



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2021 AND 2020

CPAS / ADVISORS



DEACONESS HEALTH SYSTEM

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Deaconess Health System
Evansville, Indiana

We have audited the accompanying consolidated financial statements of Deaconess Health System (the System), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 30, 2021 and 2020, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Deaconess Health System
Evansville, Indiana

Report on Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
January 20, 2022

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2021 AND 2020

ASSETS		
	2021	2020
Current assets		
Cash and cash equivalents	\$ 309,630,869	\$ 290,517,629
Funds held by trustee	192,007	3,777,593
Patient accounts receivable	198,788,958	172,248,714
Estimated third-party payor settlements	-0-	921,122
Inventories	15,640,660	12,628,347
Prepaid expenses and other current assets	45,539,554	35,504,980
Total current assets	569,792,048	515,598,385
Investments limited as to use		
Funds held by trustee	3,647,787	3,132,868
Board designated funds	1,066,976,264	838,623,038
Board designated funds - Foundation	12,463,929	10,760,863
Donor restricted - Foundation	6,406,835	6,133,888
Total investments limited as to use	1,089,494,815	858,650,657
Property and equipment		
Land and improvements	33,348,043	32,302,594
Buildings and improvements	831,007,295	807,889,020
Furniture, fixtures and equipment	360,558,369	325,964,224
	1,224,913,707	1,166,155,838
Accumulated depreciation	(664,495,758)	(595,424,753)
	560,417,949	570,731,085
Construction in progress	43,340,093	34,387,068
Total property and equipment, net	603,758,042	605,118,153
Other assets		
Investments in joint ventures	70,910,516	53,972,791
Operating lease right-of-use assets	52,925,978	57,167,759
Goodwill and other intangibles	49,390,830	49,518,161
Other	29,395,498	25,797,964
Total other assets	202,622,822	186,456,675
Total assets	\$ 2,465,667,727	\$ 2,165,823,870

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2021 AND 2020

LIABILITIES AND NET ASSETS

	2021	2020
Current liabilities		
Accounts payable and other accrued liabilities	\$ 70,908,527	\$ 93,165,878
Salaries, wages and related liabilities	97,277,440	83,211,329
Estimated third-party payor settlements	9,737,523	-0-
Accrued interest	1,578,835	1,456,279
Other current liabilities	84,777,695	80,004,690
Current portion of operating lease liabilities	16,067,446	14,321,382
Current portion of long-term debt	12,790,241	13,886,773
Total current liabilities	293,137,707	286,046,331
Long-term liabilities		
Operating lease liabilities, less current portion	37,666,608	43,825,798
Long-term debt, less current portion	340,953,000	349,244,625
Other long-term liabilities	102,750,499	191,476,050
Total long-term liabilities	481,370,107	584,546,473
Total liabilities	774,507,814	870,592,804
Net assets		
Without donor restrictions		
Undesignated	597,653,029	433,731,606
Designated - capital improvements	1,066,976,264	838,623,038
Designated - Foundation	12,463,929	10,760,863
Non-controlling interest	7,659,856	5,981,671
Total without donor restrictions	1,684,753,078	1,289,097,178
With donor restrictions	6,406,835	6,133,888
Total net assets	1,691,159,913	1,295,231,066
Total liabilities and net assets	\$ 2,465,667,727	\$ 2,165,823,870

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
Revenue and other support		
Patient service revenue	\$ 1,479,727,465	\$ 1,159,341,843
Other revenue	89,989,506	74,602,333
Total revenue and other support	1,569,716,971	1,233,944,176
Expenses		
Salaries and wages	581,503,599	475,479,929
Employee benefits	149,403,509	118,863,136
Supplies	292,125,089	241,147,757
Contract services	145,403,289	110,339,597
Repairs and maintenance	52,875,134	42,146,583
Depreciation	69,732,800	61,633,074
Interest	12,948,658	12,261,405
Utilities	18,361,300	14,545,221
Other	112,182,016	93,115,077
Total expenses	1,434,535,394	1,169,531,779
Income from operations	135,181,577	64,412,397
Nonoperating revenues (expenses)		
Investment return	355,957,966	30,617,186
Net unrealized gain (loss) on investments	(123,737,225)	46,718,251
Net periodic pension cost	(4,936,865)	(6,426,607)
Excess assets acquired over liabilities assumed	-0-	20,704,344
Contributions, gifts, and bequests	566,534	588,270
Grants	(1,090,293)	(1,633,842)
Total nonoperating revenues (expenses)	226,760,117	90,567,602
Excess revenues over expenses	361,941,694	154,979,999
Other changes in net assets without donor restrictions		
Benefit related changes other than net periodic benefit cost	46,047,476	(10,523,523)
Net assets released from restriction	407,983	768,609
Distributions to non-controlling interest	(12,741,253)	(14,625,622)
Change in net assets without donor restrictions	395,655,900	130,599,463
Net assets with donor restrictions		
Contributions, gifts and bequests	324,304	520,842
Change in beneficial interest in trusts	198,858	22,419
Investment return	693,906	28,614
Net unrealized gain (loss) on investments	(536,138)	108,244
Net assets released from restriction	(407,983)	(768,609)
Change in net assets with donor restrictions	272,947	(88,490)
Change in net assets	\$ 395,928,847	\$ 130,510,973

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	Without Donor Restrictions			With Donor Restrictions	Total
	Undesignated & Designated	Non-controlling Interest	Total		
Net assets					
September 30, 2019	\$ 1,151,254,594	\$ 7,243,121	\$ 1,158,497,715	\$ 6,222,378	\$ 1,164,720,093
Excess revenues over expenses	141,615,827	13,364,172	154,979,999	-0-	154,979,999
Benefit related changes other than net periodic benefit cost	(10,523,523)	-0-	(10,523,523)	-0-	(10,523,523)
Net assets released from restriction	768,609	-0-	768,609	(768,609)	-0-
Investment return	-0-	-0-	-0-	28,614	28,614
Net unrealized gain on investments	-0-	-0-	-0-	108,244	108,244
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	543,261	543,261
Distributions to non-controlling interest	-0-	(14,625,622)	(14,625,622)	-0-	(14,625,622)
Change in net assets	131,860,913	(1,261,450)	130,599,463	(88,490)	130,510,973
September 30, 2020	1,283,115,507	5,981,671	1,289,097,178	6,133,888	1,295,231,066
Excess revenues over expenses	347,522,256	14,419,438	361,941,694	-0-	361,941,694
Benefit related changes other than net periodic benefit cost	46,047,476	-0-	46,047,476	-0-	46,047,476
Net assets released from restriction	407,983	-0-	407,983	(407,983)	-0-
Investment return	-0-	-0-	-0-	693,906	693,906
Net unrealized loss on investments	-0-	-0-	-0-	(536,138)	(536,138)
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	523,162	523,162
Distributions to non-controlling interest	-0-	(12,741,253)	(12,741,253)	-0-	(12,741,253)
Change in net assets	393,977,715	1,678,185	395,655,900	272,947	395,928,847
September 30, 2021	\$ 1,677,093,222	\$ 7,659,856	\$ 1,684,753,078	\$ 6,406,835	\$ 1,691,159,913

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
Operating activities		
Change in net assets	\$ 395,928,847	\$ 130,510,973
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	69,732,800	61,633,074
Net unrealized (gain) loss on investments	124,273,363	(46,826,495)
Net realized gain on investments	(342,531,051)	(19,349,860)
Gain on disposal of property and equipment	(15,000)	-0-
Unrealized (gain) loss on interest rate swap	(435,563)	361,566
Amortization of debt issue costs and original issue discount/premium	(353,243)	(408,243)
Restricted contributions, gifts and bequests	(324,304)	(520,842)
Excess assets acquired over liabilities assumed	-0-	(20,704,344)
Distributions to non-controlling interest	12,741,253	14,625,622
Changes in operating assets and liabilities		
Patient accounts receivable	(26,540,244)	(12,091,566)
Inventories	(3,012,313)	(4,320,309)
Prepaid expenses and other current assets	(10,034,574)	18,872,466
Investments in joint ventures and other assets	(2,957,928)	8,031,750
Accounts payable and other accrued liabilities	(23,683,351)	(6,630,734)
Salaries, wages and related liabilities	14,066,111	15,936,676
Estimated third-party payor settlements	10,658,645	(2,124,331)
Accrued interest	122,556	446,824
Other current liabilities	4,773,005	79,922,975
Other long-term liabilities	(88,461,333)	50,573,398
Net cash flows from operating activities	133,947,676	267,938,600
Investing activities		
Cash paid for investments in joint ventures	(17,450,000)	-0-
Purchases of property and equipment	(66,946,689)	(73,120,034)
Proceeds from disposal of property and equipment	15,000	251,625
Purchases of board designated funds	(2,166,496,080)	(588,465,804)
Proceeds from sale of board designated funds	2,154,424,529	569,810,227
Cash received in acquisition	-0-	24,554,000
Net cash flows from investing activities	(96,453,240)	(66,969,986)
Financing activities		
Distributions to non-controlling interest	(12,741,253)	(14,625,622)
Restricted contributions, gifts and bequests	324,304	520,842
Cash paid for debt issue costs - Series 2021 bonds	(77,356)	-0-
Payments on long-term debt	(8,957,558)	(10,358,572)
Net cash flows from financing activities	(21,451,863)	(24,463,352)
Change in cash and cash equivalents	16,042,573	176,505,262
Cash and cash equivalents		
Beginning of year	297,428,090	120,922,828
End of year	\$ 313,470,663	\$ 297,428,090
Reconciliation to consolidated balance sheets		
Cash and cash equivalents in current assets	\$ 309,630,869	\$ 290,517,629
Funds held by trustee in current assets - restricted	192,007	3,777,593
Funds held by trustee in investments - restricted	3,647,787	3,132,868
	\$ 313,470,663	\$ 297,428,090

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Deaconess Health System (the System) is an integrated multi-facility health system providing comprehensive health care services to southern Indiana, southeastern Illinois and western Kentucky, with full-time equivalents in excess of 7,240 within the Tri-State area.

