Deaconess

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2023 AND 2022

CPAS / ADVISORS

blue

DEACONESS HEALTH SYSTEM

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CPAs / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Deaconess Health System
Evansville, Indiana

<u>Report on the Audit of the Consolidated Financial Statements</u>

Opinion

We have audited the accompanying consolidated financial statements of Deaconess Health System (the System), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 30, 2023 and 2022 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Management's Responsibility for the Consolidated Financial Statements

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

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

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

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

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

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

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

<u>Report on Supplementary Information</u>

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

Board of Directors
Deaconess Health System
Evansville, Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2024, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
January 24, 2024

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2023 AND 2022

ASSETS

	2023	2022
Current assets		
Cash and cash equivalents	$ 300,744,676	$ 308,910,408
Funds held by trustee	2,762,435	78,432,268
Patient accounts receivable	218,006,664	180,977,318
Inventories	16,026,275	14,576,508
Prepaid expenses and other current assets	83,059,663	47,364,123
Total current assets	620,599,713	630,260,625
Investments limited as to use		
Funds held by trustee	3,354,610	3,250,445
Board designated funds	947,554,975	894,210,194
Board designated funds - Foundation	11,921,645	9,127,973
Donor restricted - Foundation	9,305,706	9,405,284
Total investments limited as to use	972,136,936	915,993,896
Property and equipment		
Land and improvements	43,326,840	34,557,203
Buildings and improvements	1,073,147,223	912,814,376
Furniture, fixtures and equipment	409,737,193	385,550,126
	1,526,211,256	1,332,921,705
Accumulated depreciation	(833,289,461)	(734,097,150)
	692,921,795	598,824,555
Construction in progress	46,807,507	43,441,395
Total property and equipment, net	739,729,302	642,265,950
Other assets		
Investments in joint ventures	81,911,594	70,663,837
Operating lease right-of-use assets, net	37,528,259	47,933,231
Goodwill and other intangibles	247,085,507	49,263,669
Other	56,003,030	27,362,950
Total other assets	422,528,390	195,223,687
Total assets	$ 2,754,994,341	$ 2,383,744,158

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2023 AND 2022

LIABILITIES AND NET ASSETS

	2023	2022
Current liabilities		
Accounts payable and other accrued liabilities	$ 82,525,478	$ 77,622,807
Salaries, wages and related liabilities	119,410,282	103,869,120
Estimated third-party payor settlements	668,216	15,656,614
Accrued interest	3,296,001	1,552,252
Other current liabilities	620,486	1,093,191
Commercial paper	150,000,000	-0-
Current portion of operating lease liabilities	11,132,259	18,586,781
Current portion of long-term debt	26,904,427	14,971,081
Total current liabilities	394,557,149	233,351,846
Long-term liabilities		
Operating lease liabilities, less current portion	27,616,101	30,716,701
Long-term debt, less current portion	508,428,299	488,582,159
Other long-term liabilities	36,738,091	50,730,517
Total long-term liabilities	572,782,491	570,029,377
Total liabilities	967,339,640	803,381,223
Net assets		
Without donor restrictions		
Undesignated	806,664,459	659,828,929
Designated - capital improvements	947,554,975	894,210,194
Designated - Foundation	11,921,645	9,127,973
Non-controlling interest	12,307,619	7,790,555
Total without donor restrictions	1,778,448,698	1,570,957,651
With donor restrictions	9,206,003	9,405,284
Total net assets	1,787,654,701	1,580,362,935
Total liabilities and net assets	$ 2,754,994,341	$ 2,383,744,158

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Revenue and other support		
Patient service revenue	$ 1,702,416,616	$ 1,531,424,011
Other revenue	124,998,622	72,046,056
Total revenue and other support	1,827,415,238	1,603,470,067
Expenses		
Salaries and wages	738,346,432	654,318,922
Employee benefits	174,156,016	166,438,826
Supplies	342,471,909	313,781,918
Contract services	175,788,805	155,762,620
Repairs and maintenance	61,242,792	55,999,986
Depreciation	79,003,461	70,378,505
Interest	23,346,936	10,883,924
Utilities	20,733,263	20,542,788
Other	131,494,563	109,900,105
Total expenses	1,746,584,177	1,558,007,594
Income from operations	80,831,061	45,462,473
Nonoperating revenues (expenses)		
Loss on retirement of debt	-0-	(12,480,952)
Investment return	27,032,145	13,868,729
Net unrealized gain (loss) on investments	54,422,111	(188,119,830)
Net periodic pension benefit (cost)	(5,026,970)	361,519
Other	-0-	2,841,300
Contributions, gifts, and bequests	1,302,053	1,192,775
Grants	(3,853,490)	(2,412,943)
Total nonoperating revenues (expenses)	73,875,849	(184,749,402)
Revenues over (under) expenses before other items	154,706,910	(139,286,929)
Excess assets acquired over liabilities assumed	104,616,759	-0-
Distributions to other entities	(41,491,429)	-0-
Revenues over (under) expenses	217,832,240	(139,286,929)
Other changes in net assets without donor restrictions		
Benefit related changes other than net periodic benefit cost	14,864,393	41,036,543
Net assets released from restriction	2,522,402	849,966
Distributions to non-controlling interest	(27,727,988)	(16,395,007)
Change in net assets without donor restrictions	207,491,047	(113,795,427)
Net assets with donor restrictions		
Contributions, gifts and bequests	1,608,602	4,331,787
Change in beneficial interest in trusts	83,624	(261,718)
Investment return (loss)	(114,588)	(45,814)
Net unrealized gain (loss) on investments	745,483	(175,840)
Net assets released from restriction	(2,522,402)	(849,966)
Change in net assets with donor restrictions	(199,281)	2,998,449
Change in net assets	$ 207,291,766	$ (110,796,978)

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	Without Donor Restrictions				
	Undesignated & Designated	Non-controlling Interest	Total	With Donor Restrictions	Total
Net assets					
September 30, 2021	$ 1,677,093,222	$ 7,659,856	$ 1,684,753,078	$ 6,406,835	$ 1,691,159,913
Revenues over (under) expenses	(155,812,635)	16,525,706	(139,286,929)	-0-	(139,286,929)
Benefit related changes other than net periodic benefit cost	41,036,543	-0-	41,036,543	-0-	41,036,543
Net assets released from restriction	849,966	-0-	849,966	(849,966)	-0-
Investment loss	-0-	-0-	-0-	(45,814)	(45,814)
Net unrealized loss on investments	-0-	-0-	-0-	(175,840)	(175,840)
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	4,070,069	4,070,069
Distributions to non-controlling interest, net	-0-	(16,395,007)	(16,395,007)	-0-	(16,395,007)
Change in net assets	(113,926,126)	130,699	(113,795,427)	2,998,449	(110,796,978)
September 30, 2022	1,563,167,096	7,790,555	1,570,957,651	9,405,284	1,580,362,935
Revenues over expenses	185,587,188	32,245,052	217,832,240	-0-	217,832,240
Benefit related changes other than net periodic benefit cost	14,864,393	-0-	14,864,393	-0-	14,864,393
Net assets released from restriction	2,522,402	-0-	2,522,402	(2,522,402)	-0-
Investment loss	-0-	-0-	-0-	(114,588)	(114,588)
Net unrealized gain on investments	-0-	-0-	-0-	745,483	745,483
Contributions, gifts, bequests and other changes	-0-	-0-	-0-	1,692,226	1,692,226
Distributions to non-controlling interest, net	-0-	(27,727,988)	(27,727,988)	-0-	(27,727,988)
Change in net assets	202,973,983	4,517,064	207,491,047	(199,281)	207,291,766
September 30, 2023	$ 1,766,141,079	$ 12,307,619	$ 1,778,448,698	$ 9,206,003	$ 1,787,654,701

