST RETIREMENT BENEFITS

The Corporation has a 403(b) defined contribution plan, which includes a 50% employer match up to 6% of employee deferrals in addition to an employer discretionary add-on of 1.67% for the years ended December 31, 2024 and 2023. The related contributions for the plan approximated \$5,061,000 and \$4,630,000 for the years ended December 31, 2024 and 2023, respectively. UAPC also has a 401(k) discretionary defined contribution plan for which contributions approximated \$884,000 and \$692,000 during the years ended December 31, 2024 and 2023, respectively.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

13. COMMITMENTS AND CONTINGENCIES

The System is involved in other litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the System's financial position or results of operations, changes in net assets, and cash flows.

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated balance sheet date, comprise the following:

| | 2024 | 2023 |
|---|-----------------------|-----------------------|
| Financial assets | | |
| Cash and cash equivalents | \$ 46,580,987 | \$ 75,442,047 |
| Patient accounts receivable, net | 88,233,156 | 78,099,312 |
| Estimated third-party settlements | 4,301,459 | -0- |
| Other accounts receivable due within one year | 5,396,706 | 17,385,858 |
| Total financial assets | <u>\$ 144,512,308</u> | <u>\$ 170,927,217</u> |

As a part of the System's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System periodically invests excess cash in investments. The System does not intend to spend from the board designated investments, though these amounts could be made available, if necessary.

15. EXPENSES BY BOTH NATURE AND FUNCTION

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the System. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization and interest, which are allocated based on square footage; salaries and wages, which are allocated based on estimates of time and effort; and employee benefits, which are allocated based on a percentage of salaries and wages. The remaining operating expenses below were allocated based on an identified percentage developed through the System's analysis of indirect cost. Although the methods used were appropriate, alternative methods may provide different results. Expenses related to providing these services for the years ended December 31, 2024 and 2023 were as follows:

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

| | 2024 | | |
|---|------------------------|-----------------------------|-----------------------|
| | Healthcare Services | Administrative & General | Total |
| Physician, mid-level, and other provider salaries and wages | \$ 64,711,194 | \$ 12,273,535 | \$ 76,984,729 |
| Other salaries and wages | 148,131,873 | 28,095,628 | 176,227,501 |
| Employee benefits | 46,490,168 | 8,817,619 | 55,307,787 |
| Medical supplies and drugs | 175,123,626 | -0- | 175,123,626 |
| Physician services | 35,961,549 | 6,820,695 | 42,782,244 |
| Contract services | 89,659,193 | 17,005,330 | 106,664,523 |
| Rent and leases | 4,106,031 | 778,776 | 4,884,807 |
| Utilities, supplies, and other | 60,773,074 | 11,526,606 | 72,299,680 |
| Hospital assessment fee | 24,050,436 | -0- | 24,050,436 |
| Depreciation and amortization | 20,656,205 | 3,917,786 | 24,573,991 |
| Interest | 8,620,305 | 1,634,982 | 10,255,287 |
| | <u>\$ 678,283,654</u> | <u>\$ 90,870,957</u> | <u>\$ 769,154,611</u> |

| | 2023 | | |
|---|------------------------|-----------------------------|-----------------------|
| | Healthcare Services | Administrative & General | Total |
| Physician, mid-level, and other provider salaries and wages | \$ 59,993,725 | \$ 10,857,893 | \$ 70,851,618 |
| Other salaries and wages | 138,338,466 | 25,037,022 | 163,375,488 |
| Employee benefits | 42,331,588 | 7,661,332 | 49,992,920 |
| Medical supplies and drugs | 154,360,307 | -0- | 154,360,307 |
| Physician services | 34,251,887 | 6,199,037 | 40,450,924 |
| Contract services | 82,124,020 | 14,863,117 | 96,987,137 |
| Rent and leases | 4,652,529 | 842,032 | 5,494,561 |
| Utilities, supplies, and other | 60,080,662 | 10,873,627 | 70,954,289 |
| Hospital assessment fee | 41,052,188 | -0- | 41,052,188 |
| Depreciation and amortization | 20,994,335 | 3,799,635 | 24,793,970 |
| Interest | 9,052,281 | 1,638,316 | 10,690,597 |
| | <u>\$ 647,231,988</u> | <u>\$ 81,772,011</u> | <u>\$ 729,003,999</u> |