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

The board of Deaconess Health System, Inc. is granted the authority to provide overall direction and control of the entities through their respective bylaws. Deaconess Health System, Inc. wholly owns the Clinic, Deaconess Care Integration, LLC, DCI Commercial ACO, LLC, OneCare, LLC, Deaconess Regional Healthcare Services Illinois, Inc., Deaconess VNA Plus, LLC, Deaconess Specialty Physicians, Inc., Deaconess Health Kentucky, Inc., Deaconess Health Gibson, Inc. and is the sole corporate member of the Hospital.

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

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

Deaconess Regional Healthcare Services Illinois, Inc. manages activities such as pain management and other ancillary services in Illinois.

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

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

Deaconess Health Kentucky, Inc. (DHK) houses the operations of the System in Kentucky.

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

The System, located in Evansville, Indiana, is comprised of general acute care facilities, a mental health facility and more than 40 ambulatory sites. The inpatient services have a combined capacity of 716 intensive care, pediatric, medical/surgical, orthopedic and neurosurgical beds.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

The System holds majority ownership interests in the following entities:

- Progressive Health of Indiana, LLC – 51%
- Tri-State Radiation Oncology, LLC – 51%
- Deaconess Health Plans, LLC – 95%
- Mainspring Managers, LLC – 51%
- Vascmed, LLC – 51%
- OrthoAlign, LLC – 51%
- Healthcare Resource Solutions, LLC – 95%

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

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

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

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

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

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

Healthcare Resource Solutions, LLC provides revenue cycle and billing services.

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

Principles of Consolidation

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

Use of Estimates

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Cash Equivalents and Consolidated Statements of Cash Flows

Cash equivalents are defined as investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by arrangements under trust agreements, board designation or by donors. The System maintains its cash in accounts, which at times may exceed federally insured limits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents also include restricted cash from funds held by trustee. Additional cash flows information for 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Supplemental cash flows information		
Cash paid for interest, net	\$ 12,744,000	\$ 12,341,000
Property and equipment in liabilities	\$ 1,426,000	\$ 3,095,000
Patient accounts receivable obtained through acquisition	\$ -0-	\$ 15,256,000
Property and equipment obtained through acquisition	\$ -0-	\$ 60,058,000
Other assets obtained through acquisition	\$ -0-	\$ 23,369,000
Accounts payable assumed through acquisition	\$ -0-	\$ 38,018,000
Other liabilities assumed through acquisition	\$ -0-	\$ 34,886,000
Long-term debt assumed through acquisition	\$ -0-	\$ 22,889,000
Investment in joint venture released in acquisition	\$ -0-	\$ 6,740,000

There was no capitalized interest expense, net of interest income for 2021 and 2020.

Patient Accounts Receivable

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

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

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Patient Service Revenue

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

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

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

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

Charity Care, Community Benefit and Assistance to the Uninsured

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

The System's charity care policy reflects the current economic conditions and other factors unique to the System's customer base. Charity care provided during 2021 and 2020, measured at established rates, was approximately \$55,909,000 and \$70,186,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of charity care.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Of the System's total expenses reported, an estimated \$18,241,000 and \$23,790,000 arose from providing services to charity patients during 2021 and 2020, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses to patient service revenue. The System did modify its financial assistance policy during 2021. There were no changes to the financial assistance policy during 2020. The System has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self pay discounts were an estimated \$22,407,000 and \$21,477,000 in 2021 and 2020, respectively.

Inventories

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

Investments Limited as to Use

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

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

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

These estimated values may differ significantly from the values that would have been used had a ready market for the institutional fund investments existed and the difference could be material. Institutional fund investments totaled approximately \$223,962,000 and \$126,269,000 (20.6% and 14.6% of investment portfolio) as of September 30, 2021 and 2020, respectively.

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, ranging from 3 to 40 years, using the straight-line method. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the System first compares undiscounted cash flows expected to be generated by that asset or group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Investments in Joint Ventures

Investments in organizations where the System's ownership percentage is equal to or less than 50% are included in investments in joint ventures on the consolidated balance sheets. Investments in joint ventures approximated \$70,911,000 and \$53,973,000 as of September 30, 2021 and 2020, respectively. The System's portion of income from unconsolidated organizations is reported with other operating revenue and was \$26,104,000 and \$19,200,000 for 2021 and 2020, respectively. A summary of the significant investments in joint ventures follows:

- The System holds a 50% ownership in the Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital which is a 74-bed facility dedicated to comprehensive women's care, including obstetrics, neonatal intensive care, cancer treatment and infertility and imaging services.
- The System holds a 50% ownership interest in Evansville Surgery Center Associates, LLC providing three locations of multispecialty outpatient surgery centers dedicated to the diagnosis and preoperative, intraoperative and postoperative care of patients.
- The System holds 33.3% of the membership shares in The Healthcare Group, LLC, a preferred provider organization – managed care network. The Healthcare Group, LLC encourages collaboration in providing patient service and cost management.
- The System holds a 27.5% ownership interest in Encompass Health/Deaconess, LLC, d/b/a Encompass Health Deaconess Rehabilitation Hospital, a comprehensive facility dedicated to improving, maintaining or restoring physical strength, cognition and mobility through therapeutic methods and technologies for rehabilitation.
- The System is an equity member in the Tecumseh Health Reciprocal Risk Retention Group which was formed to provide liability insurance, reinsurance and risk management services to the members.
- The System holds a 50% ownership interest in Crossroads Health Services which provides workers' compensation coverage.
- The System holds a 46% ownership interest in LoField Dialysis, LLC which was formed to provide dialysis and related services.
- During 2021, the System, through DHK, became a 50% owner in Baptist Health Deaconess, LLC, which provides health care services to the residents of Madisonville, Kentucky and the surrounding communities.

Leases

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

when it is reasonably certain that the System will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Business Combinations and Goodwill and Other Intangibles

The System accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is tested for impairment on an annual basis, or whenever an event occurs or circumstances indicate the carrying value of the goodwill may be impaired. The System performed the required annual impairment test for goodwill as of September 30, 2021 and 2020 using the income approach of calculating the present value of the future cash flows. The System determined no impairment of goodwill existed as of September 30, 2021 and 2020. As of September 30, 2021 and 2020, the System recorded goodwill and other intangibles of approximately \$49,391,000 and \$49,518,000 related to the acquisition of majority owned entities. Included in these totals are other intangibles, net of accumulated amortization of \$457,000 and \$330,000 as of September 30, 2021 and 2020, respectively, related primarily to non-compete and similar agreements. Annual amortization is estimated at \$127,000 over the remaining amortization periods.

Effective July 1, 2020, the System, through DHK, acquired the remaining 67% interest in Methodist Health. With a 33% interest in Methodist Health prior, the System previously recognized an equity interest of approximately \$6,740,000 through July 1, 2020. Effective September 1, 2020, the System, through DHG, acquired a 100% interest Gibson General Hospital. There was no cash paid by the System for these business combinations. The System recognized excess assets acquired over liabilities assumed of approximately \$20,704,000 in its 2020 consolidated statement of operations. The following is a summary of the assets purchased and liabilities assumed during 2020:

Assets	
Cash	\$ 24,554,000
Patient accounts receivable	15,256,000
Other current assets	18,999,000
Property and equipment	60,058,000
Other assets	4,370,000
Total assets	<u>123,237,000</u>
Liabilities	
Accounts payable and other	(38,018,000)
Other liabilities	(34,886,000)
Long-term debt	<u>(22,889,000)</u>
Total liabilities	(95,793,000)
Equity interest previously recognized	<u>(6,740,000)</u>
Excess assets acquired over liabilities assumed	<u>\$ 20,704,000</u>

Debt Issue Costs

Costs incurred in connection with the issuance of debt are amortized over the term of the related debt using the bonds outstanding method. Estimated annual amortization is approximately \$153,000.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Other Long-Term Liabilities

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

Net Assets

Net assets without donor restrictions are comprised of net assets that are undesignated, board designated and held by non-controlling interest. The following net assets without donor restrictions were board designated as of September 30, 2021 and 2020:

	2021	2020
Board designated		
Capital improvements	\$ 1,066,976,264	\$ 838,623,038
Foundation	12,463,929	10,760,863
	\$ 1,079,440,193	\$ 849,383,901

Net assets with donor restrictions include those assets whose use by the System has been limited primarily for capital projects or a specified time period or purpose. Also included are net assets contributed with donor restrictions requiring they be held in perpetuity with income used to support the System's activities. The following is a summary of net assets with donor restrictions as of September 30, 2021 and 2020:

	2021	2020
Patient medical care	\$ 1,399,037	\$ 1,314,941
Education and scholarship	808,510	759,910
Capital projects	844,390	793,634
Beneficial interest in trusts	1,173,972	1,173,972
To be held in perpetuity	692,080	692,080
Other System support	1,488,846	1,399,351
	\$ 6,406,835	\$ 6,133,888

Net assets were released from restriction during 2021 and 2020 for the following purposes:

	2021	2020
Patient medical care	\$ 125,702	\$ 236,813
Education and scholarship	72,643	136,853
Capital projects	75,867	142,929
Other System support	133,771	252,014
	\$ 407,983	\$ 768,609

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Contributions

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating revenues (expenses) in the accompanying consolidated financial statements. In-kind donations are recorded as revenue and expense in the accompanying consolidated financial statements. These donations consist mainly of medical supplies and services which are recorded at their estimated fair values. The System also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

Performance Indicator

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

Medical Malpractice

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

The System is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the System's required portion of the insurance coverage pursuant to the Act, as well as its general liability insurance and excess coverage. Membership in THRRRG includes 14 hospitals as of September 30, 2021. Coverage through THRRRG provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the System maintains a commercial umbrella/excess liability policy with a limit of \$15,000,000 each occurrence, \$15,000,000 aggregate per member and \$30,000,000 total policy aggregate.