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Operating activities		
Change in net assets	$ 207,291,766	$ (110,796,978)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	79,003,461	70,378,505
Loss on retirement of debt	-0-	12,480,952
Net unrealized (gain) loss on investments	(55,167,594)	188,295,670
Net realized (gain) loss on investments	4,966,834	(3,943,446)
(Gain) loss on disposal of property and equipment	109,399	(272,024)
Unrealized gain on interest rate swap	(48,169)	(892,709)
Amortization of debt issue costs and original issue discount/premium	62,868	(324,321)
Distributions to non-controlling interest	69,219,417	16,395,007
Excess assets acquired over liabilities assumed	(104,616,759)	-0-
Changes in operating assets and liabilities		
Patient accounts receivable	(20,208,346)	17,811,640
Inventories	(1,449,767)	1,064,152
Prepaid expenses and other current assets	(29,592,540)	(1,824,569)
Investments in joint ventures and other assets	(85,231,589)	2,406,388
Operating lease right-of-use assets, net	41,792,972	4,992,747
Accounts payable and other accrued liabilities	(10,051,329)	4,702,280
Salaries, wages and related liabilities	15,541,162	6,591,680
Estimated third-party payor settlements	(14,988,398)	5,919,091
Accrued interest	1,743,749	(26,583)
Other current liabilities	(10,539,705)	(83,684,504)
Operating lease liabilities	(20,622,122)	(4,430,572)
Other long-term liabilities	(24,161,407)	(49,363,717)
Net cash flows from operating activities	43,053,903	75,478,689
Investing activities		
Cash paid for acquisitions	(50,600,327)	-0-
Cash received in acquisitions	2,460,920	-0-
Purchases of property and equipment	(181,853,208)	(109,496,546)
Proceeds from disposal of property and equipment	2,960	882,157
Purchases of investments limited as to use	(445,571,536)	(447,735,749)
Proceeds from investments limited as to use	439,733,421	436,487,102
Net cash flows from investing activities	(235,827,770)	(119,863,036)
Financing activities		
Distributions to non-controlling interest and other entities	(69,219,417)	(16,395,007)
Issuance of commercial paper	150,000,000	-0-
Cash paid for debt issue costs	-0-	(2,453,085)
Proceeds from issuance of long-term debt	40,572,275	370,845,000
Payments on long-term debt	(12,226,899)	(230,738,547)
Net cash flows from financing activities	109,125,959	121,258,361
Change in cash and cash equivalents	(83,647,908)	76,874,014
Cash and cash equivalents		
Beginning of year	387,912,769	311,038,755
End of year	$ 304,264,861	$ 387,912,769
Reconciliation to consolidated balance sheets		
Cash and cash equivalents in current assets	$ 300,744,676	$ 308,910,408
Funds held by trustee in current assets - restricted	2,762,435	78,432,268
Funds held by trustee in investments - restricted	757,750	570,093
	$ 304,264,861	$ 387,912,769

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Deaconess Health System (the System) is an integrated multi-facility health system providing comprehensive health care services to southern Indiana, southern Illinois and western Kentucky, with full-time equivalents in excess of 8,200 within the Tri-State area. The System also has affiliation and management agreements with eight hospitals throughout the Tri-State area to provide various management and clinical services.

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

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

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

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

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

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

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

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

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

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

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

The System, located in Evansville, Indiana, is comprised of general acute care facilities, a mental health facility and more than 70 ambulatory sites. The inpatient services have a combined capacity of 787 intensive care, pediatric, medical/surgical, orthopedic and neurosurgical beds.

The System holds majority ownership interests in the following entities:

- Progressive Health of Indiana, LLC – 51%
- Tri-State Radiation Oncology, LLC – 51%
- Deaconess Health Plans, LLC – 97%
- Mainspring Managers, LLC – 51%
- Vascmed, LLC – 51%
- OrthoAlign, LLC – 51%
- Tri-State Healthcare Consultants, LLC – 51%

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

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

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

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

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

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

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

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

Principles of Consolidation

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

Use of Estimates

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

Cash Equivalents and Consolidated Statements of Cash Flows

Cash equivalents are defined as investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by arrangements under trust agreements, board designation or by donors. The System maintains its cash in accounts, which at times may exceed federally insured limits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents also include restricted cash from funds held by trustee. Additional cash flows information for 2023 and 2022 follows:

	2023	2022
Supplemental cash flows information		
Cash paid for interest, net	$ 21,477,000	$ 10,788,000
Property and equipment in liabilities	$ 2,042,000	$ 2,012,000
Patient accounts receivable obtained through acquisitions	$ 16,821,000	$ -0-
Property and equipment obtained through acquisitions	$ 6,599,000	$ -0-
Operating lease right-of-use assets obtained through acquisitions	$ 31,388,000	$ -0-
Other assets obtained through acquisitions	$ 204,567,000	$ -0-
Accounts payable assumed through acquisitions	$ 12,912,000	$ -0-
Operating lease liabilities assumed through acquisitions	$ 27,273,000	$ -0-
Other liabilities assumed through acquisitions	$ 10,067,000	$ -0-
Long-term debt assumed through acquisitions	$ 13,112,000	$ -0-
Investment in joint venture released in acquisitions	$ 2,739,000	$ -0-

Capitalized interest expense, net of interest income for 2023 and 2022 was approximately $-0- and $4,002,000, respectively.

Patient Accounts Receivable

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

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

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

Patient Service Revenue

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

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

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

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

Charity Care, Community Benefit and Assistance to the Uninsured

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

The System's charity care policy reflects the current economic conditions and other factors unique to the System's customer base. Charity care provided during 2023 and 2022, measured at established rates, was approximately $67,710,000 and $55,533,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of charity care.

Of the System's total expenses reported, an estimated $22,730,000 and $18,551,000 arose from providing services to charity patients during 2023 and 2022, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses to patient service revenue. The System did modify its financial assistance policy during 2023 and 2022. The System has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self pay discounts were an estimated $28,211,000 and $22,151,000 in 2023 and 2022, respectively.

Inventories

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

Investments Limited as to Use

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

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

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

These estimated values may differ significantly from the values that would have been used had a ready market for the commingled trust funds existed and the difference could be material. Commingled trust funds totaled approximately $576,210,000 and $545,555,000 (59.1% and 54.9% of investment portfolio) as of September 30, 2023 and 2022, respectively.

