# Consolidated Financial Statements and Supplementary Information

Beacon Health System, Inc. and Affiliated Corporations
Years Ended December 31, 2023 and 2022
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2023 and 2022

## Contents

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# Report of Independent Auditors

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

## Opinion

We have audited the consolidated financial statements of Beacon Health System, Inc. and Affiliated Corporations (the Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

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

## Basis for Opinion

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

## Responsibilities of Management for the Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young LLP

March 8, 2024

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets
*(In Thousands)*

| | December 31 | |
|---|---|---|
| | **2023** | **2022** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 115,964** | $ 70,805 |
| Short-term investments | **84,949** | 32,935 |
| Patient accounts receivable | **232,093** | 217,013 |
| Due from third-party payors | **49,704** | 34,409 |
| Other receivables | **15,946** | 37,603 |
| Other current assets | **905** | 1,060 |
| Inventories | **36,315** | 31,329 |
| Prepaid expenses | **21,268** | 22,502 |
| Total current assets | **557,144** | 447,656 |
| | | |
| Assets limited as to use: | | |
| Internally designated investments | **832,892** | 800,871 |
| Restricted cash | **6,778** | 5,708 |
| Externally designated investments – insurance trust | **2,884** | 2,760 |
| Board-designated endowment | **31,624** | 29,406 |
| Endowment and temporarily restricted investments | **11,220** | 10,152 |
| | **885,398** | 848,897 |
| Property and equipment: | | |
| Land | **65,736** | 68,572 |
| Buildings and improvements | **973,765** | 928,917 |
| Furniture and equipment | **548,710** | 523,444 |
| Construction-in-progress | **60,737** | 54,537 |
| | **1,648,948** | 1,575,470 |
| Less allowances for depreciation and amortization | **904,417** | 845,442 |
| | **744,531** | 730,028 |
| | | |
| Deferred charges and other assets | **79,446** | 83,553 |
| Total assets | **$ 2,266,519** | $ 2,110,134 |

## Beacon Health System, Inc. and Affiliated Corporations

## Consolidated Balance Sheets (continued)

*(In Thousands)*

| | December 31 | |
|---|---|---|
| | **2023** | **2022** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable | **$ 64,287** | $ 73,905 |
| Accrued salaries and benefits | **59,640** | 54,230 |
| Accrued expenses | **4,327** | 4,966 |
| Other current liabilities | **933** | 1,076 |
| Due to third-party payors | **2,121** | 7,279 |
| Current maturities of long-term debt | **13,873** | 16,533 |
| Total current liabilities | **145,181** | 157,989 |
| | | |
| Noncurrent liabilities: | | |
| Long-term debt, less current maturities | **344,734** | 288,829 |
| Other liabilities | **13,801** | 14,254 |
| Interest rate and basis swaps | **6,078** | 11,031 |
| | **364,613** | 314,114 |
| Total liabilities | **509,794** | 472,103 |
| | | |
| Net assets: | | |
| Without donor restrictions | **1,737,471** | 1,620,864 |
| With donor restrictions | **19,254** | 17,167 |
| Total net assets | **1,756,725** | 1,638,031 |
| | | |
| Total liabilities and net assets | **$ 2,266,519** | $ 2,110,134 |

*See accompanying notes.*

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets
*(In Thousands)*

| | Year Ended December 31 | |
|---|---|---|
| | **2023** | **2022** |
| **Unrestricted revenue, gains, and other support** | | |
| Patient service revenue | **$ 1,290,004** | $ 1,205,384 |
| Other revenue | **72,270** | 88,619 |
| Net assets released from restrictions used for operations | **1,197** | 1,911 |
| | **1,363,471** | 1,295,914 |
| **Expenses** | | |
| Salaries and wages | **620,270** | 639,985 |
| Employee benefits | **140,327** | 122,874 |
| Supplies and other | **336,087** | 329,135 |
| Professional fees and purchased services | **155,288** | 148,003 |
| Depreciation and amortization | **63,182** | 63,345 |
| Interest | **7,761** | 6,867 |
| | **1,322,915** | 1,310,209 |
| Income (loss) from operations | **40,556** | (14,295) |
| | | |
| **Nonoperating income (expenses)** | | |
| Investment income (losses), net | **70,870** | (92,938) |
| Unrealized gains on swap transactions, net | **4,953** | 5,853 |
| Gain on lease termination | **–** | 39 |
| Revenue and gains in excess of (less than) expenses | **116,379** | (101,341) |

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets (continued)
*(In Thousands)*

| | Year Ended December 31 | |
|---|---|---|
| | **2023** | **2022** |
| **Net assets without donor restrictions** | | |
| Revenue and gains in excess of (less than) expenses | **$ 116,379** | $ (101,341) |
| Net assets released from restrictions used for capital purposes | **228** | 1,499 |
| Net assets released from restriction by donor and other | **–** | 15 |
| Increase (decrease) in net assets without donor restrictions | **116,607** | (99,827) |
| | | |
| **Net assets with donor restrictions** | | |
| Purpose-restricted contributions | **2,438** | 3,705 |
| Investment income (losses) | **1,074** | (1,509) |
| Net assets released from restrictions used for operating and capital purposes | **(1,425)** | (3,286) |
| Increase (decrease) in net assets with donor restrictions | **2,087** | (1,090) |
| | | |
| Change in net assets | **118,694** | (100,917) |
| Net assets at beginning of year | **1,638,031** | 1,738,948 |
| Net assets at end of year | **$ 1,756,725** | $ 1,638,031 |

*See accompanying notes.*

# Beacon Health System, Inc. and Affiliated Corporations

## Consolidated Statements of Cash Flows

*(In Thousands)*

| | Year Ended December 31 | |
|---|---|---|
| | **2023** | **2022** |
| **Operating activities** | | |
| Change in net assets | **$ 118,694** | $ (100,917) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **63,182** | 63,345 |
| Unrealized gains on swap transactions, net | **(4,953)** | (5,853) |
| Gain on lease termination | **–** | (39) |
| Unrealized gains (losses) on investments | **(42,660)** | 112,416 |
| Restricted contributions and investment income | **(3,512)** | (2,196) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | **(15,080)** | 19,697 |
| Other receivables, inventories, and prepaid expenses | **18,060** | (20,958) |
| Other assets | **4,143** | (9,694) |
| Investments – trading | **7,229** | 61,484 |
| Accounts payable, accrued salaries and benefits, and accrued expenses | **(4,990)** | (15,882) |
| Due to/from third-party payors, net | **(20,453)** | (71,958) |
| Other long-term liabilities | **(630)** | (3,719) |
| Net cash provided by operating activities | **119,030** | 25,726 |
| | | |
| **Investing activities** | | |
| Additions to property and equipment, net | **(76,348)** | (87,910) |
| Net cash used in investing activities | **(76,348)** | (87,910) |
| | | |
| **Financing activities** | | |
| Principal payments on long-term debt and other debt obligations | **(17,653)** | (11,346) |
| Proceeds from long-term debt | **70,020** | 32,220 |
| Payment of bond issue costs | **(318)** | – |
| Restricted contributions and investment income | **3,512** | 2,196 |
| Net cash provided by financing activities | **55,561** | 23,070 |
| | | |
| Increase (decrease) in cash and cash equivalents and restricted cash | **98,243** | (39,114) |
| Cash and cash equivalents and restricted cash at beginning of year | **109,448** | 148,562 |
| Cash and cash equivalents and restricted cash at end of year | **$ 207,691** | $ 109,448 |
| | | |
| Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets: | | |
| Cash and cash equivalents | **$ 115,964** | $ 70,805 |
| Short-term investments | **84,949** | 32,935 |
| Restricted cash included in assets limited as to use | **6,778** | 5,708 |
| | **$ 207,691** | $ 109,448 |
| | | |
| **Supplemental disclosure of cash flow information** | | |
| Interest paid | **$ 7,952** | $ 6,703 |

*See accompanying notes.*

## 1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Beacon Health System, Inc. (the Corporation) and its various affiliated corporations under the control of the Corporation (collectively, BHS). The Corporation is an Indiana not-for-profit corporation exempt from federal income tax under Internal Revenue Code (the Code) Section 501(a) as an organization described in Section 501(c)(3) and a public charity, as described in Section 509(a)(3). The Corporation is the sole corporate member of the following entities:

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

### 1. Organization and Basis of Consolidation (continued)

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

TRH includes Integrated Health Systems (IHS) and Three Rivers Health Foundation (TRHF). IHS is a for-profit company whose purpose is to employ physicians who work at TRH as contracted employees. TRHF is a nonprofit organization whose purpose is to fund projects of TRH. As of December 31, 2022, IHS and TRHF were dissolved. All TRHF funds were distributed and future fundraising activity will run through BHF.

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

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

BOH primarily promotes population health management.

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

BMG operates the physician enterprise of the Corporation.

BH improves and expands delivery and quality of health care services for the Corporation.

BPL Acquisitions, LLC is a real estate holding company established to purchase land.