Income Taxes

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and recognize a tax liability if the System has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the System and has concluded that as of September 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The remaining consolidated subsidiaries are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes related to these entities. These entities have filed their Federal and state income tax returns for periods through their most recent fiscal year ends (primarily December 31, 2019). These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising Costs

Advertising costs are expensed as incurred. Total expense for 2021 and 2020 was approximately \$1,345,000 and \$1,314,000, respectively.

Reclassification

Certain 2020 amounts in the consolidated financial statements have been reclassified to conform to the 2021 presentation. The reclassifications have no effect on previously reported net assets or changes in net assets.

Going Concern Evaluation

The System evaluated whether there were conditions or events that raised substantial doubt about the System's ability to continue as a going concern for a period of one year from the date the consolidated financial statements were issued.

Subsequent Events

The System evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was January 20, 2022.

Recently Issued Accounting Standards

In May 2019, the FASB issued Accounting Standards Update (ASU) 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The accounting alternatives in this ASU, if elected, will reduce for preparers the cost and complexity associated with the subsequent accounting for goodwill and the accounting for certain items that currently are considered to be identifiable intangible assets for not-for-profit entities. A not-for-profit entity that elects the accounting alternative should amortize goodwill on a straight-line basis over a period not to exceed ten years, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. This ASU also provides not-for-profit entities with an alternative to subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired. This ASU is effective upon issuance and not-for-profit entities electing to adopt these alternatives do not have to demonstrate preferability.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. The ASU requires that a NFP organization present contributed nonfinancial assets as a separate line item in its statement of operations and changes in net assets, apart from contributions of cash or other financial assets. Additionally, this ASU includes expanded disclosure requirements. The System will be required to adopt this standard during its year ending September 30, 2022.

The System is presently evaluating the effects that these ASUs will have on its future financial consolidated statements, including related disclosures.

2. INVESTMENTS

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

	2021	2020
Board designated funds		
Cash	\$ 2,705,382	\$ 10,229,624
Common stocks	82,039,951	192,540,660
Mutual funds	522,731,611	275,085,561
US Government and government agency obligations	57,054,024	40,956,251
Corporate bonds	91,515,141	125,652,063
Mortgage backed securities	86,967,798	67,889,988
Institutional funds	223,962,357	126,268,891
	1,066,976,264	838,623,038
Funds held by trustee		
Money market mutual funds	3,839,794	6,910,461
Current portion	(192,007)	(3,777,593)
	3,647,787	3,132,868
Board designated - Foundation and donor restricted - Foundation		
Cash	916,557	329,388
Common stocks	-0-	1,550,022
Mutual funds	17,621,693	12,211,599
US Government and government agency obligations	205,294	16,501
Accrued interest and other	127,220	2,787,241
	18,870,764	16,894,751
Investments limited as to use, net	\$ 1,089,494,815	\$ 858,650,657

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Investments reported as current assets are those that the System has made available for use in operations within the next twelve months. Investments limited as to use that are required for obligations classified as current liabilities are also reported in current assets. A detail of investment return for both net assets with and without donor restrictions for 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Interest and dividends and other	\$ 13,685,258	\$ 11,657,506
Net realized gain	342,531,051	19,349,860
Unrealized gain (loss) on interest rate swap	<u>435,563</u>	<u>(361,566)</u>
Investment return, net	<u>\$ 356,651,872</u>	<u>\$ 30,645,800</u>

The unrealized loss on investments in 2021 for net assets without donor restrictions was approximately \$123,737,000 and is reported under nonoperating revenues (expenses) in the consolidated statements of operations. In 2020, the unrealized gain was \$46,718,000.

The unrealized loss on investments for net assets with donor restrictions was approximately \$536,000 in 2021 compared to an unrealized gain of \$108,000 in 2020. The unrealized gain and loss are included in changes in net assets with donor restrictions on the consolidated statements of operations for the respective years.

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

3. 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.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2021 and 2020:

- *Common stocks*: Valued based on the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds and Exchange Traded Funds (ETF)*: Valued based on quoted net asset value (NAV) of the shares held by the System at year-end. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The NAV is quoted in an active market.
- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable NAV. However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *US Government and government agency obligations*: Valued based on the closing price reported on the active market on which the securities are traded.
- *Corporate bonds and mortgage backed securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Institutional fund investments*: Valued at the NAV of units of the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The institutional fund investments consist of investments in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the NAV of the fund and, consequently, the fair value of the System's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the System were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.
- *Derivative (Interest rate swap agreement)*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the Note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and 2020 are as follows:

	September 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Money market mutual funds	\$ 3,839,794	\$ -0-	\$ 3,839,794	\$ -0-
Common stocks				
Consumer	14,919,156	14,919,156	-0-	-0-
Financial services	11,129,629	11,129,629	-0-	-0-
Industrial and materials	18,979,625	18,979,625	-0-	-0-
Technology	14,760,958	14,760,958	-0-	-0-
Healthcare	7,508,042	7,508,042	-0-	-0-
Other	14,742,541	14,742,541	-0-	-0-
Total common stocks	82,039,951	82,039,951	-0-	-0-
Mutual funds				
Large value	23,568,850	23,568,850	-0-	-0-
Large blend	488,661,903	488,661,903	-0-	-0-
Other	28,122,551	28,122,551	-0-	-0-
Total mutual funds	540,353,304	540,353,304	-0-	-0-
US Government and government agency obligations	57,259,318	57,259,318	-0-	-0-
Corporate bonds				
Consumer	9,898,286	-0-	9,898,286	-0-
Financial services	27,121,947	-0-	27,121,947	-0-
Industrial and materials	22,169,544	-0-	22,169,544	-0-
International	8,133,312	-0-	8,133,312	-0-
Other	24,192,052	-0-	24,192,052	-0-
Total corporate bonds	91,515,141	-0-	91,515,141	-0-
Mortgage backed securities	86,967,798	-0-	86,967,798	-0-
	861,975,306	\$ 679,652,573	\$ 182,322,733	\$ -0-
Cash	3,621,939			
Institutional funds (a)	223,962,357			
Accrued interest and other	127,220			
	\$ 1,089,686,822			
Liabilities				
Derivative	\$ 617,553	\$ -0-	\$ 617,553	\$ -0-

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

	September 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Money market mutual funds	\$ 6,910,461	\$ -0-	\$ 6,910,461	\$ -0-
Common stocks				
Consumer	37,279,531	37,279,531	-0-	-0-
Financial services	21,675,453	21,675,453	-0-	-0-
Industrial and materials	26,532,352	26,532,352	-0-	-0-
Technology	44,106,448	44,106,448	-0-	-0-
Healthcare	25,536,616	25,536,616	-0-	-0-
Other	38,960,282	38,960,282	-0-	-0-
Total common stocks	194,090,682	194,090,682	-0-	-0-
Mutual funds				
Large growth	37,029,150	37,029,150	-0-	-0-
Large value	30,390,135	30,390,135	-0-	-0-
Large blend	219,755,511	219,755,511	-0-	-0-
Other	122,364	122,364	-0-	-0-
Total mutual funds	287,297,160	287,297,160	-0-	-0-
US Government and government agency obligations				
	40,972,752	40,972,752	-0-	-0-
Corporate bonds				
Consumer	42,571,696	-0-	42,571,696	-0-
Financial services	33,083,831	-0-	33,083,831	-0-
Industrial and materials	37,332,739	-0-	37,332,739	-0-
International	8,657,500	-0-	8,657,500	-0-
Other	4,006,297	-0-	4,006,297	-0-
Total corporate bonds	125,652,063	-0-	125,652,063	-0-
Mortgage backed securities				
	67,889,988	-0-	67,889,988	-0-
	722,813,106	<u>\$ 522,360,594</u>	<u>\$ 200,452,512</u>	<u>\$ -0-</u>
Cash	10,559,012			
Institutional funds (a)	126,268,891			
Accrued interest and other	2,787,241			
	<u>\$ 862,428,250</u>			
Liabilities				
Derivative				
	<u>\$ 1,053,116</u>	<u>\$ -0-</u>	<u>\$ 1,053,116</u>	<u>\$ -0-</u>

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

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

The following tables summarize the institutional fund investments measured at fair value based on NAV per share as of September 30, 2021 and 2020:

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2021	2020			
Institutional funds	\$ 223,962,357	\$ 82,157,453	None	Daily	Daily
Institutional funds	-0-	44,111,438	None	Monthly	45 days
	<u>\$ 223,962,357</u>	<u>\$ 126,268,891</u>			

Realized gain and loss are reported in the consolidated statements of operations as a component of investment return. Net realized gains of approximately \$342,531,000 and \$19,350,000 were recorded during 2021 and 2020, respectively. Differences between market value and cost of investments are classified as unrealized gains or losses. The unrealized gain or loss is included in earnings for the period attributable to the change in unrealized gain or loss relating to assets held as of September 30, 2021 and 2020 and is reported in the consolidated statements of operations as net unrealized gain or loss on investments. During 2021 and 2020, the System recognized an unrealized loss of \$124,273,000 and an unrealized gain of \$46,826,000, respectively, which was included in both nonoperating revenues (expenses) and changes in net assets with donor restrictions.