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

Property, Equipment and Depreciation

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

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

Investments in Joint Ventures

Investments in organizations where the System's ownership percentage is equal to or less than 50% are included in investments in joint ventures on the consolidated balance sheets. Investments in joint ventures approximated $81,912,000 and $70,664,000 as of September 30, 2023 and 2022, respectively. The System's portion of income from unconsolidated organizations is reported with other operating revenue and was $17,784,000 and $22,424,000 for 2023 and 2022, respectively. A summary of the significant investments in joint ventures follows:

- Prior to January 1, 2023, the System held a 50% ownership in The Women's Hospital which is a 74-bed facility dedicated to comprehensive women's care, including obstetrics, neonatal intensive care, cancer treatment and infertility and imaging services. Effective January 1, 2023, the System became the sole owner.
- The System holds a 50% ownership interest in Evansville Surgery Center Associates, LLC providing three locations of multispecialty outpatient surgery centers dedicated to the diagnosis and preoperative, intraoperative and postoperative care of patients.
- The System holds 33.3% of the membership shares in The Healthcare Group, LLC, a preferred provider organization – managed care network. The Healthcare Group, LLC encourages collaboration in providing patient service and cost management.
- The System holds a 27.5% ownership interest in Encompass Health/Deaconess, LLC, d/b/a Encompass Health Deaconess Rehabilitation Hospital, a comprehensive facility dedicated to improving, maintaining or restoring physical strength, cognition and mobility through therapeutic methods and technologies for rehabilitation.
- The System is an equity member in the Tecumseh Health Reciprocal Risk Retention Group which was formed to provide liability insurance, reinsurance and risk management services to the members.
- The System holds a 50% ownership interest in Crossroads Health Services which provides workers' compensation coverage.
- The System holds a 46% ownership interest in LoField Dialysis, LLC which was formed to provide dialysis and related services.
- The System, through DHK, holds a 50% ownership in Baptist Health Deaconess, LLC, which provides health care services to the residents of Madisonville, Kentucky and the surrounding communities.

Leases

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

Business Combinations and Goodwill and Other Intangibles

The System accounts for a business combination using the acquisition method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including amounts assigned to identifiable intangible assets, if any. Goodwill is tested for impairment on an annual basis, or whenever an event occurs, or circumstances indicate the carrying value of the goodwill may be impaired. The System performed the required annual impairment test for goodwill as of September 30, 2023 and 2022 using the income approach of calculating the present value of the future cash flows. The System determined no impairment of goodwill existed as of September 30, 2023 and 2022.

As of September 30, 2023 and 2022, the System recorded goodwill and other intangibles of approximately $247,086,000 and $49,264,000 related to the acquisition of majority owned entities. Included in these totals are other intangibles, net of accumulated amortization of $709,000 and $584,000 as of September 30, 2023 and 2022, respectively, related primarily to non-compete and similar agreements. Annual amortization is estimated at $125,000 over the remaining amortization periods.

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

Assets	
Cash	$ 2,460,920
Patient accounts receivable	16,821,117
Other current assets	2,518,076
Property and equipment	6,599,345
Operating lease right-of-use assets, net	31,387,721
Other assets	202,106,049
Total assets	261,893,228

Liabilities	
Accounts payable and other	(12,912,483)
Other liabilities	(10,067,078)
Lease liabilities	(27,273,336)
Long-term debt	(13,112,046)
Total liabilities	(63,364,943)
Equity interest previously recognized	(2,739,251)
Amount to previous 50% owners	(91,172,275)
Excess assets acquired over liabilities assumed	$ 104,616,759

Debt Issue Costs

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

Other Long-Term Liabilities

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

Net Assets

Net assets without donor restrictions are comprised of net assets that are undesignated, board designated and held by non-controlling interest. The following net assets without donor restrictions were board designated as of September 30, 2023 and 2022:

	2023	2022
Board designated		
Capital improvements	$ 947,554,975	$ 894,210,194
Foundation	11,921,645	9,127,973
	$ 959,476,620	$ 903,338,167

Net assets with donor restrictions include those assets whose use by the System has been limited primarily for capital projects or a specified time period or purpose. Also included are net assets contributed with donor restrictions requiring they be held in perpetuity with income used to support the System's activities. The following is a summary of net assets with donor restrictions as of September 30, 2023 and 2022:

	2023	2022
Patient medical care	$ 2,261,475	$ 2,322,874
Education and scholarship	1,306,916	1,342,399
Capital projects	1,364,914	1,401,972
Beneficial interest in trusts	1,173,972	1,173,972
To be held in perpetuity	692,080	692,080
Other System support	2,406,646	2,471,987
	$ 9,206,003	$ 9,405,284

Net assets were released from restriction during 2023 and 2022 for the following purposes:

	2023	2022
Patient medical care	$ 777,164	$ 261,879
Education and scholarship	449,127	151,341
Capital projects	469,058	158,057
Other System support	827,053	278,689
	$ 2,522,402	$ 849,966

Contributions

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating revenues (expenses) in the accompanying consolidated financial statements.

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

Performance Indicator

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

Medical Malpractice

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

The System is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the System's required portion of the insurance coverage pursuant to the Act, as well as its general liability insurance and excess coverage.

Membership in THRRRG includes 14 hospitals as of September 30, 2023. Coverage through THRRRG provides protection from liability in an amount not to exceed $500,000 per incident and aggregate liability protection not to exceed $15,000,000 per year. In addition, the System maintains a commercial umbrella/excess liability policy with a limit of $20,000,000 each occurrence and $35,000,000 aggregate per member and $35,000,000 total policy aggregate.

Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and recognize a tax liability if the System has taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by the System and has concluded that as of September 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The remaining consolidated subsidiaries are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes related to these entities. These entities have filed their Federal and state income tax returns for periods through their most recent fiscal year ends (primarily December 31, 2022). These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising Costs

Advertising costs are expensed as incurred. Total expense for 2023 and 2022 was approximately $715,000 and $1,282,000, respectively.

Reclassification

Certain 2022 amounts in the consolidated financial statements have been reclassified to conform to the 2023 presentation. The reclassifications have no effect on previously reported net assets or changes in net assets.

Subsequent Events

The System evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was January 24, 2024.

2. INVESTMENTS

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

	2023	2022
Board designated funds		
Cash	$ 498,015	$ 602,238
Money market mutual funds	3,578,068	4,198,937
Common stocks	55,438,174	57,902,462
Mutual funds and ETF	82,876,627	71,619,685
US Government and government agency obligations	46,287,222	32,657,736
Corporate bonds	77,457,948	85,926,857
Mortgage backed securities	116,271,409	104,725,810
Commingled trusts	565,147,512	536,576,469
	947,554,975	894,210,194
Funds held by trustee		
Money market mutual funds	3,520,185	79,002,361
Mutual funds and ETF	2,596,860	2,680,352
Current portion	(2,762,435)	(78,432,268)
	3,354,610	3,250,445
Board designated - Foundation and donor restricted - Foundation		
Cash	1,784,126	3,995,456
Common stocks	446,076	591,475
Mutual funds and ETF	7,726,839	4,675,368
US Government and government agency obligations	184,797	171,473
Commingled trusts	11,062,426	8,978,971
Accrued interest and other	23,087	120,514
	21,227,351	18,533,257
Investments limited as to use, net	$ 972,136,936	$ 915,993,896

Investments reported as current assets are those that the System has made available for use in operations within the next twelve months. Investments limited as to use that are required for obligations classified as current liabilities are also reported in current assets. A detail of investment return for both net assets with and without donor restrictions for 2023 and 2022 is as follows:

	2023	2022
Interest and dividends and other	$ 31,836,222	$ 8,986,760
Net realized gain (loss)	(4,966,834)	3,943,446
Unrealized gain on interest rate swap	48,169	892,709
Investment return, net	$ 26,917,557	$ 13,822,915

For net assets without donor restrictions the unrealized gain on investments was approximately $54,422,000 in 2023 and the unrealized loss on investments was approximately $188,120,000 in 2022. These amounts are reported under nonoperating revenues (expenses) in the consolidated statements of operations.