16. BUSINESS COMBINATION

During September 2023, the Corporation entered into an asset purchase agreement for \$99,500,000 to acquire certain assets from Terre Haute Regional Hospital, L.P., and Regional Hospital Healthcare Partners, LLC, (collectively THR). The purchase encompasses various healthcare facilities and related assets located in Terre Haute, Indiana, contributing to the expansion of the System's operational footprint in the region.

The transaction, structured as an asset purchase, includes the acquisition of a 278-bed acute care hospital, multiple specialty physician group practices, and associated real property and equipment. The agreed purchase consideration is structured as a combination of cash payments and the assumption of specified liabilities, reflecting the ongoing commitments towards the acquired operations. This acquisition is part of Union's strategic initiative to enhance healthcare service offerings and operational capabilities within its network. The assets acquired and liabilities assumed will be recognized at their preliminary fair values at the acquisition date, anticipated in June or July 2025. UHS is currently undergoing due diligence and the transaction is subject to regulatory approval, which has not occurred as of the date the consolidated financial statements are available to be issued. The System plans to finance the purchase of THR using a bridge loan, which it intends to refinance in 2025 with a new loan guaranteed by HUD.

SUPPLEMENTARY INFORMATION

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2024

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|--------------|------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 43,338,392 | \$ 3,242,595 | \$ -0- | \$ 46,580,987 |
| Patient accounts receivable, net | 76,961,432 | 11,271,724 | -0- | 88,233,156 |
| Estimated third-party settlements | 5,148,584 | -0- | -0- | 5,148,584 |
| Inventories | 12,277,965 | 596,702 | -0- | 12,874,667 |
| Prepaid expenses and other current assets | 23,750,657 | 1,476,595 | -0- | 25,227,252 |
| Total current assets | 161,477,030 | 16,587,616 | -0- | 178,064,646 |
| Investments limited as to use | | | | |
| Funds held by trustee | 29,024,012 | -0- | -0- | 29,024,012 |
| Board designated | 272,094,558 | -0- | -0- | 272,094,558 |
| Total investments limited as to use | 301,118,570 | -0- | -0- | 301,118,570 |
| Property and equipment | | | | |
| Land and improvements | 42,272,883 | -0- | -0- | 42,272,883 |
| Buildings and fixed equipment | 435,102,445 | -0- | -0- | 435,102,445 |
| Movable equipment | 232,591,915 | 13,646,469 | -0- | 246,238,384 |
| | 709,967,243 | 13,646,469 | -0- | 723,613,712 |
| Less allowances for depreciation | 455,475,179 | 10,819,455 | -0- | 466,294,634 |
| | 254,492,064 | 2,827,014 | -0- | 257,319,078 |
| Construction in progress | 12,587,390 | 391,392 | -0- | 12,978,782 |
| Total property and equipment, net | 267,079,454 | 3,218,406 | -0- | 270,297,860 |
| Other assets | | | | |
| Due from Union Health Foundation, Inc. | 7,272,076 | -0- | -0- | 7,272,076 |
| Investment in joint ventures | 4,995,601 | 272,219 | -0- | 5,267,820 |
| Right-of-use assets under operating leases, net | 10,673,140 | -0- | -0- | 10,673,140 |
| Total other assets | 22,940,817 | 272,219 | -0- | 23,213,036 |
| Total assets | \$ 752,615,871 | \$ 20,078,241 | \$ -0- | \$ 772,694,112 |

See Report of Independent Auditors on pages 1 through 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2024