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.

4. PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price decreased patient service revenue by approximately \$1,819,000 in 2021 and increased patient service revenue by \$125,000 in 2020. As of September 30, 2021, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2017.

DEACONESS HEALTH SYSTEM

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For 2021 and 2020, 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. 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.

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

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

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

A summary of patient service revenue, including information on service lines, for 2021 and 2020 follows:

	2021	2020
Patient service revenue	\$ 4,396,949,057	\$ 3,450,324,728
Explicit price concessions and other		
Charity care	(55,909,126)	(70,185,565)
Uninsured self pay discounts	(22,407,031)	(21,476,615)
Contractual adjustments	(2,813,607,750)	(2,173,295,266)
Total adjustments	(2,891,923,907)	(2,264,957,446)
	1,505,025,150	1,185,367,282
Implicit price concessions	(25,297,685)	(26,025,439)
Patient service revenue	\$ 1,479,727,465	\$ 1,159,341,843

DEACONESS HEALTH SYSTEM

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	2021	2020
Payor type		
Medicare	\$ 524,247,550	\$ 419,169,346
Medicaid	197,384,861	122,226,166
Commercial and managed care	754,029,420	614,491,414
Self pay and other	4,065,634	3,454,917
	\$ 1,479,727,465	\$ 1,159,341,843
Service line		
Hospital - inpatient	\$ 554,791,012	\$ 434,652,930
Hospital - outpatient	617,124,581	484,054,458
Physician services	307,811,872	240,634,455
	\$ 1,479,727,465	\$ 1,159,341,843

The following is mix of patient accounts receivable and patient service revenue as of September 30, 2021 and 2020 and for the years then ended:

	Receivable		Revenue	
	2021	2020	2021	2020
Medicare	25.2%	27.4%	35.4%	36.1%
Medicaid	4.2%	4.6%	13.3%	10.1%
Commercial and managed care	64.6%	64.3%	50.5%	53.0%
Self pay and other	6.0%	3.7%	0.8%	0.8%
	100.0%	100.0%	100.0%	100.0%

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

Medicare

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

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

DEACONESS HEALTH SYSTEM

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The System participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. The State of Kentucky has a similar program to fund its Medicaid program. Historically, the Kentucky tax has been 2.5% of patient service revenue received with long-term care services taxed at 2% with an overall annual cap. During 2021 and 2020, the System recognized HAF and HIP program expense from Indiana and Kentucky of approximately \$40,139,000 and \$35,385,000, respectively, which resulted in Medicaid rate increases. HAF and HIP program expense is included in other expenses on the consolidated statements of operations while the Medicaid rate increases are recorded in patient service revenue.

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

5. OPERATING LEASES – RIGHT OF USE ASSETS AND RELATED LIABILITIES

The System recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. All leases were classified as operating leases as of September 30, 2021 and 2020.

The System has operating leases for medical offices and equipment. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The System's lease agreements do not contain any material restrictive covenants. The leases have remaining terms through 2030.

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 expensed on a straight-line basis over the lease term, which are not material to the consolidated financial statements.

DEACONESS HEALTH SYSTEM

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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 judgment.

The components of the System's operating lease cost for 2021 and 2020 are as follows:

	2021	2020
Operating lease cost	\$ 16,221,779	\$ 14,742,443
Short-term lease cost	4,884,048	2,501,234
Total lease expense	\$ 21,105,827	\$ 17,243,677

The System's ROU assets and lease liabilities as of and for the years ended September 30, 2021 and 2020 are as follows:

	2021	2020
Operating leases		
Operating lease ROU assets	\$ 52,925,978	\$ 57,167,759
Operating lease liabilities		
Current portion	\$ 16,067,446	\$ 14,321,382
Long-term	37,666,608	43,825,798
	\$ 53,734,054	\$ 58,147,180

	2021	2020
Cash paid for amounts in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 16,221,779	\$ 14,742,443
ROU assets obtained in exchange for new operating lease liabilities	\$ 11,336,173	\$ 73,488,325
Weighted average remaining lease term - operating leases	4.65 years	3.97 years
Weighted average discount rate - operating leases	3.24%	3.21%

DEACONESS HEALTH SYSTEM

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The subsequent maturities of the lease liabilities are as follows:

Year Ending September 30,	
2022	\$ 16,067,446
2023	15,794,409
2024	8,061,352
2025	5,262,378
2026	3,326,360
Thereafter	<u>7,683,600</u>
Total payments	56,195,545
Less interest	<u>(2,461,491)</u>
	<u>\$ 53,734,054</u>

6. LONG-TERM DEBT

The following is a summary of long-term debt as of September 30, 2021 and 2020:

	2021	2020
Hospital Revenue Bonds		
Series 2011A term bonds	\$ 10,800,000	\$ 11,885,000
Series 2012B term bonds	1,755,000	3,400,000
Series 2013A term bonds	62,900,000	63,710,000
Series 2013B term bonds	12,265,000	13,560,000
Series 2013C term bonds	36,645,000	37,945,000
Series 2015A term bonds	47,075,000	47,440,000
Series 2016A serial bonds	18,970,000	18,970,000
Series 2016A term bonds	85,860,000	85,860,000
Series 2016 Term Loan Agreement	48,300,000	50,400,000
Other	<u>24,174,237</u>	<u>24,531,795</u>
	348,744,237	357,701,795
Current portion	(12,790,241)	(13,886,773)
Original issue premiums (discounts), net	6,758,642	7,271,439
Debt issue costs	<u>(1,759,638)</u>	<u>(1,841,836)</u>
Long-term debt, net of current portion	<u>\$ 340,953,000</u>	<u>\$ 349,244,625</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Hospital Revenue Bonds	Maturity	Payment Range (in thousands)	Interest	Interest rate as of September 30, 2021
Series 2011A term bonds	March 2029	\$770 to \$1,630	Fixed	2.50% to 6.00%
Series 2012B term bonds	January 2022	\$800 to \$1,755	Fixed	2.30%
Series 2013A term bonds	March 2035	\$470 to \$8,070	Fixed	3.00% to 5.00%
Series 2013B term bonds	January 2029	\$1,000 to \$1,735	Variable (1)(2)	1.208%
Series 2013C term bonds	March 2036	\$250 to \$2,840	Variable (3)	0.939%
Series 2015A term bonds	March 2039	\$140 to \$20,255	Fixed	3.00% to 5.00%
Series 2016A serial bonds	March 2039	\$405 to \$1,920	Fixed	3.00% to 5.00%
Series 2016A term bonds	March 2044	\$9,760 to \$45,000	Fixed	3.125% to 5.00%
Series 2016 term loan	January 2025	\$500 to \$2,100	Fixed	2.50%

(1) 70% of LIBOR plus 115 basis points (1.223% as of September 30, 2020)

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

(3) 67% of LIBOR plus 90 basis points (1.004% as of September 30, 2020)

Included in other long-term debt are liabilities held by DHK and DHG. DHK has a notes payable with a local financial institution with an outstanding balance of approximately \$16,626,000 and \$17,759,000 as of September 30, 2021 and 2020, respectively. The note matures in 2025 with a variable rate of 1.90% as of September 30, 2021 and 2020 (London Interbank Offering Rate (LIBOR) plus 140 basis points with LIBOR floor of 50 basis points) and is secured by assets with a net book value of \$16,626,000 and \$17,759,000 as of September 30, 2021 and 2020, respectively. DHG has an obligation through the United States Department of Agriculture (USDA) of \$6,110,000 and \$6,255,000 as of September 30, 2021 and 2020, respectively, with a fixed interest rate of 3.25%. The USDA note matures in 2048 and secured by assets with a net book value of \$6,110,000 and \$6,255,000 as of September 30, 2021 and 2020, respectively.

In 2013, the System, the Indiana Finance Authority (the Authority) and Fifth Third Bank entered into Bond Purchase Contracts (the Contracts) whereby Fifth Third purchased from the Authority all of the Series 2012B, 2012C and 2013B bonds in a private placement. The Series 2013C bonds were purchased from the Authority by Bank of America in a private placement.

Under the terms of the Contracts, Fifth Third and Bank of America agreed to hold the Series 2012B and 2012C bonds through the stated bond maturity dates. The Contracts for the Series 2013B and 2013C bonds are through 2023. At the end of the Contract periods for the Series 2013B and 2013C bonds, these bonds could be remarketed to the original holders or to new investors at interest rate options as provided in the bond documents. If the Series 2013B and 2013C bonds cannot be remarketed at the end of the Contract periods, the System would be subject to payment of the remaining principal.

The System entered into an interest rate swap agreement with Fifth Third on the Series 2013B bonds. See the Note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information.

All of the revenue bonds are secured by a security interest in the System's revenue. The System covenants that it will not permit any lien or security interest on the System facility other than certain permitted encumbrances. In addition, the various agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. As of September 30, 2021 and 2020, the System believed it was in compliance with the restrictive covenants.

As of September 30, 2021, the System did not have any significant commitments outstanding related to property and equipment.

DEACONESS HEALTH SYSTEM

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Subsequent to September 30, 2021, the System issued through the Authority the Series 2021A bonds for \$334,035,000. The 2021A bonds consist of taxable serial bonds and taxable term bonds. The interest rates are fixed and range from .502% to 2.926% on the serial bonds and 3.026% to 3.313% on the term bonds. The serial bonds mature through March 2039 while the term bonds mature through March 2051. The Series 2021A bond proceeds were used to retire the 2011A term bonds and partially retire the 2013A, the 2015A, and the 2016A term bonds, in addition to providing new funds of approximately \$150,000,000 to the System.