For net assets with donor restrictions the unrealized gain on investments was approximately $745,000 in 2023 and the unrealized loss on investments was approximately $176,000 in 2022. These amounts are included in changes in net assets with donor restrictions on the consolidated statements of operations for the respective years.

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

The following schedules summarize the fair value of debt securities included in investments limited as to use that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of September 30, 2023 and 2022. The schedules further segregate the debt securities that have been in a gross unrealized position as of September 30, 2023 and 2022, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary. The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in 2024. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of September 30, 2023 and 2022.

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

	September 30, 2022					
	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 54,168,409	$ 4,732,808	$ 31,629,237	$ 7,843,132	$ 85,797,646	$ 12,575,940
US Government and government agency obligations	30,398,839	4,739,463	2,258,889	537,937	32,657,728	5,277,400
Mortgage backed securities	75,839,483	6,817,039	24,221,126	4,146,219	100,060,609	10,963,258
Total temporarily impaired securities	$ 160,406,731	$ 16,289,310	$ 58,109,252	$ 12,527,288	$ 218,515,983	$ 28,816,598

3. FAIR VALUE MEASUREMENTS

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2023 and 2022:

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2023 and 2022 are as follows:

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

	September 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Money market mutual funds	$ 83,201,298	$ -0-	$ 83,201,298	$ -0-
Common stocks				
Consumer	11,668,045	11,668,045	-0-	-0-
Financial services	7,043,691	7,043,691	-0-	-0-
Industrial and materials	13,590,367	13,590,367	-0-	-0-
Technology	8,478,114	8,478,114	-0-	-0-
Healthcare	5,882,689	5,882,689	-0-	-0-
Other	11,831,031	11,831,031	-0-	-0-
Total common stocks	58,493,937	58,493,937	-0-	-0-
Mutual funds and ETF				
Large blend	67,872,383	67,872,383	-0-	-0-
Other	11,103,022	11,103,022	-0-	-0-
Total mutual funds and ETF	78,975,405	78,975,405	-0-	-0-
US Government and government agency obligations	32,829,209	32,829,209	-0-	-0-
Corporate bonds				
Consumer	9,131,612	-0-	9,131,612	-0-
Financial services	22,646,665	-0-	22,646,665	-0-
Industrial and materials	23,611,767	-0-	23,611,767	-0-
International	15,133,743	-0-	15,133,743	-0-
Other	15,403,070	-0-	15,403,070	-0-
Total corporate bonds	85,926,857	-0-	85,926,857	-0-
Mortgage backed securities	104,725,810	-0-	104,725,810	-0-
	444,152,516	$ 170,298,551	$ 273,853,965	$ -0-
Cash	4,597,694			
Commingled trusts (a)	545,555,440			
Accrued interest and other	120,514			
	$ 994,426,164			
Derivative asset	$ 275,156	$ -0-	$ 275,156	$ -0-

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

The following table summarizes the commingled trust investments measured at fair value based on NAV per share as of September 30, 2023 and 2022:

	Fair Value		Unfunded	Redemption	Redemption
Investment	2023	2022	Commitments	Frequency	Notice Period
Commingled trusts - emerging markets	$ 65,794,581	$ 25,321,599	None	Daily	None
Commingled trusts - domestic	317,687,663	300,300,244	None	Daily	None to 10 days
Commingled trusts - international	89,460,104	69,179,036	None	Daily	None
Commingled trusts - other	103,267,590	150,754,561	None	Daily	None to 15 days
	$ 576,209,938	$ 545,555,440			

Realized gain and loss are reported in the consolidated statements of operations as a component of investment return. A net realized loss of approximately $4,967,000 was recorded during 2023 while a net realized gain of approximately $3,943,000 was recorded during 2022. Differences between market value and cost of investments are classified as unrealized gains or losses. The unrealized gain or loss is included in earnings for the period attributable to the change in unrealized gain or loss relating to assets held as of September 30, 2023 and 2022 and is reported in the consolidated statements of operations as net unrealized gain or loss on investments.

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

4. PATIENT SERVICE REVENUE, RELATED RECEIVABLES AND ESTIMATED SETTLEMENTS

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for 2023 and 2022. As of September 30, 2023, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For 2023 and 2022, adjustments were recognized due to changes in the System’s estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio basis, are recorded as bad debt expense.

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

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

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

A summary of patient service revenue, including information on service lines, for 2023 and 2022 follows:

	2023	2022
Patient service revenue	$ 5,202,858,019	$ 4,663,945,416
Explicit price concessions and other		
Charity care	(67,709,983)	(55,532,838)
Uninsured self pay discounts	(28,211,494)	(22,151,270)
Contractual adjustments	(3,380,114,533)	(3,042,208,309)
Total adjustments	(3,476,036,010)	(3,119,892,417)
	1,726,822,009	1,544,052,999
Implicit price concessions	(24,405,393)	(12,628,988)
Patient service revenue	$ 1,702,416,616	$ 1,531,424,011

	2023	2022
Payor type		
Medicare	$ 582,627,667	$ 548,420,729
Medicaid	241,846,592	222,356,678
Commercial and managed care	873,622,037	757,145,298
Self pay and other	4,320,320	3,501,306
	$ 1,702,416,616	$ 1,531,424,011
Service line		
Hospital - inpatient	$ 593,394,229	$ 559,905,229
Hospital - outpatient	683,495,399	633,314,393
Physician services	425,526,988	338,204,389
	$ 1,702,416,616	$ 1,531,424,011

The following is mix of patient accounts receivable and patient service revenue as of September 30, 2023 and 2022 and for the years then ended:

	Receivable		Revenue	
	2023	2022	2023	2022
Medicare	36.6%	36.0%	34.2%	35.8%
Medicaid	13.4%	12.6%	14.2%	14.5%
Commercial and managed care	36.9%	37.8%	51.3%	49.4%
Self pay and other	13.1%	13.6%	0.3%	0.3%
	100.0%	100.0%	100.0%	100.0%

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

Medicare

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

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

The System participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures. The State of Kentucky has a similar program to fund its Medicaid program. Historically, the Kentucky tax has been 2.5% of patient service revenue received with long-term care services taxed at 2% with an overall annual cap. During 2023 and 2022, the System recognized HAF and HIP program expense from Indiana and Kentucky of approximately $59,133,000 and $48,916,000, respectively, which resulted in Medicaid rate increases. HAF and HIP program expense is included in other expenses on the consolidated statements of operations while the Medicaid rate increases are recorded in patient service revenue.

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

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

The System recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. All leases were classified as operating leases as of September 30, 2023 and 2022.

The System has operating leases for medical offices and equipment. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. The System's lease agreements do not contain any material restrictive covenants. The leases have remaining terms through 2035.