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|--------------|------------------------|
| Liabilities and net assets | | | | |
| Current liabilities | | | | |
| Accounts payable and other current liabilities | \$ 34,400,452 | \$ 2,300,107 | \$ -0- | \$ 36,700,559 |
| Salaries, wages, and related liabilities | 24,972,403 | 10,940,987 | -0- | 35,913,390 |
| Estimated third party settlements | 847,125 | -0- | -0- | 847,125 |
| Current portion of long-term debt | 12,031,254 | -0- | -0- | 12,031,254 |
| Current portion of operating lease liabilities | 2,654,729 | -0- | -0- | 2,654,729 |
| Total current liabilities | 74,905,963 | 13,241,094 | -0- | 88,147,057 |
| Long-term liabilities | | | | |
| Long-term debt, less current portion | 237,364,441 | -0- | -0- | 237,364,441 |
| Operating lease liabilities, less current portion | 8,018,411 | -0- | -0- | 8,018,411 |
| Other long-term liabilities | 2,924,894 | -0- | -0- | 2,924,894 |
| Total long-term liabilities | 248,307,746 | -0- | -0- | 248,307,746 |
| Total liabilities | 323,213,709 | 13,241,094 | -0- | 336,454,803 |
| Net assets | | | | |
| Without donor restrictions | 419,297,730 | 6,837,147 | -0- | 426,134,877 |
| Noncontrolling interests in Union Hospital Therapy, LLC | 577,050 | -0- | -0- | 577,050 |
| Total net assets without donor restrictions | 419,874,780 | 6,837,147 | -0- | 426,711,927 |
| With donor restrictions | 9,527,382 | -0- | -0- | 9,527,382 |
| Total net assets | 429,402,162 | 6,837,147 | -0- | 436,239,309 |
| Total liabilities and net assets | \$ 752,615,871 | \$ 20,078,241 | \$ -0- | \$ 772,694,112 |

See Report of Independent Auditors on pages 1 through 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2023

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|---------------|------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 66,394,247 | \$ 9,047,800 | \$ -0- | \$ 75,442,047 |
| Patient accounts receivable, net | 72,565,344 | 5,533,968 | -0- | 78,099,312 |
| Inventories | 10,855,001 | 716,467 | -0- | 11,571,468 |
| Prepaid expenses and other current assets | 35,373,674 | 806,755 | -0- | 36,180,429 |
| Total current assets | 185,188,266 | 16,104,990 | -0- | 201,293,256 |
| Investments limited as to use | | | | |
| Funds held by trustee | 24,856,665 | -0- | -0- | 24,856,665 |
| Board designated | 249,323,910 | -0- | -0- | 249,323,910 |
| Total investments limited as to use | 274,180,575 | -0- | -0- | 274,180,575 |
| Property and equipment | | | | |
| Land and improvements | 40,456,478 | -0- | -0- | 40,456,478 |
| Buildings and fixed equipment | 431,960,815 | -0- | -0- | 431,960,815 |
| Movable equipment | 220,995,370 | 13,008,355 | -0- | 234,003,725 |
| | 693,412,663 | 13,008,355 | -0- | 706,421,018 |
| Less allowances for depreciation | 431,654,746 | 10,093,689 | -0- | 441,748,435 |
| | 261,757,917 | 2,914,666 | -0- | 264,672,583 |
| Construction in progress | 8,328,114 | -0- | -0- | 8,328,114 |
| Total property and equipment, net | 270,086,031 | 2,914,666 | -0- | 273,000,697 |
| Other assets | | | | |
| Due from Union Health Foundation, Inc. | 7,272,076 | -0- | -0- | 7,272,076 |
| Investment in joint ventures | 4,995,601 | (56,418) | -0- | 4,939,183 |
| Right-of-use assets under operating leases, net | 7,965,458 | -0- | -0- | 7,965,458 |
| | 20,233,135 | (56,418) | -0- | 20,176,717 |
| Total assets | <u>\$ 749,688,007</u> | <u>\$ 18,963,238</u> | <u>\$ -0-</u> | <u>\$ 768,651,245</u> |