**1. Organization and Basis of Consolidation (continued)**

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

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

The Corporation owns a less-than-majority ownership or controlling interest in the following:

- 50% interest in Community Health Alliance LLC, an Indiana physician hospital organization
- 25% interest in Magnetic Resonance Imaging, LLC, an imaging and radiology center
- 40% interest in Elkhart Health, Fitness & Aquatics, Inc., a health fitness and aquatics center
- 10% interest in Alick's Home Medical Equipment, Inc., a home medical equipment provider
- 54% interest in South Bend Specialty Surgery Center, LLC, an outpatient surgery center. Although the Corporation owns a majority financial interest in this entity, it does not possess a controlling interest in the entity, and therefore does not consolidate the LLC.
- 50% interest in Franciscan Beacon Health, an acute care hospital located in LaPorte, Indiana
- 51% interest in ASC Ventures LLC, an ambulatory surgery center located in Granger, Indiana
- 20% interest in Northern Indiana Ambulatory Surgery Center, LLC d/b/a/ Riverpointe Surgery Center, an ambulatory surgery center located in Elkhart, Indiana

*(Dollars in Thousands)*

## 1. Organization and Basis of Consolidation (continued)

Aggregate financial information relating to these investments is as follows:

| | 2023 | 2022 |
|---|---|---|
| Assets | **$ 133,470** | $ 119,265 |
| Liabilities | **49,062** | 29,226 |
| Net income | **4,694** | 1,339 |

At December 31, 2023 and 2022, the Corporation has $59,782 and $59,367, respectively, related to these equity method investments recorded in deferred charges and other assets on the consolidated balance sheets. During 2023, the Corporation sold its interests in LaPorte Medical Group Surgery Center, LLP, and Michiana Information Health Network, Inc. The loss was not material. In 2022, the Corporation sold its interests in Valparaiso Medical Development, LLC; the gain was not material.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

### Cash Equivalents and Restricted Cash

All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are reflected as cash equivalents. Cash equivalents include checking accounts, money market accounts, corporate credit card accounts, cash on account with vendors, and petty cash. The carrying value of cash equivalents approximates fair value. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of assets limited

## 2. Summary of Significant Accounting Policies (continued)

as to use are excluded from cash equivalents as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

### Short-Term Investments

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

### Assets Limited as to Use

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

### Investments

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

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

## 2. Summary of Significant Accounting Policies (continued)

Investments in alternative investments, primarily hedge fund of funds, that invest in marketable securities, commingled funds, and private equity funds are accounted for under the equity method and are based on the net asset value of the investments. The calculated net asset values are provided by the respective fund managers and are based on historical costs, appraisals, and other estimates that require varying degrees of judgment.

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

### Inventories

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

### Unamortized Bond Issuance Costs

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

### Fair Value of Financial Instruments

The Corporation's carrying amount for its financial instruments, which include cash and cash equivalents, short-term investments and assets limited as to use, accounts receivable, debt, and interest rate and basis swaps at December 31, 2023 and 2022, approximates fair value. The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies.

## 2. Summary of Significant Accounting Policies (continued)

### Property and Equipment

Property and equipment are carried at cost, except for donated assets, which are recorded at fair value at the date of donation. Allowances for depreciation and amortization are computed primarily utilizing the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Depreciation expense for the years ended December 31, 2023 and 2022, was $61,845 and $61,974, respectively.

### Lease Right of Use Assets and Liabilities

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

The Corporation records financing lease ROU assets at the value of principal payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Financing ROU assets are amortized using the straight-line method over the related lease term. Amortization of financing lease ROU assets is included on the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expenses.

### Asset Impairment

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. There were no impairments of long-lived assets in 2023 or 2022.

### Deferred Charges and Other Assets

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

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

**2. Summary of Significant Accounting Policies (continued)**

The carrying value of goodwill amounted to approximately $12,038 at December 31, 2023 and 2022, and is included in deferred charges and other assets on the consolidated balance sheets. Goodwill is assessed for impairment on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill in 2023 or 2022.

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

**Endowment Investments**

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

**Contributions**

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

**Net Assets Without Donor Restrictions**

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

**Net Assets With Donor Restrictions**

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

## 2. Summary of Significant Accounting Policies (continued)

The Corporation reports pledges, gifts of cash, and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported on the consolidated statements of operations and changes in net assets as additions to net assets without restrictions. Resources restricted by donors for specific operating purposes are reported in revenue without restrictions, gains, and other support to the extent expended within the period.

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

### Patient Service Revenue and Patient Accounts Receivable

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

## 2. Summary of Significant Accounting Policies (continued)

### Performance Indicator

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

### Allocation of Costs

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

### Interest Rate and Basis Swaps

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

### Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements by recognizing an expense and accreting a liability over the life of the asset to cover potential legal obligations at the end of the asset's useful life. The asset retirement obligation primarily relates to future asbestos remediation related to buildings on MHSB's campus, as well as ground/soil remediation associated with the removal of underground fuel tanks. The carrying value of the obligation amounted to approximately $5,560 and $5,383 at December 31, 2023 and 2022, respectively, and is reflected in other liabilities on the consolidated balance sheets.

## 2. Summary of Significant Accounting Policies (continued)

### Reclassifications

Certain prior year amounts have been reclassified for consistency with current year presentation.

### New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This ASU requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. This ASU was effective for BHS beginning January 1, 2023. BHS has adopted this ASU with no material impact to its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting and applies only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. BHS adopted the standard as of January 1, 2023. The adoption of this ASU did not have a significant impact on BHS's consolidated financial statements or notes.

## 3. Revenue and Accounts Receivable

### Patient Service Revenue

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

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

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

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

**3. Revenue and Accounts Receivable (continued)**

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

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

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

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

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

Disproportionate Share Hospital (DSH) payments by the state of Indiana (the State), if eligible, are paid according to the fiscal year of the State, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the State's fiscal year. In 2016, MHSB qualified for the State DSH program for State fiscal years (SFYs) 2016 and 2017. In 2018, MHSB qualified for the State DSH program for SFYs 2018 and 2019. In 2021, MHSB qualified for the State DSH program for SFYs 2022 and 2023. MHSB recorded patient service revenue of $16,998 and $42,226 for the years ended

*(Dollars in Thousands)*

## 3. Revenue and Accounts Receivable (continued)

December 31, 2023 and 2022, respectively, related to the State DSH program. The amounts recorded for prior state fiscal years represent changes in estimates from prior period estimates. The following is a summary by SFY:

| | **2023** | **2022** |
|---|---|---|
| SFY 2024 | **$ 7,223** | $ – |
| SFY 2023 | **5,914** | 8,531 |
| SFY 2022 | **4,898** | 9,386 |
| SFY 2021 | **(2,297)** | 5,361 |
| SFY 2020 | **1,260** | 18,948 |
| | **$ 16,998** | $ 42,226 |

In April 2014, the Indiana Hospital Assessment Fee program (HAF) was approved by the Centers for Medicare & Medicaid Services retroactively for the period July 1, 2013 to June 30, 2017. The current state budget extended HAF through June 30, 2024. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the State's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the Hospitals from the State (included in patient service revenue) and an assessment (included in supplies and other expenses) against the Hospitals, which is paid to the State the same year. BHS recognized HAF revenues and assessments as follows:

| | **Year Recognized** | | |
|---|---|---|---|
| | **2023** | **2022** | **Total** |
| Year ended December 31, 2023, HAF: Revenue | **$ 132,466** | $ – | $ 132,466 |
| Year ended December 31, 2023, HAF: Assessments | **(52,306)** | – | (52,306) |
| Year ended December 31, 2022, HAF: Revenue | **–** | 123,674 | 123,674 |
| Year ended December 31, 2022, HAF: Assessments | **2,623** | (47,586) | (44,963) |
| Year ended December 31, 2021, HAF: Assessments | **602** | (171) | 431 |
| Year ended December 31, 2020, HAF: Assessments | **–** | 619 | 619 |
| | **$ 83,385** | $ 76,536 | $ 159,921 |

HAF revenue is included in patient service revenue, and HAF assessments are included in supplies and other expenses on the consolidated statements of operations and changes in net assets.