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

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

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

The components of the System's operating lease cost for 2023 and 2022 are as follows:

	2023	2022
Operating lease cost	$ 15,546,614	$ 19,015,717
Short-term lease cost	2,606,090	2,246,674
Total lease expense	$ 18,152,704	$ 21,262,391

The System's ROU assets and lease liabilities as of and for the years ended September 30, 2023 and 2022 are as follows:

	2023	2022
Operating leases		
Operating lease ROU assets, net	$ 37,528,259	$ 47,933,231
Operating lease liabilities		
Current portion	$ 11,132,259	$ 18,586,781
Long-term	27,616,101	30,716,701
	$ 38,748,360	$ 49,303,482

	2023	2022
Cash paid for amounts in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 15,546,614	$ 19,015,717
ROU assets obtained in exchange for new operating lease liabilities	$ 6,663,789	$ 7,178,818
Weighted average remaining lease term - operating leases	6.10 years	6.02 years
Weighted average discount rate - operating leases	3.66%	3.38%

The subsequent maturities of the lease liabilities are as follows:

Year Ending September 30,	
2024	$ 13,163,443
2025	9,732,554
2026	7,051,957
2027	4,496,652
2028	2,872,303
Thereafter	3,182,777
Total payments	40,499,686
Less interest	1,751,326
	$ 38,748,360

6. COMMERCIAL PAPER

During 2023, the System issued the Taxable Commercial Paper Notes, Series 2022 up to $175,000,000 through U.S. Bank Trust Company, National Association. The Series 2022 Notes are issued in minimum increments of $100,000 with a maturity date of 270 days after issuance. Interest is variable and approximated 5.5% as of September 30, 2023. As of September 30, 2023 and 2022, the balance outstanding was $150,000,000 and $-0-, respectively.

7. LONG-TERM DEBT

The following is a summary of long-term debt as of September 30, 2023 and 2022:

	2023	2022
Hospital Revenue Bonds		
Series 2013A term bonds	$ -0-	$ 2,520,000
Series 2013B term bonds	9,520,000	10,915,000
Series 2015A term bonds	7,365,000	7,790,000
Series 2016A serial and term bonds	49,665,000	50,070,000
Series 2021A serial and term bonds	327,985,000	330,610,000
Series 2021B term bonds	34,020,000	35,445,000
Series 2016 Term Loan	44,100,000	46,200,000
Series 2020 Term Loan	13,411,112	15,410,560
USDA note	5,784,449	5,956,270
Promissory notes	40,572,275	-0-
Other notes	4,210,612	-0-
	536,633,448	504,916,830
Current portion	(26,904,427)	(14,971,081)
Original issue premiums (discounts), net	210,203	273,701
Debt issue costs	(1,510,925)	(1,637,291)
Long-term debt, net of current portion	$ 508,428,299	$ 488,582,159

Debt Issue	Maturity	Payment Range (in thousands)	Interest	Interest rate as of September 30, 2023
Series 2013A term bonds	March 2023	$2,520	Fixed	5.000%
Series 2013B term bonds	March 2029	$1,000 to $1,735	Variable (1)(2)	4.965%
Series 2015A term bonds	March 2035	$425 to $710	Fixed	3.25% to 5.00%
Series 2016A serial bonds	March 2039	$405 to $1,920	Fixed	3.00% to 5.00%
Series 2016A term bonds	March 2044	$31,100	Fixed	3.125%
Series 2021A serial bonds	March 2039	$2,625 to $10,740	Fixed	.502% to 2.926%
Series 2021A term bonds	March 2051	$56,010 to $151,155	Fixed	3.026% to 3.313%
Series 2021B term bonds	March 2039	$36,810	Variable (3)	2.050%
Series 2016 term loan	August 2026	$2,100 to $39,900	Fixed	2.500%
Series 2020 term loan	August 2025	$1,133 to $12,372	Variable (4)	6.900%
USDA note	August 2048	$154 to $316	Fixed	3.250%
Promissory notes	January 2028	$9,996	Fixed	5.000%
Other notes	October 2025	$17 to $368	Fixed	2.95% to 5.00%

(1) 70% of LIBOR plus 115 basis points (2.945% as of September 30, 2022)
(2) Rate is fixed at 2.78% through interest rate swap. See Derivative Financial Instrument note
(3) Rate is based on SIFMA plus 30 basis points set through February 2027
(4) LIBOR plus 140 basis points with floor of 50 basis points (4.025% as of September 30, 2022)

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

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

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

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

All of the Hospital Revenue Bonds and the Series 2016 and 2020 term loans are secured by a security interest in the System's revenue. The System covenants that it will not permit any lien or security interest on the System facility other than certain permitted encumbrances. In addition, the various agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. As of September 30, 2023 and 2022, the System believed it was in compliance with the restrictive covenants.

The note from the United States Department of Agriculture (USDA) is secured by assets with a net book value of approximately $5,784,000 and $5,956,000 as of September 30, 2023 and 2022, respectively.

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

As of September 30, 2023, the System had commitments outstanding related to property and equipment of approximately $20,000,000.

Aggregate maturities of long-term debt are:

Year Ending September 30,	
2024	$ 26,904,427
2025	34,780,952
2026	59,719,850
2027	47,722,446
2028	9,222,632
Thereafter	358,283,141
	$ 536,633,448

8. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The System makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs. As of September 30, 2023 and 2022, the System had outstanding an interest rate swap agreement with Fifth Third, having a notional amount of $9,520,000 and $10,915,000, respectively. The agreement effectively changes the System's interest rate exposure on its Series 2013B bonds through March 2029 to a fixed 2.78%. The interest rate swap agreement matures at the time the related long-term debt matures. The System is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the System does not anticipate nonperformance by the counterparties. The derivative is not designated as a hedging instrument and is marked-to-market on the consolidated balance sheet at fair value. The related gains and losses are included in excess revenues over expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statement of cash flows. The asset derivatives are reported in the consolidated balance sheets as other assets. The liability derivatives are reported as derivative liabilities in the other long-term liabilities. As of September 30, 2023 and 2022, the fair values of derivative recorded in the consolidated balance sheets are as follows:

	2023	2022
Other long-term assets		
Derivative asset	$ 323,325	$ 275,156

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

During 2023 and 2022, the amount of gain or loss recognized in the consolidated statements of operations and reported as a component of investment income under nonoperating revenues (expenses) is as follows:

	2023	2022
Nonoperating revenues (expenses)		
Investment return		
Unrealized gain on derivative	$ 48,169	$ 892,709

9. DEFINED BENEFIT PENSION PLAN

The System offers a noncontributory defined benefit pension plan covering eligible employees. Benefits are based on each participant's years of service and compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The defined benefit pension plan is closed to new participants. Participants should refer to the plan documents for more complete information. During 2022, the DHK plan merged with the System's plan. Effective January 1, 2024, the System's plan was frozen. The following tables set forth the funded status of the benefit plans and amounts recognized in the consolidated financial statements as of September 30, 2023 and 2022 and for the years then ended.