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2023

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|---------------|------------------------|
| Liabilities and net assets | | | | |
| Current liabilities | | | | |
| Accounts payable and other current liabilities | \$ 40,091,695 | \$ 1,723,398 | \$ -0- | \$ 41,815,093 |
| Salaries, wages, and related liabilities | 24,843,867 | 11,458,284 | -0- | 36,302,151 |
| Estimated third party settlements | 21,775,817 | -0- | -0- | 21,775,817 |
| Current portion of long-term debt | 11,673,880 | -0- | -0- | 11,673,880 |
| Current portion of operating lease liabilities | 2,251,024 | -0- | -0- | 2,251,024 |
| Total current liabilities | 100,636,283 | 13,181,682 | -0- | 113,817,965 |
| Long-term liabilities | | | | |
| Long-term debt, less current portion | 248,748,505 | -0- | -0- | 248,748,505 |
| Operating lease liabilities, less current portion | 5,714,434 | -0- | -0- | 5,714,434 |
| Other long-term liabilities | 3,238,561 | -0- | -0- | 3,238,561 |
| Total long-term liabilities | 257,701,500 | -0- | -0- | 257,701,500 |
| Total liabilities | 358,337,783 | 13,181,682 | -0- | 371,519,465 |
| Net assets | | | | |
| Without donor restrictions | 381,698,503 | 5,781,556 | -0- | 387,480,059 |
| Noncontrolling interests in Union Hospital Therapy, LLC | 493,158 | -0- | -0- | 493,158 |
| Total net assets without donor restrictions | 382,191,661 | 5,781,556 | -0- | 387,973,217 |
| With donor restrictions | 9,158,563 | -0- | -0- | 9,158,563 |
| Total net assets | 391,350,224 | 5,781,556 | -0- | 397,131,780 |
| Total liabilities and net assets | <u>\$ 749,688,007</u> | <u>\$ 18,963,238</u> | <u>\$ -0-</u> | <u>\$ 768,651,245</u> |

See Report of Independent Auditors on pages 1 through 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2024

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|--------------|------------------------|
| Operating revenue | | | | |
| Net patient service revenue | \$ 705,048,804 | \$ 54,117,154 | \$ -0- | \$ 759,165,958 |
| Other revenue | 21,486,594 | 16,793,444 | (14,313,364) | 23,966,674 |
| Total operating revenue | 726,535,398 | 70,910,598 | (14,313,364) | 783,132,632 |
| Operating expenses | | | | |
| Physician, mid-level, and other provider salaries and wages | 31,164,652 | 45,820,077 | -0- | 76,984,729 |
| Other salaries and wages | 146,036,484 | 30,191,017 | -0- | 176,227,501 |
| Employee benefits | 40,184,217 | 15,123,570 | -0- | 55,307,787 |
| Medical supplies and drugs | 162,668,200 | 12,455,426 | -0- | 175,123,626 |
| Physician services | 42,782,244 | -0- | -0- | 42,782,244 |
| Contract services | 98,056,171 | 17,765,330 | (9,156,978) | 106,664,523 |
| Rent and leases | 4,359,232 | 5,621,467 | (5,095,892) | 4,884,807 |
| Utilities, supplies, and other | 63,963,188 | 8,396,986 | (60,494) | 72,299,680 |
| Hospital assessment fee | 24,050,436 | -0- | -0- | 24,050,436 |
| Depreciation and amortization | 23,824,541 | 749,450 | -0- | 24,573,991 |
| Interest | 10,255,156 | 131 | -0- | 10,255,287 |
| Total operating expenses | 647,344,521 | 136,123,454 | (14,313,364) | 769,154,611 |
| Income (loss) from operations | 79,190,877 | (65,212,856) | -0- | 13,978,021 |
| Non-operating gains (losses) | | | | |
| Investment return, net | 25,535,536 | 233 | -0- | 25,535,769 |
| Other | (752,919) | 964,000 | -0- | 211,081 |
| Total non-operating gains (losses) | 24,782,617 | 964,233 | -0- | 25,746,850 |
| Excess of revenue over (under) expenses | \$ 103,973,494 | \$ (64,248,623) | \$ -0- | \$ 39,724,871 |