Subsequent to September 30, 2021, the System issued through the Authority the Series 2021B bonds for \$36,810,000. The 2021B bonds have a fixed interest rate of 3.500% and mature in March 2039. The Series 2021B bond proceeds were used to retire the 2013C bonds.

Aggregate maturities of long-term debt, including the effect of the Series 2021A and 2021B bonds, are as follows:

Year Ending September 30,	
2022	\$ 12,790,241
2023	12,590,217
2024	12,872,042
2025	12,770,851
2026	13,053,193
Thereafter	<u>454,305,316</u>
	<u>\$ 518,381,860</u>

7. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The System makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs. As of September 30, 2021 and 2020, the System had outstanding an interest rate swap agreement with Fifth Third, having a notional amount of \$12,265,000 and \$13,560,000, respectively. The agreement effectively changes the System’s interest rate exposure on its Series 2013B bonds through March 2029 to a fixed 2.78%. The interest rate swap agreement matures at the time the related long-term debt matures. The System is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the System does not anticipate nonperformance by the counterparties. The derivative is not designated as a hedging instrument, and is marked-to-market on the consolidated balance sheet at fair value. The related gains and losses are included in excess revenues over expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statement of cash flows.

The asset derivatives are reported in the consolidated balance sheets as other assets. The liability derivatives are reported as derivative liabilities in the other long-term liabilities. As of September 30, 2021 and 2020, the fair values of derivative recorded in the consolidated balance sheets are as follows:

	<u>2021</u>	<u>2020</u>
Other long-term liabilities		
Derivative liability	\$ (617,553)	\$ (1,053,116)

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

During 2021 and 2020, the amount of gain or loss recognized in the consolidated statements of operations and reported as a component of investment income under nonoperating revenues (expenses) is as follows:

	2021	2020
Nonoperating revenues (expenses)		
Investment return		
Unrealized gain (loss) on derivative	\$ 435,563	\$ (361,566)

8. DEFINED BENEFIT PENSION PLAN

The System offers a noncontributory defined benefit pension plan covering eligible employees. Benefits are based on each participant's years of service and compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The defined benefit pension plan is closed to new participants. Participants should refer to the plan documents for more complete information.

With the acquisition of Methodist Health during 2020, the System, through DHK, assumed the defined benefit plan effective July 1, 2019. The following tables set forth the funded status of the benefit plans and amounts recognized in the consolidated financial statements as of September 30, 2021 and 2020 and for the years then ended.

	2021			2020		
	The System	DHK	Total	The System	DHK	Total
Change in benefit obligation						
Benefit obligation, beginning of year	\$ 340,008,388	\$ 54,075,463	\$ 394,083,851	\$ 311,670,007	\$ 53,502,746	\$ 365,172,753
Service cost	4,132,629	-0-	4,132,629	4,121,719	-0-	4,121,719
Interest cost	6,976,554	1,123,847	8,100,401	8,763,215	341,911	9,105,126
Plan settlements	-0-	(2,568,500)	(2,568,500)	-0-	(2,190,806)	(2,190,806)
Benefits paid	(10,034,731)	(583,169)	(10,617,900)	(8,530,233)	(139,322)	(8,669,555)
Actuarial (gain) loss	(4,435,094)	(290,320)	(4,725,414)	23,983,680	2,560,934	26,544,614
Benefit obligation, end of year	<u>\$ 336,647,746</u>	<u>\$ 51,757,321</u>	<u>\$ 388,405,067</u>	<u>\$ 340,008,388</u>	<u>\$ 54,075,463</u>	<u>\$ 394,083,851</u>
Changes in plan assets						
Fair value of plan assets, beginning of year	\$ 228,167,388	\$ 24,953,493	\$ 253,120,881	\$ 211,086,650	\$ 25,690,982	\$ 236,777,632
Actual return on plan assets	40,148,883	4,336,715	44,485,598	17,106,971	1,592,639	18,699,610
Employer contributions	8,004,000	10,989,979	18,993,979	8,504,000	-0-	8,504,000
Plan settlements	-0-	(2,568,500)	(2,568,500)	-0-	(2,190,806)	(2,190,806)
Benefits paid	(10,034,731)	(583,169)	(10,617,900)	(8,530,233)	(139,322)	(8,669,555)
Fair value of plan assets, end of year	<u>\$ 266,285,540</u>	<u>\$ 37,128,518</u>	<u>\$ 303,414,058</u>	<u>\$ 228,167,388</u>	<u>\$ 24,953,493</u>	<u>\$ 253,120,881</u>
Funded status						
Funded status of the plan, end of period	<u>\$ (70,362,206)</u>	<u>\$ (14,628,803)</u>	<u>\$ (84,991,009)</u>	<u>\$ (111,841,000)</u>	<u>\$ (29,121,970)</u>	<u>\$ (140,962,970)</u>
Amounts recognized in the consolidated balance sheets consist of						
Other long-term liabilities	<u>\$ (70,362,206)</u>	<u>\$ (14,628,803)</u>	<u>\$ (84,991,009)</u>	<u>\$ (111,841,000)</u>	<u>\$ (29,121,970)</u>	<u>\$ (140,962,970)</u>
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets						
Prior service (cost) credit	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Accumulated gain (loss)	(78,076,320)	(20,960,826)	(99,037,146)	(120,017,299)	(25,067,323)	(145,084,622)
Other changes in unrestricted net assets	(78,076,320)	(20,960,826)	(99,037,146)	(120,017,299)	(25,067,323)	(145,084,622)
Cumulative employer contributions in excess (deficit) of net periodic benefit cost	<u>7,714,114</u>	<u>6,332,023</u>	<u>14,046,137</u>	<u>8,176,299</u>	<u>(4,054,647)</u>	<u>4,121,652</u>
Net amount recognized in the consolidated balance sheets	<u>\$ (70,362,206)</u>	<u>\$ (14,628,803)</u>	<u>\$ (84,991,009)</u>	<u>\$ (111,841,000)</u>	<u>\$ (29,121,970)</u>	<u>\$ (140,962,970)</u>

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Other pension disclosures for 2021 and 2020 include:

	2021			2020		
	The System	DHK	Total	The System	DHK	Total
Components of net periodic benefit cost						
Service cost	\$ 4,132,629	\$ -0-	\$ 4,132,629	\$ 4,121,719	\$ -0-	\$ 4,121,719
Interest cost	6,976,554	1,123,847	8,100,401	8,763,215	341,911	9,105,126
Expected return on plan assets	(12,147,579)	(2,144,123)	(14,291,702)	(11,975,834)	(404,983)	(12,380,817)
Settlement (gain) loss	-0-	1,040,209	1,040,209	-0-	1,015,563	1,015,563
Amortization of (gain) loss	9,504,581	583,376	10,087,957	8,546,734	140,001	8,686,735
Net periodic benefit cost	<u>\$ 8,466,185</u>	<u>\$ 603,309</u>	<u>\$ 9,069,494</u>	<u>\$ 9,455,834</u>	<u>\$ 1,092,492</u>	<u>\$ 10,548,326</u>
Other changes in unrestricted net assets						
Net (gain) loss arising during year	\$ (32,436,398)	\$ (2,482,912)	\$ (34,919,310)	\$ 18,852,543	\$ 1,373,278	\$ 20,225,821
Amortization of prior service cost	-0-	-0-	-0-	-0-	-0-	-0-
Amortization of gain (loss)	(9,504,581)	(1,623,585)	(11,128,166)	(8,546,734)	(1,155,564)	(9,702,298)
Total other changes in unrestricted net assets	<u>\$ (41,940,979)</u>	<u>\$ (4,106,497)</u>	<u>\$ (46,047,476)</u>	<u>\$ 10,305,809</u>	<u>\$ 217,714</u>	<u>\$ 10,523,523</u>
Estimated amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year						
Amortization of prior service (cost) credit	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Amortization of gain (loss)	\$ 4,912,782	\$ 478,336	\$ 5,391,118	\$ 9,504,581	\$ 1,763,209	\$ 11,267,790
Weighted-average actuarial assumptions to determine benefit obligations of September 30						
Discount rate	2.81%	2.86%		2.62%	2.71%	
Rate of compensation increase	3.50%	N/A		3.50%	N/A	
Measurement date	9/30/2021	9/30/2021		9/30/2020	9/30/2020	
Weighted-average actuarial assumptions to determine net periodic benefit cost as of September 30						
Discount rate	2.62%	2.71%		3.13%	2.71%	
Expected long-term rate of return	5.35%	6.80%		5.70%	7.00%	
Rate of compensation increase	3.50%	N/A		3.50%	N/A	
Additional year end information						
Projected benefit obligation	\$ 336,647,746	\$ 51,757,321	\$ 388,405,067	\$ 340,008,388	\$ 54,075,463	\$ 394,083,851
Accumulated benefit obligation	\$ 318,477,756	\$ 51,757,321	\$ 370,235,077	\$ 321,879,761	\$ 54,075,463	\$ 375,955,224
Fair value of plan assets	\$ 266,285,540	\$ 37,128,518	\$ 303,414,058	\$ 228,167,388	\$ 24,953,493	\$ 253,120,881

The following is a schedule by year of expected benefit payments for the years after September 30, 2021:

Year Ending September 30,	The System	DHK	Total
2022	\$ 11,356,636	\$ 3,607,722	\$ 14,964,358
2023	12,167,614	1,783,592	13,951,206
2024	13,012,815	1,828,554	14,841,369
2025	14,033,677	1,802,045	15,835,722
2026	14,926,789	2,174,267	17,101,056
2027-2031	84,657,934	11,052,069	95,710,003
	<u>\$ 150,155,465</u>	<u>\$ 22,248,249</u>	<u>\$ 172,403,714</u>

Determination of net periodic pension cost for the years ended September 30, 2021 and 2020 is based on assumptions and census data as of January 1, 2021 and 2020, respectively.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the pension benefits plan.