	2023	2022		
	The System	The System	DHK	Total
Change in benefit obligation				
Benefit obligation, beginning of year	$ 283,077,919	$ 336,647,746	$ 51,757,321	$ 388,405,067
Service cost	1,924,108	3,192,769	-0-	3,192,769
Interest cost	14,408,958	7,735,985	1,155,477	8,891,462
Plan settlements	-0-	-0-	-0-	-0-
Benefits paid	(14,960,003)	(11,061,654)	(3,212,377)	(14,274,031)
Plan combinations	-0-	37,323,290	(37,323,290)	-0-
Actuarial (gain) loss	(17,356,293)	(90,760,217)	(12,377,131)	(103,137,348)
Benefit obligation, end of year	$ 267,094,689	$ 283,077,919	$ -0-	$ 283,077,919
Changes in plan assets				
Fair value of plan assets, beginning of year	$ 244,296,203	$ 266,285,540	$ 37,128,518	$ 303,414,058
Actual return on plan assets	6,890,086	(52,978,938)	131,114	(52,847,824)
Employer contributions	8,004,000	8,004,000	-0-	8,004,000
Plan settlements	-0-	-0-	-0-	-0-
Benefits paid	(14,960,003)	(11,061,654)	(3,212,377)	(14,274,031)
Plan combinations	-0-	34,047,255	(34,047,255)	-0-
Fair value of plan assets, end of year	$ 244,230,286	$ 244,296,203	$ -0-	$ 244,296,203
Funded status				
Funded status of the plan, end of period	$ (22,864,403)	$ (38,781,716)	$ -0-	$ (38,781,716)
Amounts recognized in the consolidated balance sheets consist of				
Other long-term liabilities	$ (22,864,403)	$ (38,781,716)	$ -0-	$ (38,781,716)
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets				
Prior service (cost) credit	$ -0-	$ -0-	$ -0-	$ -0-
Accumulated gain (loss)	(43,136,212)	(58,000,603)	-0-	(58,000,603)
Other changes in unrestricted net assets	(43,136,212)	(58,000,603)	-0-	(58,000,603)
Cumulative employer contributions in excess (deficit) of net periodic benefit cost	20,271,809	19,218,887	-0-	19,218,887
Net amount recognized in the consolidated balance sheets	$ (22,864,403)	$ (38,781,716)	$ -0-	$ (38,781,716)

Other pension disclosures for 2023 and 2022 include:

	2023	2022		
	The System	The System	DHK	Total
Components of net periodic benefit cost				
Service cost	$ 1,924,108	$ 3,192,769	$ -0-	$ 3,192,769
Interest cost	14,408,958	7,735,985	1,155,477	8,891,462
Expected return on plan assets	(12,581,644)	(12,701,243)	(1,942,856)	(14,644,099)
Settlement (gain) loss	-0-	-0-	-0-	-0-
Amortization of (gain) loss	3,199,656	4,912,782	478,336	5,391,118
Net periodic benefit cost	$ 6,951,078	$ 3,140,293	$ (309,043)	$ 2,831,250
Other changes in unrestricted net assets				
Net (gain) loss arising during year	$ (11,664,737)	$ (15,162,935)	$ (20,482,490)	$ (35,645,425)
Amortization of prior service cost	-0-	-0-	-0-	-0-
Amortization of gain (loss)	(3,199,656)	(4,912,782)	(478,336)	(5,391,118)
Total other changes in unrestricted net assets	$ (14,864,393)	$ (20,075,717)	$ (20,960,826)	$ (41,036,543)
Weighted-average actuarial assumptions to determine benefit obligations of September 30				
Discount rate	5.86%	5.39%	5.39%	
Rate of compensation increase	3.50%	3.50%	N/A	
Measurement date	9/30/2023	9/30/2022	9/30/2022	
Weighted-average actuarial assumptions to determine net periodic benefit cost as of September 30				
Discount rate	5.39%	2.81%	2.86%	
Expected long-term rate of return	5.25%	4.80%	5.50%	
Rate of compensation increase	3.50%	3.50%	N/A	
Additional year end information				
Projected benefit obligation	$ 267,094,689	$ 283,077,919	$ -0-	$ 283,077,919
Accumulated benefit obligation	$ 257,540,278	$ 272,846,984	$ -0-	$ 272,846,984
Fair value of plan assets	$ 244,230,286	$ 244,296,203	$ -0-	$ 244,296,203

The following is a schedule by year of expected benefit payments for the years after September 30, 2023:

Year Ending September 30,	
2024	$ 15,583,171
2025	16,246,717
2026	16,718,314
2027	17,571,138
2028	18,282,671
2029-2033	98,978,240
	$ 183,380,251

Determination of net periodic pension cost for the years ended September 30, 2023 and 2022 is based on assumptions and census data as of January 1, 2023 and 2022, respectively.

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

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

The allocation strategy for the pension benefits plans currently comprises approximately 30% to 75% growth investments (target of 50%) and 25% to 70% fixed-income investments (target of 50%). Within the growth investment classification, the plans asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 60% of the System's plans asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies. The weighted-average asset allocations for both plans as of September 30, 2023 and 2022, were as follows:

	2023	2022
Growth securities	49%	59%
Fixed income securities	50%	40%
Cash equivalents	1%	1%
	100%	100%

Fair value of mutual funds, exchange traded funds and marketable equity securities are based on the quoted prices in active markets. The commingled trust fund investments are valued at the NAV on a market that is not active. However, the underlying investments are traded on an active market. The following is an analysis of fair value of the major classes of pension benefits plan assets of September 30, 2023 and 2022:

	2023	2022
Level 1		
Mutual funds and ETF		
Infrastructure	$ 5,756,612	$ 748,756
Cash equivalents	1,958,212	5,023,016
Commingled trusts - not classified	236,515,462	238,524,431
	$ 244,230,286	$ 244,296,203

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

The System expects to contribute in excess of the required funding amounts to its pension benefits plan in 2024 of approximately $8,004,000.

The System also offers a 401(k) plan to eligible employees where the System makes base contributions to eligible employees based on years of service in addition to matching contributions (ranging from 25% to 60% of employee deferral up to 6% of eligible earnings) based on the eligible employees' contribution to the 401(k) plan. Total expense for the System's contributions for eligible employees for 2023 and 2022 was approximately $22,035,000 and $24,034,000, respectively.

10. RELATED PARTY TRANSACTIONS

The System was a joint-owner of The Women's Hospital. The System owns the building in which The Women's Hospital is located and leases the space to The Women's Hospital currently at approximately $230,000 per month with an option to increase that amount annually through 2031. The System provides ancillary services (lab, radiology) for The Women's Hospital. Ancillary services provided were approximately $1,151,000 and $4,233,000 in 2023 and 2022, respectively.

The System is a joint owner of Evansville Surgery Center Associates, LLC (Surgery Center). The System recorded contract service expense related to the Surgery Center of approximately $28,485,000 and $28,809,000 in 2023 and 2022, respectively. As of September 30, 2023 and 2022, the System had a liability to the Surgery Center of approximately $3,585,000 and $4,148,000, respectively.

The System is a joint-owner of Encompass Health Deaconess Rehabilitation Hospital. The System provides ancillary services (lab, radiology) to Encompass Health Deaconess Rehabilitation Hospital. Ancillary services provided were approximately $691,000 and $998,000 in 2023 and 2022, respectively.

Related party transactions between the System and other joint ventures in 2023 and 2022 were not significant to the System's overall consolidated financial statements.

11. COMMITMENTS AND CONTINGENCIES

Litigation

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

Health Insurance

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

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2023 consolidated balance sheet date approximate $518,752,000 and are comprised of $300,745,000 in cash and cash equivalents and $218,007,000 of patient accounts receivable. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. Patient accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

As a part of the System's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System periodically invests excess cash in investments. The System has board designated investments of approximately $947,555,000 as of September 30, 2023. Although the System does not intend to spend from these board designated funds (other than amounts appropriated for general expenditure), these amounts could be made available, if necessary.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2022 consolidated balance sheet date $489,888,000 and are comprised of $308,910,000 in cash and cash equivalents and $180,977,000 of patient accounts receivable.

13. FUNCTIONAL EXPENSES

The System provides health care services to patients in the community and the surrounding areas. Expenses related to providing these services for 2023 and 2022 are as follows. Fundraising expenses were not significant in 2023 and 2022.