**3. Revenue and Accounts Receivable (continued)**

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

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

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

Estimates for DSH, settlements with third-party payors, and other contractual adjustments can differ from actual reimbursement based on the results of subsequent reviews, government regulatory changes, and cost report audits. For the years ended December 31, 2023 and 2022,

*(Dollars in Thousands)*

## 3. Revenue and Accounts Receivable (continued)

patient service revenue has been increased by approximately $12,499 and $23,147, respectively, for changes in estimates of third-party payor settlements related to prior years. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

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

| **Payor** | **2023** | | **2022** | |
|---|---|---|---|---|
| Anthem | **$ 289,218** | **22%** | $ 255,979 | 21% |
| Commercial | **343,804** | **27** | 310,973 | 26 |
| Medicare | **406,173** | **31** | 354,840 | 29 |
| Medicaid | **228,288** | **18** | 274,865 | 23 |
| Self-pay | **22,521** | **2** | 8,727 | 1 |
| Patient service revenue | **$ 1,290,004** | **100%** | $ 1,205,384 | 100% |

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

| **Service Lines** | **2023** | | **2022** | |
|---|---|---|---|---|
| Hospitals | **$ 1,108,537** | 86% | $ 1,041,354 | 86% |
| Medical Group | **166,838** | 13 | 150,665 | 13 |
| Other | **14,629** | 1 | 13,365 | 1 |
| Patient service revenue | **$ 1,290,004** | 100% | $ 1,205,384 | 100% |

*(Dollars in Thousands)*

## 3. Revenue and Accounts Receivable (continued)

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

| Payor | 2023 | 2022 |
|---|---|---|
| Anthem | **24%** | 22% |
| Commercial | **40** | 36 |
| Medicare | **20** | 24 |
| Medicaid | **9** | 11 |
| Self-pay | **7** | 7 |
| Patient service revenue | **100%** | 100% |

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

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

### Other Revenue

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

*(Dollars in Thousands)*

## 3. Revenue and Accounts Receivable (continued)

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

| **Service Lines** | **2023** | 2022 |
|---|---|---|
| Retail service revenue | **$ 25,397** | $ 18,657 |
| Joint venture (loss) income | **(1,133)** | 4,533 |
| Grant revenue* | **6,433** | 32,502 |
| Health and fitness revenue | **9,592** | 7,897 |
| Rental revenue | **3,414** | 2,973 |
| Other revenue | **28,567** | 22,057 |
| | **$ 72,270** | $ 88,619 |

* Grant revenue includes federal CARES Act and FEMA funding. CARES Act funding included for the years ended December 31, 2023 and 2022, was approximately $205 and $4,722, respectively. FEMA funding included for the 12 months ended December 31, 2023 and 2022, was approximately $0 and $21,036, respectively.

As of December 31, 2023 and 2022, the Corporation received $205 and $4,722, respectively, in grant payments from the U.S. Department of Health and Human Services from the Provider Relief Fund established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which has been recognized as revenue and included in other operating revenue within the consolidated statements of operations and changes in net assets. Payments from the Provider Relief Fund are intended to cover patient care lost revenues and qualified expenses, net of other reimbursed sources, attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. The recognition of this support falls under the grant accounting guidance of accounting principles generally accepted in the United States of America. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the Corporation will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the Corporation's consolidated results of operations.

## 3. Revenue and Accounts Receivable (continued)

As of December 31, 2022, the Corporation received $21,036 of funding from the Federal Emergency Management Agency (FEMA) for the reimbursement of costs incurred in response to the COVID-19 pandemic, which included purchase of medical supplies and equipment, personal protective equipment, and overtime for medical staff providing clinical treatment of COVID-19 patients. FEMA reimbursement has been recorded as other revenue for the year ended December 31, 2022. No additional FEMA funds were received for the year ended December 31, 2023.

The CARES Act also permits employers to defer the employer portion of social security taxes. Employers were required to remit one half of the amount deferred by December 31, 2021, and the remaining half by December 31, 2022. The Corporation had deferred approximately $14,284 of these taxes, of which $6,816 was paid back in 2021 and $7,468 was paid back in 2022.

## 4. Charity Care

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

Charity care represents unreimbursed costs for services rendered at a reduced fee, or no fee, due to the inability of the patient to pay for services. The amount of the charity care provided was approximately $4,951 and $3,746 for the years ended December 31, 2023 and 2022, respectively, at estimated cost. The Corporation utilized a cost to charge ratio methodology for the cost analysis. The only reimbursement for financial assistance care received by the Corporation is determined through a settlement process in the Hospitals' annual Medicare cost report filing. Financial assistance care reimbursement was approximately $1,110 and $518 for the years ended December 31, 2023 and 2022, respectively.

## 5. Retirement Plans

The Corporation maintains a defined contribution employee retirement and savings plan for all employees who have attained 21 years of age and have completed 12 months of continuous service. The Corporation's contributions are based on 100% of the employee's contributions, up to 4% of the employee's salary. Both employee and corporation contributions are subject to certain limitations. The benefit plan expense for the years ended December 31, 2023 and 2022, was approximately $17,410 and $15,289, respectively.

*(Dollars in Thousands)*

## 6. Lease Obligations

The Corporation has leases for certain equipment. The lease term begins at the lease commencement date and is determined on that date based on the noncancelable term of the lease. The Corporation's financing lease terms are generally five years, ending at various dates from 2024 through 2026. The financing lease agreements have a fixed lease payment, with a purchase option at the end of the agreement.

The Corporation is using a discount rate of 0.46% for financing leases, which is the rate that is embedded in the lease agreements. The total financing lease payments that will be incurred over the life of the leases are $5,036, of which $5,022 is amortization and $14 is interest.

The Corporation's operating lease was terminated in January 2022. The original lease term was 13 years, with the obligation ending in March 2026. The results of the lease termination were that $3,150 was written off the operating ROU asset, $3,189 was written off the operating lease liability, and $39 was recognized as a gain on the lease termination.

The current portion of the financing ROU is included in other current assets and the long-term portion of the financing ROU is included in deferred charges and other assets. The current portion of the financing lease liability is included in other current liabilities and the long-term portion of the financing lease liability is included in other long-term liabilities. The table below sets forth a summary of the Corporation's ROU assets and lease liabilities at December 31:

| | **2023** | 2022 |
|---|---|---|
| Current portion of financing ROU asset | **$ 904** | $ 1,060 |
| Long-term portion of financing ROU asset | **584** | 1,488 |
| Total financing ROU assets | **$ 1,488** | $ 2,548 |
| | | |
| Current portion of financing lease liability | **$ 933** | $ 1,077 |
| Long-term portion of financing lease liability | **594** | 1,527 |
| Total financing lease liability | **$ 1,527** | $ 2,604 |

*(Dollars in Thousands)*

**6. Lease Obligations (continued)**

At December 31, 2023, the minimum future lease payments under these leases are as follows:

| | Total |
|---|---|
| 2024 | $ 872 |
| 2025 | 443 |
| 2026 | 72 |
| | $ 1,387 |

Amortization expense for financing leases at December 31, 2023 and 2022, was $1,060 and $1,125, respectively, and is included in depreciation and amortization expense. Interest expense was not material for the years ended December 31, 2023 or 2022.

*(Dollars in Thousands)*

## 7. Long-Term Debt

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

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Tax-exempt bonds issued on behalf of BHS by the Indiana Finance Authority: | | | | |
| BHS Revenue Bonds, Series 2018, bearing interest at a variable rate of 4.89% at December 31, 2023, due in varying annual installments on December 15 of each year through 2043, with a mandatory tender date of December 15, 2028 | **$** | **29,000** | $ | 30,000 |
| BHS Revenue Refunding Bonds, Series 2017A, bearing interest at variable rates with a floating fixed interest rate swap of 4.97% at December 31, 2023, due in varying annual installments on August 15 of each year through 2033, with a mandatory tender date of May 1, 2028 | | **35,745** | | 36,020 |
| BHS Revenue Refunding Bonds, Series 2017B, bearing interest at a variable rate of 4.97% at December 31, 2023, due annually on May 1 of each year through 2033 | | **33,200** | | 34,525 |
| BHS Revenue Bonds, Series 2013A, bearing interest at fixed rates of 5.00%, due in varying annual installments on August 15 of each year through 2023 | | **–** | | 6,380 |
| BHS Revenue Bonds, Series 2021, bearing interest at a taxable fixed rate of 1.78% through May 2023, at which point the bonds did convert to tax exempt and became 2023 Bonds | | **–** | | 60,685 |
| BHS Revenue Bonds, Series 2023, bearing interest at a fixed rate of 1.46%, due in varying annual installments on August 15 of each year through 2034 | | **59,515** | | – |
| Tax-exempt bonds issued on behalf of BHS by the Hospital Authority of St. Joseph County: | | | | |
| BHS Revenue Bonds, Series 2022, bearing interest at a fixed rate of 2.17% until June 2037. This is due in varying annual installments on June 30 through 2052. | | **102,240** | | 32,220 |
| BHS Revenue Bonds, Series 2016, bearing interest at a fixed rate of 3.92%, due in varying annual installments on August 15 of each year through 2046 | | **42,790** | | 44,525 |
| BHS Revenue Bonds, Series 2013C, bearing interest at fixed rates between 3.75% and 5.00%, due in varying annual installments on August 15 of each year through 2044 | | **46,130** | | 46,130 |
| Loan payable to Bank of America, dated October 22, 2021, monthly payments of principal and interest at a fixed rate of 1.94%. Due November 27, 2031, and secured by personal property | | **2,934** | | 3,277 |
| Loan payable to Bank of America, dated September 29, 2021, monthly payments of principal and interest at a fixed rate of 1.46%. Due September 3, 2031, and secured by personal property | | **8,902** | | 9,979 |

*(Dollars in Thousands)*

## 7. Long-Term Debt (continued)

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

| | 2023 | 2022 |
|---|---|---|
| Other obligations | **$ –** | $ 3,271 |
| | **360,456** | 307,012 |
| Bond issuance costs | **(1,449)** | (1,231) |
| Unamortized premium | **(400)** | (419) |
| | **358,607** | 305,362 |
| Less current portion | **13,873** | 16,533 |
| | **$ 344,734** | $ 288,829 |

In May 2022, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2022 (2022 Bonds) in the principal amount of $150,000 to be drawn down in installments through June 2024, at which point it will be held in escrow until needed to fund capital projects. The interest rate for 2022 Bonds is a fixed rate of 2.17% due in annual installments through 2052. In 2023, the Corporation drew $70,020 on the 2022 Bonds.