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

The allocation strategy for the pension benefits plans currently comprises approximately 50% to 70% growth investments (target of 60%) and 30% to 50% fixed-income investments (target of 40%). Within the growth investment classification, the plans asset strategy encompass equity and equity-like instruments that are expected to represent approximately 60% of the System's plans asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies. The weighted-average asset allocations for both plans as of September 30, 2021 and 2020, were as follows:

	2021	2020
Growth securities	60%	58%
Fixed income securities	38%	38%
Cash equivalents	2%	4%
	100%	100%

Fair value of mutual funds, exchange traded funds and marketable equity securities are based on the quoted prices in active markets. The institutional fund investments are valued at the NAV on a market that is not active. However, the underlying investments are traded on an active market. The following is an analysis of fair value of the major classes of pension benefits plan assets of September 30, 2021 and 2020:

	2021		2020	
	The System	DHK	The System	DHK
Level 1				
Mutual funds and ETF				
Large blend and value	\$ -0-	\$ 5,513,818	\$ 54,242,302	\$ 5,289,864
Infrastructure	18,667,090	-0-	-0-	-0-
Other	-0-	3,956,015	14,264,790	2,206,802
Total mutual funds and ETF	18,667,090	9,469,833	68,507,092	7,496,666
Common stocks				
Technology	-0-	4,840,167	4,953,911	1,273,134
Other	-0-	10,235,280	23,078,716	10,547,422
Total common stocks	-0-	15,075,447	28,032,627	11,820,556
Total Level 1	18,667,090	24,545,280	96,539,719	19,317,222
Level 2				
Fixed income bonds				
Domestic	-0-	8,654,775	55,941,379	4,661,981
Other	-0-	1,824,509	5,112,605	-0-
Total Level 2	-0-	10,479,284	61,053,984	4,661,981
Cash equivalents	4,985,762	1,882,053	9,332,923	693,560
Institutional funds - not classified	242,632,688	221,901	61,240,762	280,730
	\$ 266,285,540	\$ 37,128,518	\$ 228,167,388	\$ 24,953,493

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

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

The System expects to contribute in excess of the required funding amounts to its pension benefits plan in 2022 of approximately \$8,004,000. The System does not expect to contribute to the DHK plan in 2022.

The System also offers a 401(k) plan to eligible employees where the System makes base contributions to eligible employees based on years of service in addition to matching contributions (ranging from 25% to 60% of employee deferral up to 6% of eligible earnings) based on the eligible employees' contribution to the 401(k) plan. Total expense for the System's contributions for eligible employees for 2021 and 2020 was approximately \$18,590,000 and \$15,963,000, respectively.

9. RELATED PARTY TRANSACTIONS

The System is a joint-owner of The Women's Hospital. The System owns the building in which The Women's Hospital is located and leases the space to The Women's Hospital currently at approximately \$230,000 per month with an option to increase that amount annually through 2031. The System provides ancillary services (lab, radiology) for The Women's Hospital. Ancillary services provided were approximately \$4,102,000 and \$3,703,000 in 2021 and 2020, respectively.

The System is a joint owner of Evansville Surgery Center Associates, LLC (Surgery Center). The System recorded contract service expense related to the Surgery Center of approximately \$30,495,000 and \$29,546,000 in 2021 and 2020, respectively. As of September 30, 2021 and 2020, the System had a liability to the Surgery Center of approximately \$4,128,000 and \$4,169,000, respectively.

The System is a joint-owner of Encompass Health Deaconess Rehabilitation Hospital. The System provides ancillary services (lab, radiology) to Encompass Health Deaconess Rehabilitation Hospital. Ancillary services provided were approximately \$1,310,000 and \$919,000 in 2021 and 2020, respectively.

Related party transactions between the System and other joint ventures in 2021 and 2020 were not significant to the System's overall consolidated financial statements.

10. COMMITMENTS AND CONTINGENCIES

Litigation

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

Health Insurance

The System's employee health care insurance is provided through a combination of insured, self-insured and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The self-insured health coverage carries a stop-loss maximum of \$450,000 per case with no aggregate limit.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

11. 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 2021 consolidated balance sheet date approximate \$508,420,000 and are comprised of \$309,631,000 in cash and cash equivalents and \$198,789,000 of patient accounts receivable. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. Patient accounts receivable are subject to implied time restrictions, but are expected to be collected within one year.

As a part of the System's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System periodically invests excess cash in investments. The System has board designated investments of approximately \$1,067,000,000 as of September 30, 2021. Although the System does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2020 consolidated balance sheet date approximated \$463,688,000 and were comprised of \$290,518,000 in cash and cash equivalents, \$172,249,000 of patient accounts receivable and \$921,000 of estimated third-party settlements.

12. FUNCTIONAL EXPENSES

The System provides health care services to patients in the community and the surrounding areas. Expenses related to providing these services for 2021 and 2020 are as follows. Fundraising expenses were not significant in 2021 and 2020.

	2021		
	Healthcare Services	General & Administrative	Total
Expenses			
Salaries and wages	\$ 525,461,518	\$ 56,042,081	\$ 581,503,599
Employee benefits	127,665,166	21,738,343	149,403,509
Supplies	289,611,812	2,513,277	292,125,089
Contract services	133,865,558	11,537,731	145,403,289
Repairs and maintenance	37,737,867	15,137,267	52,875,134
Depreciation	47,476,955	22,255,845	69,732,800
Interest	7,628,664	5,319,994	12,948,658
Utilities	11,318,180	7,043,120	18,361,300
Other	100,522,531	11,659,485	112,182,016
Total expenses	\$ 1,281,288,251	\$ 153,247,143	\$ 1,434,535,394

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Expenses	2020		
	Healthcare Services	General & Administrative	Total
	Salaries and wages	\$ 429,655,819	\$ 45,824,110
Employee benefits	101,568,444	17,294,692	118,863,136
Supplies	239,073,060	2,074,697	241,147,757
Contract services	101,584,165	8,755,432	110,339,597
Repairs and maintenance	30,080,721	12,065,862	42,146,583
Depreciation	41,962,329	19,670,745	61,633,074
Interest	7,223,771	5,037,634	12,261,405
Utilities	8,965,892	5,579,329	14,545,221
Other	83,437,288	9,677,789	93,115,077
Total expenses	\$ 1,043,551,489	\$ 125,980,290	\$ 1,169,531,779

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

13. COVID-19 AND GOVERNMENT PROGRAMS

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may continue to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact the System's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Impacts include, but are not limited to, additional costs for responding to COVID-19, potential shortages of health care personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the System is taking appropriate actions to respond to the pandemic. However, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were issued.

During 2021 and 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The System received approximately \$5,709,000 and \$40,911,000 of these funds from the CARES Act during 2021 and 2020, respectively. PRF amounts are recognized to the extent the System meets the terms and conditions of the grant. The System recognized PRF of \$25,442,000 and \$21,178,000 as other operating revenue in the consolidated statements of operations and changes in net assets during 2021 and 2020, respectively. No PRF amounts were deferred as refundable advances as of September 30, 2021. A refundable advance of \$19,733,000 was included in accrued liabilities on the consolidated balance sheet as of September 30, 2020.

DEACONESS HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2021 AND 2020

Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the System's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the System's financial position.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. Included on the consolidated balance sheets in other current liabilities were accelerated and advanced payments of approximately \$84,778,000 and \$60,272,000 as of September 30, 2021 and 2020, respectively. Other long-term liabilities included accelerated and advanced payments of \$-0- and \$55,886,000 as of September 30, 2021 and 2020, respectively.

During 2021, the System incurred expenses related to COVID-19 which were submitted to the Federal Emergency Management Agency (FEMA) under the CARES Act. FEMA approved the reimbursement of approximately \$5,000,000 of allowable expenses which is included in other revenue on the consolidated statement of operations.