	2023		
	Healthcare Services	General and Administrative	Total
Expenses			
Salaries and wages	$ 667,188,711	$ 71,157,721	$ 738,346,432
Employee benefits	148,816,161	25,339,855	174,156,016
Supplies	339,525,477	2,946,432	342,471,909
Contract services	161,839,988	13,948,817	175,788,805
Repairs and maintenance	43,710,004	17,532,788	61,242,792
Depreciation	53,788,801	25,214,660	79,003,461
Interest	13,754,779	9,592,157	23,346,936
Utilities	12,780,294	7,952,969	20,733,263
Other	117,827,854	13,666,709	131,494,563
Total expenses	$ 1,559,232,069	$ 187,352,108	$ 1,746,584,177

	2022		
	Healthcare Services	General and Administrative	Total
Expenses			
Salaries and wages	$ 591,259,305	$ 63,059,617	$ 654,318,922
Employee benefits	142,221,829	24,216,997	166,438,826
Supplies	311,082,318	2,699,600	313,781,918
Contract services	143,402,878	12,359,742	155,762,620
Repairs and maintenance	39,968,126	16,031,860	55,999,986
Depreciation	47,916,577	22,461,928	70,378,505
Interest	6,412,232	4,471,692	10,883,924
Utilities	12,662,882	7,879,906	20,542,788
Other	98,477,787	11,422,318	109,900,105
Total expenses	$ 1,393,403,934	$ 164,603,660	$ 1,558,007,594

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

14. COVID-19 AND GOVERNMENT PROGRAMS

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

During 2023 and 2022, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and funds under the American Rescue Plan (ARP) were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The System received approximately $-0- and $17,096,000 of PRF and ARP grants during 2023 and 2022, respectively. PRF and ARP grants are recognized to the extent the System meets the terms and conditions of the grants. The System recognized PRF and ARP grants of approximately $1,233,000 and $15,863,000 as other operating revenue in the consolidated statements of operations and changes in net assets during 2023 and 2022, respectively. Refundable advances of approximately $-0- and $1,233,000 as of September 30, 2023 and 2022, respectively were recorded for deferred PRF and ARP grants in accrued liabilities on the consolidated balance sheets.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. Included on the consolidated balance sheets in other current liabilities were accelerated and advanced payments of approximately $-0- and $452,000 as of September 30, 2023 and 2022, respectively.

15. SUBSEQUENT EVENTS

On November 9, 2023, Deaconess Health System, Inc. executed and delivered the Bond Purchase and Loan Agreement dated as of November 9, 2023 among the Indiana Finance Authority, Old National Bank and the Deaconess Health System, Inc. relating to the issuance of bonds in the aggregate principal amount of $14,500,000. These funds are intended for the purpose of acquiring, constructing, renovating, expanding and equipping certain facilities consisting of two medical office buildings constituting health facility property.

During 2023, the System entered into an affiliation agreement to become the sole member of the Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center (the Corporation). As of September 30, 2023, the affiliation agreement did not close but is expected to close during 2024.

Effective January 1, 2024, the System's defined benefit plan was frozen.

SUPPLEMENTARY INFORMATION

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2023

	Credit Group												
	Obligated Group												
	Deaconess Health System, Inc.	Deaconess Hospital, Inc.	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Specialty Physicians, Inc.	Deaconess Health Kentucky, Inc.	Deaconess Henderson, Inc.	Eliminations	Total Deaconess Health System Credit Group	Total Other Affiliates	Eliminations	Consolidated Deaconess Health System
Assets													
Current assets													
Cash and cash equivalents	$ 23,574,661	$ 172,588,129	$ -0-	$ 196,162,790	$ -0-	$ -0-	$ 803,242	$ 8,153,705	$ -0-	$ 205,119,737	$ 95,624,939	$ -0-	$ 300,744,676
Funds held by trustee	-0-	2,587,958	-0-	2,587,958	-0-	-0-	-0-	-0-	-0-	2,587,958	174,477	-0-	2,762,435
Patient accounts receivable	-0-	150,737,112	-0-	150,737,112	16,509,367	1,740,392	-0-	12,274,702	-0-	181,261,573	36,745,091	-0-	218,006,664
Inventories	-0-	11,375,719	-0-	11,375,719	-0-	-0-	-0-	1,695,840	-0-	13,071,559	2,954,716	-0-	16,026,275
Prepaid expenses and other current assets	(11,810,762)	183,858,965	(65,187,489)	106,860,714	1,447,783	1,146,932	(13,900,055)	3,741,096	(757,084)	98,539,386	14,175,881	(29,655,604)	83,059,663
Total current assets	11,763,899	521,147,883	(65,187,489)	467,724,293	17,957,150	2,887,324	(13,096,813)	25,865,343	(757,084)	500,580,213	149,675,104	(29,655,604)	620,599,713
Investments limited as to use													
Funds held by trustee	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,354,610	-0-	3,354,610	-0-	-0-	3,354,610
Board designated funds	-0-	936,017,543	-0-	936,017,543	-0-	-0-	-0-	11,537,432	-0-	947,554,975	-0-	-0-	947,554,975
Board designated funds - Foundation	-0-	11,921,645	-0-	11,921,645	-0-	-0-	-0-	-0-	-0-	11,921,645	-0-	-0-	11,921,645
Donor restricted - Foundation	-0-	9,305,706	-0-	9,305,706	-0-	-0-	-0-	-0-	-0-	9,305,706	-0-	-0-	9,305,706
Total investments limited as to use	-0-	957,244,894	-0-	957,244,894	-0-	-0-	-0-	14,892,042	-0-	972,136,936	-0-	-0-	972,136,936
Property and equipment													
Land and improvements	6,836,759	31,205,787	-0-	38,042,546	-0-	-0-	-0-	874,959	-0-	38,917,505	4,409,335	-0-	43,326,840
Buildings and improvements	26,958,242	945,752,835	-0-	972,711,077	-0-	-0-	-0-	53,059,890	-0-	1,025,770,967	47,376,256	-0-	1,073,147,223
Furniture, fixtures and equipment	167,633	330,733,423	-0-	330,901,056	23,584,615	3,795,139	-0-	19,895,119	-0-	378,175,929	31,561,264	-0-	409,737,193
	33,962,634	1,307,692,045	-0-	1,341,654,679	23,584,615	3,795,139	-0-	73,829,968	-0-	1,442,864,401	83,346,855	-0-	1,526,211,256
Accumulated depreciation	(21,350,066)	(728,125,381)	-0-	(749,475,447)	(12,466,189)	(830,788)	-0-	(22,305,238)	-0-	(785,077,662)	(48,211,799)	-0-	(833,289,461)
	12,612,568	579,566,664	-0-	592,179,232	11,118,426	2,964,351	-0-	51,524,730	-0-	657,786,739	35,135,056	-0-	692,921,795
Construction in progress	343,075	40,694,262	-0-	41,037,337	1,365,760	-0-	-0-	2,217,057	-0-	44,620,154	2,187,353	-0-	46,807,507
Total property and equipment, net	12,955,643	620,260,926	-0-	633,216,569	12,484,186	2,964,351	-0-	53,741,787	-0-	702,406,893	37,322,409	-0-	739,729,302
Other assets													
Investments in joint ventures	259,856,133	173,607,317	-0-	433,463,450	664,598	-0-	103,796,133	-0-	(153,527,878)	384,396,303	3,074,133	(305,558,842)	81,911,594
Operating lease right-of-use assets, net	-0-	26,478,896	(3,355,671)	23,123,225	49,706,503	6,379,317	-0-	2,082,394	(48,586,989)	32,704,450	34,553,352	(29,729,543)	37,528,259
Goodwill and other intangibles	-0-	48,218,554	-0-	48,218,554	345,455	-0-	-0-	-0-	-0-	48,564,009	198,521,498	-0-	247,085,507
Other	41,614,533	19,518,185	(73,229)	61,059,489	9,914,340	2,397,216	-0-	333,222	(14,814,059)	58,890,208	10,215,591	(13,102,769)	56,003,030
Total other assets	301,470,666	267,822,952	(3,428,900)	565,864,718	60,630,896	8,776,533	103,796,133	2,415,616	(216,928,926)	524,554,970	246,364,574	(348,391,154)	422,528,390
Total assets	$ 326,190,208	$ 2,366,476,655	$ (68,616,389)	$ 2,624,050,474	$ 91,072,232	$ 14,628,208	$ 90,699,320	$ 96,914,788	$ (217,686,010)	$ 2,699,679,012	$ 433,362,087	$ (378,046,758)	$ 2,754,994,341

See report of independent auditors on pages 1 through 3.