In September 2021, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2021 (2021 Bonds) in the principal amount of $61,730. The 2021 Bonds were taxable bonds that converted to tax-exempt bonds in May 2023 (2023 Bonds). The 2021 Bonds were private placement bonds, bearing interest at a fixed monthly interest rate. The proceeds from the 2021 Bonds were utilized to refund a portion of the BHS Revenue Bonds, Series 2013A.

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

In December 2018, the Indiana Finance Authority, on behalf of BHS, issued revenue bonds Series 2018 (2018 Bonds) in the principal amount of $35,000. The 2018 Bonds are private placement bonds, bearing interest at a variable monthly interest rate. Proceeds from the 2018 Bonds were utilized to fund existing and future capital projects.

**7. Long-Term Debt (continued)**

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017A (2017A Bonds) in the principal amount of $37,240. The 2017A Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017A Bonds were utilized to refund the MHSB Revenue Bonds, Series 2008A. In May 2023, the variable interest rate was refinanced for a five-year term.

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017B (2017B Bonds) in the principal amount of $40,210. The 2017B Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017B Bonds were utilized to refund the EGH Revenue Bonds, Series 2008. In May 2023, the variable interest rate was refinanced for a five-year term.

In August 2016, the Hospital Authority of St. Joseph County issued Hospital Revenue Bonds, Series 2016 (Series 2016 Bonds), on behalf of the Obligated Group. The Series 2016 Bonds are $50,000 private placement bonds due in varying installments through 2046. In 2023 the Corporation refinanced the Series 2016 Bonds, for a ten-year term, which now bear interest at a fixed rate of 3.92%. Proceeds from the Series 2016 Bonds were utilized to fund existing and future capital projects.

In May 2013, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2013A (2013A Bonds) in the principal amount of $116,705. The interest rate for 2013A is a fixed rate varying between 2.00% and 5.00%. The proceeds from 2013A Bonds were utilized to refund the MHSB Revenue Bonds, Series 2008B; MHSB Revenue Bonds, Series 1998A; and EGH Revenue Bonds, Series 1998. In September 2021, a portion of the 2013A Bonds was refunded; the remaining amount of the 2013A Bonds was paid in full in August 2023.

In May 2013, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2013C (2013C Bonds) in the principal amount of $46,130. The interest rate for 2013C Bonds is a fixed rate varying between 3.75% and 5.00%. The proceeds from 2013C Bonds were utilized to refund the MHSB Revenue Bonds, Series 2007. The remaining proceeds are set aside in externally designated investments for future projects.

*(Dollars in Thousands)*

**7. Long-Term Debt (continued)**

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

The loan agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The Corporation was in compliance with all covenants during 2023 and 2022.

The Corporation entered into a loan with Bank of America, dated October 22, 2021, to refinance TRH's debt with the United States Department of Agriculture (USDA) and Horizon Bank. The loan with Bank of America bears interest at a fixed rate of 1.94%. TRH's outstanding loan with Bank of America is secured by personal property of EGH.

TRH entered into a loan with the City of Three Rivers, State of Michigan, dated February 14, 2020, in the amount of $131. The loan with the City of Three Rivers bears interest at a fixed rate of 3.00%. TRH's outstanding loan with the City of Three Rivers is secured by an agreement between TRH and the City of Three Rivers and a mortgage. The loan was paid in full in March 2022.

The Corporation entered into a loan with Bank of America, dated September 29, 2021, to refinance CHB's debt with Lake City Bank and the USDA. The loan with Bank of America bears interest at a fixed rate of 1.46%. CHB's outstanding loan with Bank of America is secured by personal property of MHSB, EGH, and CHB.

Interest capitalized for the years ended December 31, 2023 and 2022, was approximately $1,836 and $742, respectively.

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

| | |
|---|---|
| 2024 | $ 13,873 |
| 2025 | 15,126 |
| 2026 | 16,774 |
| 2027 | 17,133 |
| 2028 | 17,082 |

## 8. Line of Credit

The Corporation had a $2,000 revolving line of credit with 1st Source Bank. The line of credit was terminated on May 31, 2023. Of the $2,000 revolving line of credit, $50 was segregated for the beneficiary of a self-insurance trust. Conversely, $1,950 was available to be drawn upon. No draws were taken by the Corporation in either 2023 or 2022. The interest rate on the line of credit was the prime rate minus 0.50%. No amounts were outstanding on the line of credit as of December 31, 2023 or 2022.

## 9. Interest Rate and Basis Swaps

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

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

The derivative instruments require adherence to collateral posting thresholds. In May 2023, Deutsche Bank was replaced as counterparty with The Bank of New York Mellon. For the 12 months ended December 31, 2023, the mark-to-market valuation on the swap portfolio was below the required collateral posting threshold of $30,000 with Morgan Stanley, $25,000 with Wells Fargo, and $25,000 with The Bank of New York Mellon. For the 12 months ended December 31, 2022, the mark-to-market valuation on the swap portfolio was below the required collateral posting threshold of $30,000 with Morgan Stanley, $25,000 with Wells Fargo, and $25,000 with Deutsche Bank.

*(Dollars in Thousands)*

**9. Interest Rate and Basis Swaps (continued)**

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2023:

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

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2022:

| Origination Date | Notional Amounts | MHSB Receives | MHSB Pays | Maturity Date |
|---|---|---|---|---|
| March 2006 | $ 36,020 | 61.90% of 30-day LIBOR plus 0.31% | 3.5150% | August 2033 |
| March 2003 | 6,200 | 65.00% of 30-day LIBOR plus 0.45% | 3.8100 | August 2034 |

The following is a summary of the outstanding basis rate swaps as of December 31, 2023:

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

*(Dollars in Thousands)*

**9. Interest Rate and Basis Swaps (continued)**

The following is a summary of the outstanding basis rate swaps as of December 31, 2022:

| Origination Date | Notional Amounts | MHSB Receives | MHSB Pays | Maturity Date |
|---|---|---|---|---|
| July 2010 | $ 42,000 | 74.600% of 1M LIBOR | SIFMA tax-exempt index + 0.0715% | January 2041 |
| July 2009 | 63,000 | 74.600% of 1M LIBOR | SIFMA tax-exempt index + 0.1700% | January 2041 |

Net interest paid or received under the above swap agreements is included in interest expense. The net differential for MHSB as a result of the swap agreements amounted to payments of approximately $486 and $797 for the years ended December 31, 2023 and 2022, respectively, which is reflected as an increase in interest expense. The swap agreements do not qualify for hedge accounting; therefore, the change in the fair value of the swap agreements is recorded as an unrealized nonoperating gain of approximately $4,953 and $5,853 for the years ended December 31, 2023 and 2022, respectively.

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

| | Consolidated Balance Sheet Location | 2023 | 2022 |
|---|---|---|---|
| Derivatives not designated as hedging instruments | Interest rate and basis swaps | **$ (6,078)** | $ (11,031) |
| | | **$ (6,078)** | $ (11,031) |

*(Dollars in Thousands)*

## 10. Liquidity and Availability of Resources

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

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | **$ 115,964** | $ 70,805 |
| Short-term investments | **84,949** | 32,935 |
| Internally designated investments* | **832,892** | 800,871 |
| Restricted cash | **6,778** | 5,708 |
| Externally designated investments – insurance trust | **2,884** | 2,760 |
| Board-designated endowment | **31,624** | 29,406 |
| Endowment investments | **11,220** | 10,152 |
| Total financial assets | **1,086,311** | 952,637 |
| | | |
| Less amounts unavailable for general expenditure due to: | | |
| Restricted bond funds | **(58,395)** | (15,929) |
| Restricted by donors with purpose restrictions | **(18,854)** | (16,767) |
| Restricted by donors in perpetuity | **(400)** | (400) |
| Restricted for insurance trust | **(2,884)** | (2,760) |
| Board-designated endowment | **(31,624)** | (29,406) |
| | | |
| Add liquidity resources: | | |
| Unused line of credit | **–** | 1,950 |
| Total financial assets available for general expenditure within one year | **$ 974,154** | $ 889,325 |

* Internally designated investments include $123,826 and $121,075 of private equity funds at December 31, 2023 and 2022, respectively. These private equity funds have limited redemption opportunities with the general partner or in the secondary market.