SUPPLEMENTARY INFORMATION

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2021

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Health Kentucky	Deaconess Health Gibson	Progressive Health of Indiana, LLC	Healthcare Resource Solutions	Tri-State Radiation Oncology, LLC	Deaconess VNA Plus, LLC	Other Entities
Assets											
Current assets											
Cash and cash equivalents	\$ 309,630,869	\$ -0-	\$ 235,604,778	\$ -0-	\$ 24,198,750	\$ 27,980,605	\$ 1,301,046	\$ 1,721,473	\$ 4,488,148	\$ 9,998,660	\$ 4,337,409
Funds held by trustee	192,007	-0-	77,030	-0-	-0-	114,977	-0-	-0-	-0-	-0-	-0-
Patient accounts receivable, net	198,788,958	-0-	164,228,740	13,134,587	12,756,247	4,439,070	67,264	-0-	2,033,870	434,963	1,694,217
Inventories	15,640,660	-0-	9,859,049	-0-	2,975,645	487,646	-0-	-0-	-0-	-0-	2,318,320
Prepaid expenses and other current assets	45,539,554	(26,404,311)	58,562,161	2,208,441	(37,764)	(942,805)	3,933,222	3,498,699	160,286	17,852	4,543,773
Total current assets	569,792,048	(26,404,311)	468,331,758	15,343,028	39,892,878	32,079,493	5,301,532	5,220,172	6,682,304	10,451,475	12,893,719
Investments limited as to use											
Funds held by trustee	3,647,787	-0-	-0-	-0-	3,647,787	-0-	-0-	-0-	-0-	-0-	-0-
Board designated funds	1,066,976,264	-0-	1,054,621,470	-0-	12,354,794	-0-	-0-	-0-	-0-	-0-	-0-
Board designated funds - Foundation	12,463,929	-0-	12,463,929	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Donor restricted - Foundation	6,406,835	-0-	6,406,835	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total investments limited as to use	1,089,494,815	-0-	1,073,492,234	-0-	16,002,581	-0-	-0-	-0-	-0-	-0-	-0-
Property and equipment											
Land and improvements	33,348,043	-0-	28,137,457	-0-	800,816	421,244	-0-	-0-	-0-	-0-	3,988,526
Buildings and improvements	831,007,295	-0-	766,988,457	-0-	54,521,300	7,337,196	2,426	-0-	641,255	-0-	1,516,661
Furniture, fixtures and equipment	360,558,369	-0-	296,256,075	20,228,526	19,030,052	8,369,933	67,441	319,671	10,221,095	3,546,601	2,518,975
	1,224,913,707	-0-	1,091,381,989	20,228,526	74,352,168	16,128,373	69,867	319,671	10,862,350	3,546,601	8,024,162
Accumulated depreciation	(664,495,758)	-0-	(630,177,554)	(8,977,385)	(10,426,439)	(2,067,716)	(56,380)	(281,590)	(8,006,432)	(3,293,217)	(1,209,045)
	560,417,949	-0-	461,204,435	11,251,141	63,925,729	14,060,657	13,487	38,081	2,855,918	253,384	6,815,117
Construction in progress	43,340,093	-0-	38,422,320	962,168	2,348,572	561,530	-0-	-0-	-0-	-0-	1,045,503
Total property and equipment, net	603,758,042	-0-	499,626,755	12,213,309	66,274,301	14,622,187	13,487	38,081	2,855,918	253,384	7,860,620
Other assets											
Investments in joint ventures	70,910,516	(111,977,333)	161,893,442	834,554	17,225,520	2,278,167	-0-	-0-	-0-	-0-	656,166
Operating lease right-of-use assets	52,925,978	(45,152,498)	29,000,911	59,138,630	933,730	859,071	-0-	3,450,469	180,758	1,817,494	2,697,413
Goodwill and other intangibles	49,390,830	-0-	48,218,554	336,478	-0-	-0-	-0-	-0-	-0-	-0-	835,798
Other	29,395,498	(20,377,635)	40,563,270	8,942,507	448,594	-0-	(774,588)	-0-	-0-	-0-	593,350
Total other assets	202,622,822	(177,507,466)	279,676,177	69,252,169	18,607,844	3,137,238	(774,588)	3,450,469	180,758	1,817,494	4,782,727
Total assets	\$ 2,465,667,727	\$ (203,911,777)	\$ 2,321,126,924	\$ 96,808,506	\$ 140,777,604	\$ 49,838,918	\$ 4,540,431	\$ 8,708,722	\$ 9,718,980	\$ 12,522,353	\$ 25,537,066

See report of independent auditors on pages 1 and 2.

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2021

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Health Kentucky	Deaconess Health Gibson	Progressive Health of Indiana, LLC	Healthcare Resource Solutions	Tri-State Radiation Oncology, LLC	Deaconess VNA Plus, LLC	Other Entities
Liabilities and net assets											
Current liabilities											
Accounts payable and other accrued liabilities	\$ 70,908,527	\$ (26,404,311)	\$ 56,042,440	\$ 6,381,923	\$ 16,339,454	\$ 8,434,501	\$ (510,901)	\$ 143,454	\$ 615,824	\$ 7,685,941	\$ 2,180,202
Salaries, wages and related liabilities	97,277,440	-0-	56,906,118	23,111,825	6,075,431	1,515,558	1,382,878	2,278,532	308,849	251,691	5,446,558
Estimated third-party payor settlements	9,737,523	-0-	6,788,222	-0-	492,268	2,457,033	-0-	-0-	-0-	-0-	-0-
Accrued interest	1,578,835	-0-	1,256,243	-0-	322,592	-0-	-0-	-0-	-0-	-0-	-0-
Other current liabilities	84,777,695	-0-	76,848,498	-0-	7,195,199	-0-	-0-	-0-	733,998	-0-	-0-
Current portion of operating lease liabilities	16,067,446	(4,108,215)	8,339,315	9,779,882	647,471	314,961	-0-	359,862	106,068	213,194	414,908
Current portion of long-term debt	12,790,241	-0-	8,717,645	-0-	2,586,126	1,486,470	-0-	-0-	-0-	-0-	-0-
Total current liabilities	293,137,707	(30,512,526)	214,898,481	39,273,630	33,658,541	14,208,523	871,977	2,781,848	1,764,739	8,150,826	8,041,668
Long-term liabilities											
Operating lease liabilities, less current portion	37,666,608	(41,044,283)	20,693,868	48,985,580	286,833	1,493,818	-0-	3,104,822	71,782	1,827,420	2,246,768
Long-term debt, less current portion	340,953,000	(20,377,635)	321,434,194	-0-	29,779,056	10,117,385	-0-	-0-	-0-	-0-	-0-
Other long-term liabilities	102,750,499	-0-	80,606,365	3,887,838	14,628,803	2,841,300	-0-	-0-	484,684	-0-	301,509
Total long-term liabilities	481,370,107	(61,421,918)	422,734,427	52,873,418	44,694,692	14,452,503	-0-	3,104,822	556,466	1,827,420	2,548,277
Total liabilities	774,507,814	(91,934,444)	637,632,908	92,147,048	78,353,233	28,661,026	871,977	5,886,670	2,321,205	9,978,246	10,589,945
Net assets											
Without donor restrictions											
Undesignated	597,653,029	(119,637,189)	610,001,782	4,661,458	50,069,577	21,177,892	3,668,454	2,822,052	7,397,775	2,544,107	14,947,121
Designated - capital improvements	1,066,976,264	-0-	1,054,621,470	-0-	12,354,794	-0-	-0-	-0-	-0-	-0-	-0-
Designated - Foundation	12,463,929	-0-	12,463,929	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Non-controlling interest	7,659,856	7,659,856	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total net assets without donor restrictions	1,684,753,078	(111,977,333)	1,677,087,181	4,661,458	62,424,371	21,177,892	3,668,454	2,822,052	7,397,775	2,544,107	14,947,121
With donor restrictions	6,406,835	-0-	6,406,835	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total net assets	1,691,159,913	(111,977,333)	1,683,494,016	4,661,458	62,424,371	21,177,892	3,668,454	2,822,052	7,397,775	2,544,107	14,947,121
Total liabilities and net assets	\$ 2,465,667,727	\$ (203,911,777)	\$ 2,321,126,924	\$ 96,808,506	\$ 140,777,604	\$ 49,838,918	\$ 4,540,431	\$ 8,708,722	\$ 9,718,980	\$ 12,522,353	\$ 25,537,066

See report of independent auditors on pages 1 and 2.

DEACONESS HEALTH SYSTEM

CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED SEPTEMBER 30, 2021

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Health Kentucky	Deaconess Health Gibson	Progressive Health of Indiana, LLC	Healthcare Resource Solutions	Tri-State Radiation Oncology, LLC	Deaconess VNA Plus, LLC	Other Entities
Revenue and other support											
Patient service revenue	\$ 1,479,727,465	\$ -0-	\$ 1,135,374,675	\$ 117,184,505	\$ 134,641,789	\$ 45,454,771	\$ 1,002,749	\$ -0-	\$ 22,625,988	\$ 3,830,956	\$ 19,612,032
Other revenue	89,989,506	(73,508,604)	36,598,852	13,293,489	11,677,370	2,591,561	31,953,883	30,178,468	-0-	-0-	37,204,487
Total revenue and other support	1,569,716,971	(73,508,604)	1,171,973,527	130,477,994	146,319,159	48,046,332	32,956,632	30,178,468	22,625,988	3,830,956	56,816,519
Expenses											
Salaries and wages	581,503,599	-0-	341,138,319	117,983,709	40,444,566	12,789,342	16,894,411	19,365,039	2,244,545	2,072,038	28,571,630
Employee benefits	149,403,509	-0-	100,592,069	20,162,943	10,835,502	3,366,667	2,256,845	7,287,551	673,363	446,476	3,782,093
Supplies	292,125,089	-0-	233,498,641	12,623,316	18,911,485	5,309,396	230,330	849,222	181,800	112,366	20,408,533
Contract services	145,403,289	(102,084,432)	170,319,473	18,088,497	36,492,337	11,489,803	2,938,202	444,037	2,618,578	1,501,045	3,595,749
Repairs and maintenance	52,875,134	-0-	44,350,346	1,172,988	6,141,391	731,893	21,978	171,649	-0-	-0-	284,889
Depreciation	69,732,800	-0-	56,312,153	1,495,727	8,287,654	2,067,630	1,375	14,419	773,588	87,717	692,537
Interest	12,948,658	-0-	11,279,950	-0-	1,202,956	456,513	-0-	-0-	-0-	9,239	-0-
Utilities	18,361,300	-0-	13,091,958	1,631,354	2,275,459	843,359	41,317	57,253	92,800	186,034	141,766
Other	112,182,016	(1,502,159)	80,303,187	16,336,948	7,964,876	1,738,130	667,278	1,133,518	3,149,045	504,904	1,886,289
Total expenses	1,434,535,394	(103,586,591)	1,050,886,096	189,495,482	132,556,226	38,792,733	23,051,736	29,322,688	9,733,719	4,919,819	59,363,486
Income (loss) from operations	135,181,577	30,077,987	121,087,431	(59,017,488)	13,762,933	9,253,599	9,904,896	855,780	12,892,269	(1,088,863)	(2,546,967)
Nonoperating revenues (expenses)											
Investment return	355,957,966	-0-	355,639,273	134,639	98,230	74,316	-0-	-0-	-0-	8,659	2,849
Net unrealized gain on investments	(123,737,225)	-0-	(124,973,202)	-0-	1,235,977	-0-	-0-	-0-	-0-	-0-	-0-
Net periodic pension cost	(4,936,865)	-0-	(4,333,556)	-0-	(603,309)	-0-	-0-	-0-	-0-	-0-	-0-
Contributions, gifts, and bequests	566,534	-0-	566,534	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Grants	(1,090,293)	-0-	(1,090,293)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total nonoperating revenues (expenses)	226,760,117	-0-	225,808,756	134,639	730,898	74,316	-0-	-0-	-0-	8,659	2,849
Excess revenues over (under) expenses	361,941,694	30,077,987	346,896,187	(58,882,849)	14,493,831	9,327,915	9,904,896	855,780	12,892,269	(1,080,204)	(2,544,118)
Other changes in net assets without donor restrictions											
Benefit related changes other than net periodic benefit cost	46,047,476	-0-	41,940,979	-0-	4,106,497	-0-	-0-	-0-	-0-	-0-	-0-
Net assets released from restriction	407,983	-0-	407,983	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital contributions	-0-	(94,361,422)	4,584,753	55,335,292	15,569,643	3,132,427	-0-	-0-	-0-	2,027,627	13,711,680
Distributions	(12,741,253)	15,125,780	-0-	-0-	-0-	-0-	(8,986,544)	-0-	(11,306,000)	-0-	(7,574,489)
Change in net assets without donor restrictions	395,655,900	(49,157,655)	393,829,902	(3,547,557)	34,169,971	12,460,342	918,352	855,780	1,586,269	947,423	3,593,073
Net assets with donor restrictions											
Contributions, gifts, and bequests	324,304	-0-	324,304	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Change in beneficial interest in trusts	198,858	-0-	198,858	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Investment return, net	693,906	-0-	693,906	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net unrealized loss on investments	(536,138)	-0-	(536,138)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net assets released from restriction	(407,983)	-0-	(407,983)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Change in net assets with donor restrictions	272,947	-0-	272,947	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Change in net assets	\$ 395,928,847	\$ (49,157,655)	\$ 394,102,849	\$ (3,547,557)	\$ 34,169,971	\$ 12,460,342	\$ 918,352	\$ 855,780	\$ 1,586,269	\$ 947,423	\$ 3,593,073