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2024

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|---------------|------------------------|
| Net assets without donor restrictions | | | | |
| Distribution to non-controlling interests | \$ (1,333,953) | \$ -0- | \$ -0- | \$ (1,333,953) |
| Transfers for property and equipment additions | 347,792 | -0- | -0- | 347,792 |
| Transfers between Union Hospital, Inc. and Union Associated Physician's Clinic | (65,304,214) | 65,304,214 | -0- | -0- |
| Change in net assets without donor restrictions | 37,683,119 | 1,055,591 | -0- | 38,738,710 |
| Net assets with donor restrictions | | | | |
| Other changes in receivable from Union Health Foundation, Inc. | 716,611 | -0- | -0- | 716,611 |
| Net assets released for property and equipment | (347,792) | -0- | -0- | (347,792) |
| Change in net assets with donor restrictions | 368,819 | -0- | -0- | 368,819 |
| Change in net assets | 38,051,938 | 1,055,591 | -0- | 39,107,529 |
| Net assets | | | | |
| Beginning of year | 391,350,224 | 5,781,556 | -0- | 397,131,780 |
| End of year | <u>\$ 429,402,162</u> | <u>\$ 6,837,147</u> | <u>\$ -0-</u> | <u>\$ 436,239,309</u> |

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UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2023

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|--------------|------------------------|
| Operating revenue | | | | |
| Net patient service revenue | \$ 661,340,266 | \$ 53,340,166 | \$ -0- | \$ 714,680,432 |
| Other revenue | 32,143,657 | 16,774,024 | (13,606,673) | 35,311,008 |
| Total operating revenue | 693,483,923 | 70,114,190 | (13,606,673) | 749,991,440 |
| Operating expenses | | | | |
| Physician, mid-level, and other provider salaries and wages | 28,111,951 | 42,739,667 | -0- | 70,851,618 |
| Other salaries and wages | 135,610,814 | 27,764,674 | -0- | 163,375,488 |
| Employee benefits | 36,012,059 | 13,980,861 | -0- | 49,992,920 |
| Medical supplies and drugs | 142,490,271 | 11,870,036 | -0- | 154,360,307 |
| Physician services | 40,450,924 | -0- | -0- | 40,450,924 |
| Contract services | 90,241,361 | 15,216,471 | (8,470,695) | 96,987,137 |
| Rent and leases | 4,855,526 | 5,716,063 | (5,077,028) | 5,494,561 |
| Utilities, supplies, and other | 62,730,778 | 8,282,461 | (58,950) | 70,954,289 |
| Hospital assessment fee | 41,052,188 | -0- | -0- | 41,052,188 |
| Depreciation and amortization | 24,078,538 | 715,432 | -0- | 24,793,970 |
| Interest | 10,690,597 | -0- | -0- | 10,690,597 |
| Total operating expenses | 616,325,007 | 126,285,665 | (13,606,673) | 729,003,999 |
| Income (loss) from operations | 77,158,916 | (56,171,475) | -0- | 20,987,441 |
| Non-operating gains (losses) | | | | |
| Investment return, net | 34,251,129 | 172 | -0- | 34,251,301 |
| Other | (166,163) | 81,600 | -0- | (84,563) |
| Total non-operating gains (losses) | 34,084,966 | 81,772 | -0- | 34,166,738 |
| Excess of revenue over (under) expenses | \$ 111,243,882 | \$ (56,089,703) | \$ -0- | \$ 55,154,179 |

See Report of Independent Auditors on pages 1 through 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2023

| | Union Hospital, Inc. and Subsidiaries | Union Associated Physician's Clinic | Eliminations | Union Health System |
|---|---|---|---------------|------------------------|
| Net assets without donor restrictions | | | | |
| Distribution to non-controlling interests | \$ (1,042,541) | \$ -0- | \$ -0- | \$ (1,042,541) |
| Transfers between Union Hospital, Inc. and Union Associated Physician's Clinic | (57,858,541) | 57,858,541 | -0- | -0- |
| Change in net assets without donor restrictions | 52,342,800 | 1,768,838 | -0- | 54,111,638 |
| Net assets with donor restrictions | | | | |
| Other changes in receivable from Union Health Foundation, Inc. | (2,548) | -0- | -0- | (2,548) |
| Change in net assets | 52,340,252 | 1,768,838 | -0- | 54,109,090 |
| Net assets | | | | |
| Beginning of year | 339,009,972 | 4,012,718 | -0- | 343,022,690 |
| End of year | <u>\$ 391,350,224</u> | <u>\$ 5,781,556</u> | <u>\$ -0-</u> | <u>\$ 397,131,780</u> |

See Report of Independent Auditors on pages 1 through 3.