*(Dollars in Thousands)*

## 10. Liquidity and Availability of Resources (continued)

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

## 11. Investments

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

| | 2023 | 2022 |
|---|---|---|
| Investment return: | | |
| Net unrealized gains (losses) on investments | **$ 42,683** | $ (90,175) |
| Net realized gains on investments | **30,526** | 19,190 |
| Net equity losses on alternative investments | **(24)** | (22,240) |
| | **$ 73,185** | $ (93,225) |
| Reported as: | | |
| Investment income (losses), net (nonoperating) | **$ 70,870** | $ (92,938) |
| Investment income (losses) (net assets with donor restrictions) | **1,074** | (1,509) |
| Other revenue | **1,241** | 1,222 |
| | **$ 73,185** | $ (93,225) |

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

## 11. Investments (continued)

Alternative investments have similar risks as income and equity securities, although there may be additional risks. These investments consist principally of noncontrolling interests in limited liability partnerships (LLPs) and limited liability companies (LLCs). Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to one year from December 31, 2023, which may reduce liquidity. Some private equity and real asset funds have limited redemption opportunities with the general partner or in the secondary market.

## 12. Fair Value of Financial Instruments

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

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

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

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

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

*(Dollars in Thousands)*

## 12. Fair Value of Financial Instruments (continued)

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

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** | **Assets at Net Asset Value** | **Carrying Value** |
| **Assets** | | | | | | |
| Short-term investments[a] | **$ 84,949** | **$ –** | **$ –** | **$ 84,949** | **$ –** | **$ 84,949** |
| Internally designated investments: | | | | | | |
| Blended fund | **309,081** | **–** | **–** | **309,081** | **–** | **309,081** |
| Total mutual funds | **309,081** | **–** | **–** | **309,081** | **–** | **309,081** |
| Common stock[a] | **20,401** | **–** | **–** | **20,401** | **–** | **20,401** |
| Alternatives: | | | | | | |
| Hedge funds | **–** | **–** | **–** | **–** | **54,301** | **54,301** |
| Emerging markets | **–** | **–** | **–** | **–** | **52,129** | **52,129** |
| Private debt | **–** | **–** | **–** | **–** | **18,125** | **18,125** |
| Private equity | **–** | **–** | **–** | **–** | **204,270** | **204,270** |
| Real estate investment trust | **–** | **–** | **–** | **–** | **65,271** | **65,271** |
| Commingled funds | **–** | **–** | **–** | **–** | **57,961** | **57,961** |
| Other | **–** | **–** | **–** | **–** | **–** | **–** |
| Long/short equity | **–** | **–** | **–** | **–** | **5,983** | **5,983** |
| Relative value | **–** | **–** | **–** | **–** | **29,796** | **29,796** |
| Tactical trading | **–** | **–** | **–** | **–** | **15,574** | **15,574** |
| Total alternatives | **–** | **–** | **–** | **–** | **503,410** | **503,410** |
| Total internally designated investments | **329,482** | **–** | **–** | **329,482** | **503,410** | **832,892** |

*(Dollars in Thousands)*

## 12. Fair Value of Financial Instruments (continued)

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** | **Assets at Net Asset Value** | **Carrying Value** |
| **Assets (continued)** | | | | | | |
| Restricted cash[(a)] | **$ 6,778** | **$ –** | **$ –** | **$ 6,778** | **$ –** | **$ 6,778** |
| Externally designated investment – insurance trust: | | | | | | |
| Fixed income[(a)] | **2,884** | **–** | **–** | **2,884** | **–** | **2,884** |
| Board-designated endowment: | | | | | | |
| Mutual funds:[(a)] | | | | | | |
| Equities | **1,545** | **–** | **–** | **1,545** | **–** | **1,545** |
| Blended fund | **15,872** | **–** | **–** | **15,872** | **–** | **15,872** |
| Fixed income[(a), (b)] | **427** | **48** | **–** | **475** | **–** | **475** |
| Equities[(a)] | **5** | **–** | **–** | **5** | **–** | **5** |
| Alternatives | **–** | **–** | **–** | **–** | **13,727** | **13,727** |
| Total board-designated endowment | **17,849** | **48** | **–** | **17,897** | **13,727** | **31,624** |
| Endowment: | | | | | | |
| Mutual funds:[(a)] | | | | | | |
| Blended fund | **6,016** | **–** | **–** | **6,016** | **–** | **6,016** |
| Equities[(a)] | **2** | **–** | **–** | **2** | **–** | **2** |
| Alternatives | **–** | **–** | **–** | **–** | **5,202** | **5,202** |
| Total endowment | **6,018** | **–** | **–** | **6,018** | **5,202** | **11,220** |
| Total | **$ 447,960** | **$ 48** | **$ –** | **$ 448,008** | **$ 522,339** | **$ 970,347** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Swaps[(c)] | **$ –** | **$ –** | **$ (6,078)** | **$ (6,078)** | **$ –** | **$ (6,078)** |
| Total | **$ –** | **$ –** | **$ (6,078)** | **$ (6,078)** | **$ –** | **$ (6,078)** |

*(Dollars in Thousands)*

## 12. Fair Value of Financial Instruments (continued)

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** | **Assets at Net Asset Value** | **Carrying Value** |
| **Assets** | | | | | | |
| Short-term investments[a] | $ 32,935 | $ – | $ – | $ 32,935 | $ – | $ 32,935 |
| Internally designated investments: | | | | | | |
| Blended fund | 238,944 | – | – | 238,944 | – | 238,944 |
| Total mutual funds | 238,944 | – | – | 238,944 | – | 238,944 |
| Common stock[a] | 18,323 | – | – | 18,323 | – | 18,323 |
| Alternatives: | | | | | | |
| Hedge funds | – | – | – | – | 70,130 | 70,130 |
| Emerging markets | – | – | – | – | 58,740 | 58,740 |
| Private debt | – | – | – | – | 907 | 907 |
| Private equity | – | – | – | – | 186,316 | 186,316 |
| Real estate investment trust | – | – | – | – | 73,807 | 73,807 |
| Commingled funds | – | – | – | – | 61,743 | 61,743 |
| Other | – | – | – | – | 16 | 16 |
| Long/short equity | – | – | – | – | 19,746 | 19,746 |
| Relative value | – | – | – | – | 47,826 | 47,826 |
| Tactical trading | – | – | – | – | 24,373 | 24,373 |
| Total alternatives | – | – | – | – | 543,604 | 543,604 |
| Total internally designated investments | 257,267 | – | – | 257,267 | 543,604 | 800,871 |

*(Dollars in Thousands)*

## 12. Fair Value of Financial Instruments (continued)

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** | **Assets at Net Asset Value** | **Carrying Value** |
| **Assets (continued)** | | | | | | |
| Restricted cash[a] | $ 5,708 | $ – | $ – | $ 5,708 | $ – | $ 5,708 |
| Externally designated investment – insurance trust: | | | | | | |
| Fixed income[a] | 2,760 | – | – | 2,760 | – | 2,760 |
| Board-designated endowment: | | | | | | |
| Mutual funds:[a] | | | | | | |
| Equities | 1,361 | – | – | 1,361 | – | 1,361 |
| Blended fund | 14,096 | – | – | 14,096 | – | 14,096 |
| Fixed income[a], [b] | 418 | 46 | – | 464 | – | 464 |
| Equities[a] | 2 | – | – | 2 | – | 2 |
| Alternatives | – | – | – | – | 13,483 | 13,483 |
| Total board-designated endowment | 15,877 | 46 | – | 15,923 | 13,483 | 29,406 |
| Endowment: | | | | | | |
| Mutual funds:[a] | | | | | | |
| Blended fund | 5,188 | – | – | 5,188 | – | 5,188 |
| Equities[a] | 1 | – | – | 1 | – | 1 |
| Alternatives | – | – | – | – | 4,963 | 4,963 |
| Total endowment | 5,189 | – | – | 5,189 | 4,963 | 10,152 |
| Total | $ 319,736 | $ 46 | $ – | $ 319,782 | $ 562,050 | $ 881,832 |
| **Liabilities** | | | | | | |
| Swaps[c] | $ – | $ – | $ (11,031) | $ (11,031) | $ – | $ (11,031) |
| Total | $ – | $ – | $ (11,031) | $ (11,031) | $ – | $ (11,031) |

[a] Pricing for mutual funds, short-term investments, equities, and government obligations is based on the open market and is valued on a daily basis.

[b] Pricing is based on the fair value of the securities and is valued on a monthly basis. Information used to value this account is provided by International Data Corp. (IDC). In the event that a security is not actively traded in the open market, the characteristics are matched to a comparable issue from the IDC data to appropriately value the holding.