See report of independent auditors on pages 1 and 2.

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET – DEACONESS HEALTH SYSTEM OBLIGATED GROUP SEPTEMBER 30, 2021

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Assets				
Current assets				
Cash and cash equivalents	\$ 235,604,778	\$ -0-	\$ 5,940,338	\$ 229,664,440
Funds held by trustee	77,030	-0-	-0-	77,030
Patient accounts receivable	164,228,740	-0-	-0-	164,228,740
Inventories	9,859,049	-0-	-0-	9,859,049
Prepaid expenses and other current assets	58,562,161	(48,784,359)	47,326	107,299,194
Total current assets	468,331,758	(48,784,359)	5,987,664	511,128,453
Investments limited as to use				
Board designated funds	1,054,621,470	-0-	-0-	1,054,621,470
Board designated funds - Foundation	12,463,929	-0-	-0-	12,463,929
Donor restricted - Foundation	6,406,835	-0-	-0-	6,406,835
Total investments limited as to use	1,073,492,234	-0-	-0-	1,073,492,234
Property and equipment				
Land and improvements	28,137,457	-0-	2,256,759	25,880,698
Buildings and improvements	766,988,457	-0-	25,870,116	741,118,341
Furniture, fixtures and equipment	296,256,075	-0-	167,633	296,088,442
	1,091,381,989	-0-	28,294,508	1,063,087,481
Accumulated depreciation	(630,177,554)	-0-	(19,937,107)	(610,240,447)
	461,204,435	-0-	8,357,401	452,847,034
Construction in progress	38,422,320	-0-	814,798	37,607,522
Total property and equipment, net	499,626,755	-0-	9,172,199	490,454,556
Other assets				
Investments in joint ventures	161,893,442	-0-	100,612,309	61,281,133
Operating lease right-of-use assets	29,000,911	(2,385,968)	-0-	31,386,879
Goodwill and other intangibles	48,218,554	-0-	-0-	48,218,554
Other	40,563,270	(73,229)	22,440,328	18,196,171
Total other assets	279,676,177	(2,459,197)	123,052,637	159,082,737
Total assets	<u>\$ 2,321,126,924</u>	<u>\$ (51,243,556)</u>	<u>\$ 138,212,500</u>	<u>\$ 2,234,157,980</u>

See report of independent auditors on pages 1 and 2.

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET – DEACONESS HEALTH SYSTEM OBLIGATED GROUP SEPTEMBER 30, 2021

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Liabilities and net assets				
Current liabilities				
Accounts payable and other accrued liabilities	\$ 56,042,440	\$ (48,784,359)	\$ 49,047,736	\$ 55,779,063
Salaries, wages and related liabilities	56,906,118	-0-	-0-	56,906,118
Estimated third-party payor settlements	6,788,222	-0-	-0-	6,788,222
Accrued interest	1,256,243	-0-	-0-	1,256,243
Other current liabilities	76,848,498	-0-	-0-	76,848,498
Current portion of operating lease liabilities	8,339,315	(538,775)	-0-	8,878,090
Current portion of long-term debt	8,717,645	-0-	-0-	8,717,645
Total current liabilities	214,898,481	(49,323,134)	49,047,736	215,173,879
Long-term liabilities				
Operating lease liabilities, less current portion	20,693,868	(1,847,193)	-0-	22,541,061
Long-term debt, less current portion	321,434,194	-0-	-0-	321,434,194
Other long-term liabilities	80,606,365	-0-	-0-	80,606,365
Total long-term liabilities	422,734,427	(1,847,193)	-0-	424,581,620
Total liabilities	637,632,908	(51,170,327)	49,047,736	639,755,499
Net assets				
Without donor restrictions				
Undesignated	610,001,782	(73,229)	89,164,764	520,910,247
Designated - capital improvements	1,054,621,470	-0-	-0-	1,054,621,470
Designated - Foundation	12,463,929	-0-	-0-	12,463,929
Total net assets without donor restrictions	1,677,087,181	(73,229)	89,164,764	1,587,995,646
With donor restrictions	6,406,835	-0-	-0-	6,406,835
Total net assets	1,683,494,016	(73,229)	89,164,764	1,594,402,481
Total liabilities and net assets	\$ 2,321,126,924	\$ (51,243,556)	\$ 138,212,500	\$ 2,234,157,980

See report of independent auditors on pages 1 and 2.

DEACONESS HEALTH SYSTEM

CONSOLIDATING STATEMENT OF OPERATIONS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP YEAR ENDED SEPTEMBER 30, 2021

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Revenue and other support				
Patient service revenue	\$ 1,135,374,675	\$ -0-	\$ -0-	\$ 1,135,374,675
Other revenue (expense)	36,598,852	(654,055)	(45,640,922)	82,893,829
Total revenue and other support	1,171,973,527	(654,055)	(45,640,922)	1,218,268,504
Expenses				
Salaries and wages	341,138,319	-0-	-0-	341,138,319
Employee benefits	100,592,069	-0-	-0-	100,592,069
Supplies	233,498,641	-0-	4,944	233,493,697
Contract services	170,319,473	-0-	1,380,329	168,939,144
Repairs and maintenance	44,350,346	-0-	376,749	43,973,597
Depreciation	56,312,153	-0-	659,834	55,652,319
Interest	11,279,950	-0-	-0-	11,279,950
Utilities	13,091,958	-0-	367,240	12,724,718
Other	80,303,187	(654,055)	76,462	80,880,780
Total expenses	1,050,886,096	(654,055)	2,865,558	1,048,674,593
Income (loss) from operations	121,087,431	-0-	(48,506,480)	169,593,911
Nonoperating revenues (expenses)				
Investment return	355,639,273	-0-	1,066,747	354,572,526
Net unrealized gain on investments	(124,973,202)	-0-	-0-	(124,973,202)
Net periodic pension cost	(4,333,556)	-0-	-0-	(4,333,556)
Contributions, gifts, and bequests	566,534	-0-	-0-	566,534
Grants	(1,090,293)	-0-	-0-	(1,090,293)
Total nonoperating revenues (expenses)	225,808,756	-0-	1,066,747	224,742,009
Excess revenues over (under) expenses	346,896,187	-0-	(47,439,733)	394,335,920
Other changes in net assets without donor restrictions				
Benefit related changes other than net periodic benefit cost	41,940,979	-0-	-0-	41,940,979
Net assets released from restriction	407,983	-0-	-0-	407,983
Transfers	4,584,753	-0-	64,370,587	(59,785,834)
Change in net assets without donor restrictions	393,829,902	-0-	16,930,854	376,899,048
Net assets with donor restrictions				
Contributions, gifts, and bequests	324,304	-0-	-0-	324,304
Change in beneficial interest	198,858	-0-	-0-	198,858
Investment return	693,906	-0-	-0-	693,906
Net unrealized gain on investments	(536,138)	-0-	-0-	(536,138)
Net assets released from restriction	(407,983)	-0-	-0-	(407,983)
Change in net assets with donor restrictions	272,947	-0-	-0-	272,947
Change in net assets	\$ 394,102,849	\$ -0-	\$ 16,930,854	\$ 377,171,995

See report of independent auditors on pages 1 and 2.



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

Board of Directors
 Deaconess Health System
 Evansville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Deaconess Health System (the System), which comprise the consolidated balance sheet as of September 30, 2021, 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 January 20, 2022.

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 may exist that have not been identified.

Compliance and Other Matters

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

Board of Directors
Deaconess Health System
Evansville, Indiana

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
January 20, 2022