UNION HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2024

| | Union Hospital Terre Haute | Union Hospital Clinton | Total Union Hospital, Inc. | COH | UHT, LLC | Eliminations | Total Union Hospital, Inc. and Subsidiaries |
|---|----------------------------------|------------------------------|----------------------------------|--------------|--------------|----------------|--|
| Operating revenue | | | | | | | |
| Net patient service revenue | \$ 672,916,715 | \$ 30,365,877 | \$ 703,282,592 | \$ 1,766,212 | \$ -0- | \$ -0- | \$ 705,048,804 |
| Other revenue | 21,643,661 | 1,159,395 | 22,803,056 | -0- | 11,520,542 | (12,837,004) | 21,486,594 |
| Total operating revenue | 694,560,376 | 31,525,272 | 726,085,648 | 1,766,212 | 11,520,542 | (12,837,004) | 726,535,398 |
| Operating expenses | | | | | | | |
| Physician, mid-level, and other provider salaries and wages | 24,268,869 | 233,754 | 24,502,623 | -0- | 6,662,029 | -0- | 31,164,652 |
| Other salaries and wages | 137,664,407 | 8,372,077 | 146,036,484 | -0- | -0- | -0- | 146,036,484 |
| Employee benefits | 36,885,546 | 2,191,734 | 39,077,280 | -0- | 1,106,937 | -0- | 40,184,217 |
| Medical supplies and drugs | 160,730,761 | 1,748,389 | 162,479,150 | 189,050 | -0- | -0- | 162,668,200 |
| Physician services | 39,976,798 | 2,805,446 | 42,782,244 | -0- | -0- | -0- | 42,782,244 |
| Contract services | 94,141,192 | 3,221,284 | 97,362,476 | 1,378,338 | 631,819 | (1,316,462) | 98,056,171 |
| Rent and leases | 4,060,748 | 296,072 | 4,356,820 | 2,412 | -0- | -0- | 4,359,232 |
| Utilities, supplies, and other | 71,236,908 | 3,823,414 | 75,060,322 | 201,663 | 221,745 | (11,520,542) | 63,963,188 |
| Hospital assessment fee | 21,862,451 | 2,187,985 | 24,050,436 | -0- | -0- | -0- | 24,050,436 |
| Depreciation and amortization | 22,811,017 | 1,008,975 | 23,819,992 | 4,549 | -0- | -0- | 23,824,541 |
| Interest | 10,250,706 | -0- | 10,250,706 | -0- | 4,450 | -0- | 10,255,156 |
| Total operating expenses | 623,889,403 | 25,889,130 | 649,778,533 | 1,776,012 | 8,626,980 | (12,837,004) | 647,344,521 |
| Income (loss) from operations | 70,670,973 | 5,636,142 | 76,307,115 | (9,800) | 2,893,562 | -0- | 79,190,877 |
| Non-operating gains (losses) | | | | | | | |
| Investment return, net | 25,535,274 | 262 | 25,535,536 | -0- | -0- | -0- | 25,535,536 |
| Other | 712,996 | -0- | 712,996 | -0- | -0- | (1,465,915) | (752,919) |
| Total non-operating gains (losses) | 26,248,270 | 262 | 26,248,532 | -0- | -0- | (1,465,915) | 24,782,617 |
| Excess of revenue over (under) expenses | \$ 96,919,243 | \$ 5,636,404 | \$ 102,555,647 | \$ (9,800) | \$ 2,893,562 | \$ (1,465,915) | \$ 103,973,494 |

See Report of Independent Auditors on pages 1 through 3.