[c] Pricing is based on discounted cash flows to reflect a credit spread adjustment in order to reflect "nonperformance" risk. The credit spread adjustment is derived from how other comparable entities' bonds price and trade in the market. As the credit spread adjustment is a significant component of the swap valuation and is an unobservable input, the swaps have been classified as Level 3.

*(Dollars in Thousands)*

## 12. Fair Value of Financial Instruments (continued)

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

| | 2023 | 2022 |
|---|---|---|
| Balance, beginning of year | **$ (11,031)** | $ (16,884) |
| Unrealized gains, net | **4,953** | 5,853 |
| Balance, end of year | **$ (6,078)** | $ (11,031) |

For the year ended December 31, 2023, the Corporation recorded approximately $4,953 in nonoperating gains, which primarily relates to gains of $5,358 due to the change in the swaps' value and losses of $405 to reflect the fair value of the uncollateralized portion of the swap balance. For the year ended December 31, 2022, the Corporation recorded approximately $5,853 in nonoperating losses, which primarily relates to gains of $5,593 due to the change in the swaps' value and gains of $260 to reflect the fair value of the uncollateralized portion of the swap balance.

## 13. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the years ended December 31 are as follows:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Health Care Services | Administrative Functions | Total | Health Care Services | Administrative Functions | Total |
| Salaries and wages | **$ 559,629** | **$ 60,641** | **$ 620,270** | $ 587,177 | $ 52,808 | $ 639,985 |
| Employee benefits | **118,817** | **21,510** | **140,327** | 107,552 | 15,322 | 122,874 |
| Supplies and other | **325,853** | **10,234** | **336,087** | 318,408 | 10,727 | 329,135 |
| Professional fees and purchased services | **91,325** | **63,963** | **155,288** | 104,745 | 43,258 | 148,003 |
| Depreciation and amortization | **54,999** | **8,183** | **63,182** | 53,018 | 10,327 | 63,345 |
| Interest | **7,291** | **470** | **7,761** | 6,663 | 204 | 6,867 |
| Total | **$ 1,157,914** | **$ 165,001** | **$ 1,322,915** | $ 1,177,563 | $ 132,646 | $ 1,310,209 |

## 14. Commitments

The Corporation has total commitments to invest $362,700 in certain hedge funds and alternative investments. During the years ended December 31, 2023 and 2022, the Corporation invested approximately $25,684 and $57,495, respectively. The Corporation had a remaining unfunded commitment of approximately $110,076 at December 31, 2023.

The Corporation has entered into various capital projects, including related commitments to construction managers, architects, and other vendors for software implementation. The commitments under these agreements was approximately $228,786 of which approximately $26,658 was paid at December 31, 2023. The Corporation has made additional payments related to these projects subsequent to December 31, 2023, and through the date of this report of approximately $7,265.

## 15. Professional Liability Insurance

The Corporation is involved in lawsuits and various governmental investigations, audits, reviews, and administrative proceedings arising in the ordinary course of business. Additionally, the Corporation may be subject to additional claims alleging professional liability for medical malpractice. The Corporation has a claims-made policy that covers all entities and has a $25,000 deductible per claim. Historically, MHSB and EGH have obtained separate professional liability insurance coverage under claims-made policies. The claims-made policy covers all years other than years that were self-funded. MHSB was self-funded for its professional and general liability coverage for the period from December 1, 2003 to November 30, 2009. EGH was self-funded for its professional and general liability coverage for the period from March 1, 2010 to April 1, 2012. The Indiana Medical Malpractice Act has provided recovery of up to $1,250, per occurrence, with the first $250 covered by the respective entity, for claims prior to July 1, 2017. For the period from July 1, 2017 to June 30, 2019, the coverage limit was $1,650, per occurrence, with the first $400 covered by the respective entity. Effective July 1, 2019, the coverage limit was increased to $1,800, per occurrence, with the first $500 covered by the respective entity. MHSB maintains a trust fund for its self-insurance program, which it will continue to maintain until all claims have been settled. The fair value of the trust fund at December 31, 2023 and 2022, was approximately $2,884 and $2,760, respectively. The amount of malpractice and general liability claims, including a component for incurred but not reported claims, was approximately $4,801 and $4,832, gross of an insurance recoverable at December 31, 2023 and 2022, respectively, which is included in other liabilities. The interest rate used to discount these claims was 3% at December 31, 2023 and 2022. In addition, at December 31, 2023 and 2022, the Corporation recognized a recoverable insurance asset of approximately $4,287, which is included in deferred charges and other assets.

*(Dollars in Thousands)*

## 16. Income Taxes

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

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

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the consolidated financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended December 31, 2023 or 2022.

## 17. Net Assets Without Donor Restrictions

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

| | **2023** | 2022 |
|---|---|---|
| Undesignated | **$ 1,705,847** | $ 1,591,458 |
| Board-designated endowment | **31,624** | 29,406 |
| | **$ 1,737,471** | $ 1,620,864 |

**Board-Designated Endowment** – The Board has designated a portion of net assets without donor restrictions as a board-designated endowment for the purpose of funding BHF’s operational expenses.

*(Dollars in Thousands)*

## 18. Net Assets With Donor Restrictions

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

| | 2023 | 2022 |
|---|---|---|
| Net assets currently available for: | | |
| Children's services | **$ 3,233** | $ 2,424 |
| Education | **3,629** | 3,003 |
| Patient care | **10,026** | 9,276 |
| System priorities | **1,326** | 1,423 |
| Community impact | **610** | 617 |
| Quasi-endowments | **430** | 424 |
| | **$ 19,254** | $ 17,167 |

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

**Children's services** – Programs and services for pediatric patients throughout the Corporation

**Education** – Formal and continuing education

**Patient care** – Specific patient care services lines (i.e., cancer, cardiac, and trauma)

**System priorities** – Specific system initiatives as determined throughout the Corporation requiring formal approval and funding

**Community impact** – Initiatives that focus on preventive care and education throughout the community

**Quasi-endowments** – Designated to be held in perpetuity, income generated to be used for indigent care and/or area of greatest need

## 19. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to December 31, 2023 through March 8, 2024, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

# Supplementary Information

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# Report of Independent Auditors on Supplementary Information

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 8, 2024

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Balance Sheet

*(In Thousands)*

### December 31, 2023

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | $ 115,964 | $ – | $ 21,531 | $ 11,055 | $ 151 | $ 900 | $ 14,493 | $ 46,011 | $ 2,767 | $ 19,056 |
| Short-term investments | 84,949 | – | 58,395 | – | 1,261 | – | – | 25,293 | – | – |
| Patient accounts receivable | 232,093 | (5,714) | 134,963 | 26,046 | – | 306 | 62,386 | 1,645 | 4,406 | 8,055 |
| Due from third-party payors | 49,704 | – | 40,056 | 1,836 | – | – | 3,692 | – | 603 | 3,517 |
| Other receivables | 15,946 | – | 2,562 | 1,442 | 2 | 335 | 840 | 9,998 | 225 | 542 |
| Other current assets | 905 | – | 671 | – | – | – | – | 135 | 99 | – |
| Inventories | 36,315 | – | 20,100 | – | – | 147 | 11,540 | 3,160 | 337 | 1,031 |
| Prepaid expenses | 21,268 | – | 734 | 691 | – | 7 | 522 | 19,043 | 51 | 220 |
| Due from affiliates | – | (32,042) | – | 20 | – | – | – | 32,022 | – | – |
| Total current assets | 557,144 | (37,756) | 279,012 | 41,090 | 1,414 | 1,695 | 93,473 | 137,307 | 8,488 | 32,421 |
| Assets limited as to use: | | | | | | | | | | |
| Internally designated investments | 832,892 | – | – | – | – | – | – | 832,892 | – | – |
| Restricted cash | 6,778 | – | – | – | 6,778 | – | – | – | – | – |
| Externally designated investments – insurance trust | 2,884 | – | 2,853 | 21 | – | 10 | – | – | – | – |
| Board-designated endowment | 31,624 | – | – | – | 31,624 | – | – | – | – | – |
| Endowment and temporarily restricted investments | 11,220 | – | – | – | 2,799 | – | 8,421 | – | – | – |
| | 885,398 | – | 2,853 | 21 | 41,201 | 10 | 8,421 | 832,892 | – | – |
| Property and equipment: | | | | | | | | | | |
| Land | 65,736 | – | 27,003 | 5,796 | – | – | 4,974 | 20,759 | 779 | 6,425 |
| Buildings and improvements | 973,765 | – | 537,628 | 81,719 | 94 | 1,931 | 278,533 | 52,028 | 10,084 | 11,748 |
| Furniture and equipment | 548,710 | – | 259,502 | 33,758 | 164 | 2,161 | 141,455 | 99,087 | 4,983 | 7,600 |
| Construction-in-progress | 60,737 | – | 47,501 | 3,587 | – | – | 4,402 | 4,882 | 52 | 313 |
| | 1,648,948 | – | 871,634 | 124,860 | 258 | 4,092 | 429,364 | 176,756 | 15,898 | 26,086 |
| Less allowances for depreciation and amortization | 904,417 | – | 502,614 | 58,166 | 239 | 3,277 | 260,715 | 69,430 | 5,572 | 4,404 |
| | 744,531 | – | 369,020 | 66,694 | 19 | 815 | 168,649 | 107,326 | 10,326 | 21,682 |
| Deferred charges and other assets | 79,446 | (12,367) | 6,616 | 12,672 | 12 | 30,889 | 3,692 | 35,991 | 1,941 | – |
| Interest in net assets of recipient organization | – | (10,833) | 10,833 | – | – | – | – | – | – | – |
| Total assets | $ 2,266,519 | $ (60,956) | $ 668,334 | $ 120,477 | $ 42,646 | $ 33,409 | $ 274,235 | $ 1,113,516 | $ 20,755 | $ 54,103 |