UNION HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2023

| | Union Hospital Terre Haute | Union Hospital Clinton | Total Union Hospital, Inc. | COH | UHT, LLC | Eliminations | Total Union Hospital, Inc. and Subsidiaries |
|---|----------------------------------|------------------------------|----------------------------------|--------------|--------------|----------------|--|
| Operating revenue | | | | | | | |
| Net patient service revenue | \$ 629,588,704 | \$ 29,952,767 | \$ 659,541,471 | \$ 1,798,795 | \$ -0- | \$ -0- | \$ 661,340,266 |
| Other revenue | 32,338,792 | 1,093,203 | 33,431,995 | -0- | 11,105,826 | (12,394,164) | 32,143,657 |
| Total operating revenue | 661,927,496 | 31,045,970 | 692,973,466 | 1,798,795 | 11,105,826 | (12,394,164) | 693,483,923 |
| Operating expenses | | | | | | | |
| Physician, mid-level, and other provider salaries and wages | 21,404,200 | 670,646 | 22,074,846 | -0- | 6,037,105 | -0- | 28,111,951 |
| Other salaries and wages | 127,270,187 | 8,340,627 | 135,610,814 | -0- | -0- | -0- | 135,610,814 |
| Employee benefits | 32,878,380 | 2,154,661 | 35,033,041 | -0- | 979,018 | -0- | 36,012,059 |
| Medical supplies and drugs | 140,537,648 | 1,737,277 | 142,274,925 | 215,346 | -0- | -0- | 142,490,271 |
| Physician services | 38,336,188 | 2,114,736 | 40,450,924 | -0- | -0- | -0- | 40,450,924 |
| Contract services | 85,679,650 | 2,688,474 | 88,368,124 | 1,331,081 | 1,830,494 | (1,288,338) | 90,241,361 |
| Rent and leases | 4,550,755 | 300,369 | 4,851,124 | 4,402 | -0- | -0- | 4,855,526 |
| Utilities, supplies, and other | 69,071,516 | 4,241,003 | 73,312,519 | 211,485 | 312,600 | (11,105,826) | 62,730,778 |
| Hospital assessment fee | 37,936,816 | 3,115,372 | 41,052,188 | -0- | -0- | -0- | 41,052,188 |
| Depreciation and amortization | 23,090,652 | 982,303 | 24,072,955 | 5,583 | -0- | -0- | 24,078,538 |
| Interest | 10,689,092 | -0- | 10,689,092 | -0- | 1,505 | -0- | 10,690,597 |
| Total operating expenses | 591,445,084 | 26,345,468 | 617,790,552 | 1,767,897 | 9,160,722 | (12,394,164) | 616,325,007 |
| Income from operations | 70,482,412 | 4,700,502 | 75,182,914 | 30,898 | 1,945,104 | -0- | 77,158,916 |
| Non-operating gains (losses) | | | | | | | |
| Investment return, net | 34,250,831 | 298 | 34,251,129 | -0- | -0- | -0- | 34,251,129 |
| Other | 870,120 | (13,381) | 856,739 | -0- | -0- | (1,022,902) | (166,163) |
| Total non-operating gains (losses) | 35,120,951 | (13,083) | 35,107,868 | -0- | -0- | (1,022,902) | 34,084,966 |
| Excess of revenue over (under) expenses | \$ 105,603,363 | \$ 4,687,419 | \$ 110,290,782 | \$ 30,898 | \$ 1,945,104 | \$ (1,022,902) | \$ 111,243,882 |

See Report of Independent Auditors on pages 1 through 3.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF PROPERTY AND EQUIPMENT OF MORTGAGOR YEAR ENDED DECEMBER 31, 2024

| | Mortgagor | Other Activities | Union Health System |
|-----------------------------------|-----------------------|---------------------|------------------------|
| Land and improvements | \$ 38,099,238 | \$ 4,173,645 | \$ 42,272,883 |
| Buildings and fixed equipment | 427,529,389 | 7,573,056 | 435,102,445 |
| Movable equipment | 246,238,384 | -0- | 246,238,384 |
| | <u>711,867,011</u> | <u>11,746,701</u> | <u>723,613,712</u> |
| Less allowances for depreciation | 456,924,003 | 9,370,631 | 466,294,634 |
| Construction in progress | 12,978,782 | -0- | 12,978,782 |
| Total property and equipment, net | <u>\$ 267,921,790</u> | <u>\$ 2,376,070</u> | <u>\$ 270,297,860</u> |

See Report of Independent Auditors on pages 1 through 3.