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Balance Sheet (continued)

*(In Thousands)*

### December 31, 2023

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Accounts payable | $ 64,287 | $ – | $ 20,472 | $ 17,560 | $ 17 | $ 54 | $ 11,928 | $ 10,745 | $ 1,072 | $ 2,439 |
| Accrued salaries and benefits | 59,640 | (5,714) | 24,833 | 12,993 | – | 58 | 11,370 | 12,855 | 257 | 2,988 |
| Accrued expenses | 4,327 | – | 1,984 | 17 | – | – | 1,549 | 539 | 52 | 186 |
| Other current liabilities | 933 | – | 694 | – | – | – | – | 140 | 99 | – |
| Due to third-party payors | 2,121 | – | 19 | – | – | – | 98 | – | 27 | 1,977 |
| Due to affiliates | – | (32,042) | 33 | – | – | 32,009 | – | – | – | – |
| Current maturities of long-term debt | 13,873 | – | 5,673 | – | – | – | 4,082 | 2,675 | 1,093 | 350 |
| Total current liabilities | 145,181 | (37,756) | 53,708 | 30,570 | 17 | 32,121 | 29,027 | 26,954 | 2,600 | 7,940 |
| Noncurrent liabilities: | | | | | | | | | | |
| Long-term debt, less current maturities | 344,734 | – | 217,062 | – | – | – | 48,527 | 68,752 | 7,809 | 2,584 |
| Other liabilities | 13,801 | – | 9,048 | 23 | – | 11 | 1,633 | 2,904 | 182 | – |
| Interest rate and basis swaps | 6,078 | – | 6,078 | – | – | – | – | – | – | – |
| | 364,613 | – | 232,188 | 23 | – | 11 | 50,160 | 71,656 | 7,991 | 2,584 |
| Total liabilities | 509,794 | (37,756) | 285,896 | 30,593 | 17 | 32,132 | 79,187 | 98,610 | 10,591 | 10,524 |
| Net assets: | | | | | | | | | | |
| Without donor restrictions | 1,737,471 | (12,367) | 371,605 | 89,884 | 31,796 | 1,277 | 186,627 | 1,014,906 | 10,164 | 43,579 |
| With donor restrictions | 19,254 | (10,833) | 10,833 | – | 10,833 | – | 8,421 | – | – | – |
| Total net assets | 1,756,725 | (23,200) | 382,438 | 89,884 | 42,629 | 1,277 | 195,048 | 1,014,906 | 10,164 | 43,579 |
| Total liabilities and net assets | $ 2,266,519 | $ (60,956) | $ 668,334 | $ 120,477 | $ 42,646 | $ 33,409 | $ 274,235 | $ 1,113,516 | $ 20,755 | $ 54,103 |

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Balance Sheet

*(In Thousands)*

### December 31, 2022

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | $ 70,805 | $ – | $ 21,953 | $ 3,968 | $ 245 | $ 2,003 | $ 11,227 | $ 19,267 | $ 2,113 | $ 10,029 |
| Short-term investments | 32,935 | – | 15,941 | – | 1,087 | – | – | 15,907 | – | – |
| Patient accounts receivable | 217,013 | (4,022) | 116,995 | 30,721 | – | 421 | 60,168 | 1,696 | 4,179 | 6,855 |
| Due from third-party payors | 34,409 | – | 31,164 | 354 | – | – | 777 | – | – | 2,114 |
| Other receivables | 37,603 | 12 | 10,156 | 3,363 | 105 | 344 | 5,431 | 17,359 | 166 | 667 |
| Other current assets | 1,060 | – | 735 | – | – | – | – | 226 | 99 | – |
| Inventories | 31,329 | – | 18,016 | – | – | 426 | 8,866 | 2,680 | 368 | 973 |
| Prepaid expenses | 22,502 | – | 963 | 925 | – | 1 | 517 | 19,679 | 20 | 397 |
| Due from affiliates | – | (29,241) | – | 18 | – | – | – | 29,223 | – | – |
| Total current assets | 447,656 | (33,251) | 215,923 | 39,349 | 1,437 | 3,195 | 86,986 | 106,037 | 6,945 | 21,035 |
| | | | | | | | | | | |
| Assets limited as to use: | | | | | | | | | | |
| Internally designated investments | 800,871 | – | – | – | – | – | – | 800,871 | – | – |
| Restricted cash | 5,708 | – | – | – | 5,708 | – | – | – | – | – |
| Externally designated investments – insurance trust | 2,760 | – | 2,730 | 20 | – | 10 | – | – | – | – |
| Board-designated endowment | 29,406 | – | – | – | 29,406 | – | – | – | – | – |
| Endowment and temporarily restricted investments | 10,152 | – | – | – | 2,338 | – | 7,814 | – | – | – |
| | 848,897 | – | 2,730 | 20 | 37,452 | 10 | 7,814 | 800,871 | – | – |
| Property and equipment: | | | | | | | | | | |
| Land | 68,572 | – | 26,982 | 5,675 | – | – | 4,553 | 24,355 | 779 | 6,228 |
| Buildings and improvements | 928,917 | – | 530,738 | 75,343 | 94 | 1,931 | 264,767 | 36,808 | 9,991 | 9,245 |
| Furniture and equipment | 523,444 | – | 255,015 | 34,069 | 164 | 2,134 | 136,471 | 86,375 | 4,681 | 4,535 |
| Construction-in-progress | 54,537 | – | 21,106 | 3,505 | – | – | 11,341 | 18,426 | 7 | 152 |
| | 1,575,470 | – | 833,841 | 118,592 | 258 | 4,065 | 417,132 | 165,964 | 15,458 | 20,160 |
| Less allowances for depreciation and amortization | 845,442 | – | 476,619 | 53,216 | 223 | 3,132 | 244,855 | 60,416 | 4,632 | 2,349 |
| | 730,028 | – | 357,222 | 65,376 | 35 | 933 | 172,277 | 105,548 | 10,826 | 17,811 |
| | | | | | | | | | | |
| Deferred charges and other assets | 83,553 | (12,367) | 6,648 | 12,956 | 12 | 24,948 | 3,692 | 45,624 | 2,040 | – |
| Interest in net assets of recipient organization | – | (9,353) | 9,353 | – | – | – | – | – | – | – |
| Total assets | $ 2,110,134 | $ (54,971) | $ 591,876 | $ 117,701 | $ 38,936 | $ 29,086 | $ 270,769 | $ 1,058,080 | $ 19,811 | $ 38,846 |

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Balance Sheet (continued)

*(In Thousands)*

December 31, 2022

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Accounts payable | $ 73,905 | $ 12 | $ 25,332 | $ 18,776 | $ 9 | $ 318 | $ 15,898 | $ 10,052 | $ 787 | $ 2,721 |
| Accrued salaries and benefits | 54,230 | (4,022) | 24,489 | 11,840 | – | – | 11,107 | 8,787 | – | 2,029 |
| Accrued expenses | 4,966 | – | 1,122 | – | – | – | 795 | 2,422 | 52 | 575 |
| Other current liabilities | 1,076 | – | 748 | – | – | – | – | 229 | 99 | – |
| Due to third-party payors | 7,279 | – | 2,164 | – | – | – | 2,597 | – | (44) | 2,562 |
| Due to affiliates | – | (29,241) | 68 | – | – | 29,173 | – | – | – | – |
| Current maturities of long-term debt | 16,533 | – | 5,320 | – | – | – | 3,830 | 5,907 | 1,077 | 399 |
| Total current liabilities | 157,989 | (33,251) | 59,243 | 30,616 | 9 | 29,491 | 34,227 | 27,397 | 1,971 | 8,286 |
| Noncurrent liabilities: | | | | | | | | | | |
| Long-term debt, less current maturities | 288,829 | – | 152,790 | 43 | – | – | 52,685 | 71,475 | 8,902 | 2,934 |
| Other liabilities | 14,254 | – | 9,576 | 23 | – | 11 | 1,652 | 2,711 | 281 | – |
| Interest rate and basis swaps | 11,031 | – | 11,031 | – | – | – | – | – | – | – |
| | 314,114 | – | 173,397 | 66 | – | 11 | 54,337 | 74,186 | 9,183 | 2,934 |
| Total liabilities | 472,103 | (33,251) | 232,640 | 30,682 | 9 | 29,502 | 88,564 | 101,583 | 11,154 | 11,220 |
| Net assets: | | | | | | | | | | |
| Without donor restrictions | 1,620,864 | (12,367) | 349,883 | 87,019 | 29,574 | (416) | 174,391 | 956,497 | 8,657 | 27,626 |
| With donor restrictions | 17,167 | (9,353) | 9,353 | – | 9,353 | – | 7,814 | – | – | – |
| Total net assets | 1,638,031 | (21,720) | 359,236 | 87,019 | 38,927 | (416) | 182,205 | 956,497 | 8,657 | 27,626 |
| Total liabilities and net assets | $ 2,110,134 | $ (54,971) | $ 591,876 | $ 117,701 | $ 38,936 | $ 29,086 | $ 270,769 | $ 1,058,080 | $ 19,811 | $ 38,846 |

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Statement of Operations and Changes in Net Assets
*(In Thousands)*

### Year Ended December 31, 2023

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

## Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

*(In Thousands)*

### Year Ended December 31, 2023

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net assets without donor restrictions** | | | | | | | | | | |
| Revenue and gains (less than) in excess of expenses | **$ 116,379** | **$ –** | **$ 143,618** | **$ (139,519)** | **$ 2,060** | **$ 1,693** | **$ 44,767** | **$ 63,961** | **$ (89)** | **$ (112)** |
| Net assets released from restrictions used for capital purposes | **228** | **–** | **128** | **–** | **–** | **–** | **50** | **–** | **50** | **–** |
| Net assets released from restriction by donor and other | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Other | **–** | **–** | **(122,024)** | **142,384** | **161** | **–** | **(32,580)** | **(5,552)** | **1,546** | **16,065** |
| (Decrease) increase in net assets without donor restrictions | **116,607** | **–** | **21,722** | **2,865** | **2,221** | **1,693** | **12,237** | **58,409** | **1,507** | **15,953** |
| **Net assets with donor restrictions** | | | | | | | | | | |
| Purpose-restricted contributions | **2,438** | **–** | **–** | **–** | **2,438** | **–** | **–** | **–** | **–** | **–** |
| Investment income (losses) | **1,074** | **–** | **–** | **–** | **468** | **–** | **606** | **–** | **–** | **–** |
| Reclass of contribution restriction by donor | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Net assets released from restrictions used for operating and capital purposes | **(1,425)** | **–** | **–** | **–** | **(1,425)** | **–** | **–** | **–** | **–** | **–** |
| Change in interest in recipient organization | **–** | **(1,480)** | **1,480** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| (Decrease) increase in net assets with donor restrictions | **2,087** | **(1,480)** | **1,480** | **–** | **1,481** | **–** | **606** | **–** | **–** | **–** |
| Change in net assets | **118,694** | **(1,480)** | **23,202** | **2,865** | **3,702** | **1,693** | **12,843** | **58,409** | **1,507** | **15,953** |
| Net assets at beginning of year | **1,638,031** | **(21,720)** | **359,236** | **87,019** | **38,927** | **(416)** | **182,205** | **956,497** | **8,657** | **27,626** |
| Net assets at end of year | **$ 1,756,725** | **$ (23,200)** | **$ 382,438** | **$ 89,884** | **$ 42,629** | **$ 1,277** | **$ 195,048** | **$ 1,014,906** | **$ 10,164** | **$ 43,579** |

# Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Statement of Operations and Changes in Net Assets

*(In Thousands)*

### Year Ended December 31, 2022

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Unrestricted revenue, gains, and other support** | | | | | | | | | | |
| Patient service revenue | $ 1,205,384 | $ – | $ 631,470 | $ 150,665 | $ – | $ 3,263 | $ 323,007 | $ 10,102 | $ 22,648 | $ 64,229 |
| Other revenue | 88,619 | (19,422) | 35,729 | 27,308 | 1,267 | 4,181 | 17,872 | 14,491 | 879 | 6,314 |
| Net assets released from restrictions used for operations | 1,911 | – | 819 | 23 | 110 | – | 64 | 755 | – | 140 |
| | 1,295,914 | (19,422) | 668,018 | 177,996 | 1,377 | 7,444 | 340,943 | 25,348 | 23,527 | 70,683 |
| **Expenses** | | | | | | | | | | |
| Salaries and wages | 639,985 | – | 221,364 | 194,926 | 663 | 3,093 | 122,600 | 58,107 | 10,699 | 28,533 |
| Employee benefits | 122,874 | (241) | 44,900 | 29,466 | 127 | 758 | 22,552 | 17,146 | 2,246 | 5,920 |
| Supplies and other | 329,135 | (4,798) | 159,150 | 34,693 | 331 | 2,386 | 99,054 | 16,626 | 4,394 | 17,299 |
| Management fees | – | – | 67,623 | 18,485 | 192 | 699 | 36,017 | (131,626) | 2,620 | 5,990 |
| Professional fees and purchased services | 148,003 | (14,383) | 42,946 | 13,242 | 133 | 260 | 28,507 | 58,283 | 4,449 | 14,566 |
| Depreciation and amortization | 63,345 | – | 28,798 | 5,086 | 17 | 147 | 16,208 | 10,516 | 936 | 1,637 |
| Interest | 6,867 | – | 5,257 | – | – | – | 1,174 | 204 | 153 | 79 |
| | 1,310,209 | (19,422) | 570,038 | 295,898 | 1,463 | 7,343 | 326,112 | 29,256 | 25,497 | 74,024 |
| (Loss) income from operations | (14,295) | – | 97,980 | (117,902) | (86) | 101 | 14,831 | (3,908) | (1,970) | (3,341) |
| **Nonoperating (expenses) income** | | | | | | | | | | |
| Investment (losses) income, net | (92,938) | – | (115) | 50 | (4,181) | – | 15 | (88,846) | 71 | 68 |
| Unrealized gains on swap transactions, net | 5,853 | – | 5,853 | – | – | – | – | – | – | – |
| Gain on lease termination | 39 | – | – | – | – | 39 | – | – | – | – |
| Revenue and gains (less than) in excess of expenses | (101,341) | – | 103,718 | (117,852) | (4,267) | 140 | 14,846 | (92,754) | (1,899) | (3,273) |

## Beacon Health System, Inc. and Affiliated Corporations

## Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

*(In Thousands)*

### Year Ended December 31, 2022

| | Consolidated | Eliminations | Memorial Hospital of South Bend, Inc. | Beacon Medical Group, Inc. | Beacon Health Foundation, Inc. | Beacon Health Ventures, Inc. | Elkhart General Hospital, Inc. | Beacon Health System, Inc. | Community Hospital of Bremen, Inc. | Three Rivers Health Systems, Inc. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net assets without donor restrictions** | | | | | | | | | | |
| Revenue and gains (less than) in excess of expenses | $ (101,341) | $ – | $ 103,718 | $ (117,852) | $ (4,267) | $ 140 | $ 14,846 | $ (92,754) | $ (1,899) | $ (3,273) |
| Net assets released from restrictions used for capital purposes | 1,499 | – | 1,390 | 90 | – | – | 16 | – | 3 | – |
| Net assets released from restriction by donor and other | 139 | – | – | – | – | – | – | – | – | 139 |
| Other | – | – | (58,972) | 117,321 | 83 | – | 15,926 | (87,378) | 8,913 | 4,107 |
| (Decrease) increase in net assets without donor restrictions | (99,703) | – | 46,136 | (441) | (4,184) | 140 | 30,788 | (180,132) | 7,017 | 973 |
| **Net assets with donor restrictions** | | | | | | | | | | |
| Purpose-restricted contributions | 3,705 | – | – | – | 3,690 | – | – | – | – | 15 |
| Investment (losses) income | (1,509) | – | – | – | (462) | – | (1,047) | – | – | – |
| Reclass of contribution restriction by donor | – | – | – | – | – | – | – | – | – | – |
| Net assets released from restrictions used for operating and capital purposes | (3,410) | – | – | – | (3,271) | – | – | – | – | (139) |
| Change in interest in recipient organization | – | 42 | (42) | – | – | – | – | – | – | – |
| (Decrease) increase in net assets with donor restrictions | (1,214) | 42 | (42) | – | (43) | – | (1,047) | – | – | (124) |
| Change in net assets | (100,917) | 42 | 46,094 | (441) | (4,227) | 140 | 29,741 | (180,132) | 7,017 | 849 |
| Net assets at beginning of year | 1,738,948 | (21,762) | 313,142 | 87,460 | 43,154 | (556) | 152,464 | 1,136,629 | 1,640 | 26,777 |
| Net assets at end of year | $ 1,638,031 | $ (21,720) | $ 359,236 | $ 87,019 | $ 38,927 | $ (416) | $ 182,205 | $ 956,497 | $ 8,657 | $ 27,626 |

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