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

Board of Directors
Union Health System, Inc. and Subsidiaries
Terre Haute, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts, the consolidated financial statements of Union Health System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheet as of December 31, 2024, and 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, and have issued our report thereon dated April 22, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Board of Directors
Union Health System, Inc. and Subsidiaries
Terre Haute, Indiana

Report on Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
April 22, 2025



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
 Union Health System, Inc. and Subsidiaries
 Terre Haute, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Union Health System, Inc. and Subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2024. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Board of Directors
Union Health System, Inc. and Subsidiaries
Terre Haute, Indiana

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

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

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

Blue & Co., LLC

Indianapolis, Indiana
April 22, 2025

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2024

| Grantor/Pass-through Grantor/Program | Grant ID # | Assistance Listing # | Federal Expenditures | Passed Through To Subrecipients |
|---|----------------------|----------------------|-----------------------|---------------------------------|
| U.S. Department of Housing and Urban Development | | | | |
| Mortgage Insurance - Hospitals Section 242 * | 073-22274, 073-22333 | 14.128 | \$ 263,310,262 | \$ -0- |
| U.S. Department of Health and Human Services | | | | |
| Primary Care Training and Enhancement | TA2HP48952 | 93.884 | 509,472 | -0- |
| Passed through Indiana Rural Health Association, Inc. Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement | D06RH49165 | 93.912 | 47,736 | -0- |
| Passed through Indiana State Department of Health Grants to States for Operation of State Offices of Rural Health | 84810 | 93.913 | 341,064 | -0- |
| Healthy Start Initiative | H49MC32727 | 93.926 | 1,126,121 | 90,415 |
| Passed through Indiana State Department of Health Improving Student Health and Academic Achievement through Nutrition, Physical Activity and the Management of Chronic Conditions in Schools | 75129 | 93.981 | 7,862 | -0- |
| Passed through Indiana State Department of Health Maternal and Child Health Services Block Grant to the States | 87110 | 93.994 | 1,900 | -0- |
| Total federal expenditures | | | <u>\$ 265,344,417</u> | <u>\$ 90,415</u> |

* The U.S. Department of Housing and Urban Development – Mortgage Insurance for Hospital’s loan program continues to have compliance requirements. The amount noted as federal expenditures represents the remaining outstanding loan balance at the beginning of the year. The balance of loans outstanding under this program at December 31, 2024 are:

| Grantor/Pass-through Grantor/Program | Grant ID # | Assistance Listing # | Outstanding Balance at December 31, 2024 |
|--|----------------------|----------------------|--|
| Major program | | | |
| U.S. Department of Housing and Urban Development Mortgage Insurance - Hospitals Section 242 | 073-22274, 073-22333 | 14.128 | \$ 251,948,382 |

See report on Schedule of Expenditures of Federal Awards as Required by the Uniform Guidance on page 3.
See notes to Schedule of Expenditures of Federal Awards on page 46.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2024

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Union Health System, Inc. and Subsidiaries (the System) under programs of the federal government for the year ended December 31, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

UNION HEALTH SYSTEM, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2024

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ none reported

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? ☐ yes ☒ none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]? ☐ yes ☒ no

Identification of major programs:

| <u>Assistance Listing Numbers</u> | <u>Name of Federal Programs or Clusters</u> |
|-----------------------------------|--|
| 14.128 | U.S. Department of Housing and Urban Development Mortgage Insurance - Hospitals Section 242 |
| 93.884 | U.S. Department of Health and Human Services Primary Care Training and Enhancement |
| 93.926 | U.S. Department of Health and Human Services Healthy Start Initiative |

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

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

Not applicable