DEACONESS HEALTH SYSTEM

CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2023

	Credit Group												
	Obligated Group												
	Deaconess Health System, Inc.	Deaconess Hospital, Inc.	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Specialty Physicians, Inc.	Deaconess Health Kentucky, Inc.	Deaconess Henderson, Inc.	Eliminations	Total Deaconess Health System Credit Group	Total Other Affiliates	Eliminations	Consolidated Deaconess Health System
Liabilities and net assets													
Current liabilities													
Accounts payable and other accrued liabilities	$ 66,663,980	$ 52,728,338	$ (65,187,489)	$ 54,204,829	$ 20,278,672	$ 3,283,636	$ 1,841,509	$ 7,146,033	$ (757,084)	$ 85,997,595	$ 26,183,487	$ (29,655,604)	$ 82,525,478
Salaries, wages and related liabilities	-0-	65,171,317	-0-	65,171,317	16,836,542	3,519,854	-0-	5,752,329	-0-	91,280,042	28,130,240	-0-	119,410,282
Estimated third-party payor settlements	-0-	(804,875)	-0-	(804,875)	-0-	-0-	-0-	(2,808,197)	-0-	(3,613,072)	4,281,288	-0-	668,216
Accrued interest	-0-	2,579,416	-0-	2,579,416	-0-	-0-	-0-	-0-	-0-	2,579,416	716,585	-0-	3,296,001
Other current liabilities	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(88,497)	-0-	(88,497)	708,983	-0-	620,486
Commercial paper	150,000,000	-0-	-0-	150,000,000	-0-	-0-	-0-	-0-	-0-	150,000,000	-0-	-0-	150,000,000
Current portion of operating lease liabilities	-0-	7,546,533	(498,879)	7,047,654	7,215,219	728,850	-0-	540,372	(5,907,172)	9,624,923	5,607,212	(4,099,876)	11,132,259
Current portion of long-term debt	-0-	21,169,990	-0-	21,169,990	-0-	-0-	-0-	2,397,724	-0-	23,567,714	3,336,713	-0-	26,904,427
Total current liabilities	216,663,980	148,390,719	(65,686,368)	299,368,331	44,330,433	7,532,340	1,841,509	12,939,764	(6,664,256)	359,348,121	68,964,508	(33,755,480)	394,557,149
Long-term liabilities													
Operating lease liabilities, less current portion	-0-	18,780,219	(2,856,792)	15,923,427	42,357,248	5,650,467	-0-	1,542,022	(42,679,817)	22,793,347	30,452,421	(25,629,667)	27,616,101
Long-term debt, less current portion	-0-	501,230,488	-0-	501,230,488	-0-	-0-	-0-	19,198,364	(14,814,059)	505,614,793	15,916,275	(13,102,769)	508,428,299
Other long-term liabilities	-0-	31,917,656	-0-	31,917,656	3,975,318	419,077	-0-	-0-	-0-	36,312,051	426,040	-0-	36,738,091
Total long-term liabilities	-0-	551,928,363	(2,856,792)	549,071,571	46,332,566	6,069,544	-0-	20,740,386	(57,493,876)	564,720,191	46,794,736	(38,732,436)	572,782,491
Total liabilities	216,663,980	700,319,082	(68,543,160)	848,439,902	90,662,999	13,601,884	1,841,509	33,680,150	(64,158,132)	924,068,312	115,759,244	(72,487,916)	967,339,640
Net assets													
Without donor restrictions													
Undesignated	109,526,228	709,012,382	(73,229)	818,465,381	409,233	1,026,324	88,857,811	51,697,206	(153,527,878)	806,928,077	317,602,843	(317,866,461)	806,664,459
Designated - capital improvements	-0-	936,017,543	-0-	936,017,543	-0-	-0-	-0-	11,537,432	-0-	947,554,975	-0-	-0-	947,554,975
Designated - Foundation	-0-	11,921,645	-0-	11,921,645	-0-	-0-	-0-	-0-	-0-	11,921,645	-0-	-0-	11,921,645
Non-controlling interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	12,307,619	12,307,619
Total net assets without donor restrictions	109,526,228	1,656,951,570	(73,229)	1,766,404,569	409,233	1,026,324	88,857,811	63,234,638	(153,527,878)	1,766,404,697	317,602,843	(305,558,842)	1,778,448,698
With donor restrictions	-0-	9,206,003	-0-	9,206,003	-0-	-0-	-0-	-0-	-0-	9,206,003	-0-	-0-	9,206,003
Total net assets	109,526,228	1,666,157,573	(73,229)	1,775,610,572	409,233	1,026,324	88,857,811	63,234,638	(153,527,878)	1,775,610,700	317,602,843	(305,558,842)	1,787,654,701
Total liabilities and net assets	$ 326,190,208	$ 2,366,476,655	$ (68,616,389)	$ 2,624,050,474	$ 91,072,232	$ 14,628,208	$ 90,699,320	$ 96,914,788	$ (217,686,010)	$ 2,699,679,012	$ 433,362,087	$ (378,046,758)	$ 2,754,994,341

See report of independent auditors on pages 1 through 3.

DEACONESS HEALTH SYSTEM

CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 2023

	Credit Group												
	Obligated Group												
	Deaconess Health System, Inc.	Deaconess Hospital, Inc.	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic, Inc.	Deaconess Specialty Physicians, Inc.	Deaconess Health Kentucky, Inc.	Deaconess Henderson, Inc.	Eliminations	Total Deaconess Health System Credit Group	Total Other Affiliates	Eliminations	Consolidated Deaconess Health System
Revenue and other support													
Patient service revenue	$ -0-	$ 1,174,058,366	$ -0-	$ 1,174,058,366	$ 145,308,685	$ 21,051,964	$ -0-	$ 126,914,273	$ -0-	$ 1,467,333,288	$ 235,926,505	$ (843,177)	$ 1,702,416,616
Other revenue (expense)	(53,816,248)	126,750,805	(633,829)	72,300,728	10,672,637	146,786	24,352,676	7,391,150	42,962,322	157,826,299	133,084,156	(165,911,833)	124,998,622
Total revenue and other support	(53,816,248)	1,300,809,171	(633,829)	1,246,359,094	155,981,322	21,198,750	24,352,676	134,305,423	42,962,322	1,625,159,587	369,010,661	(166,755,010)	1,827,415,238
Expenses													
Salaries and wages	-0-	391,948,965	-0-	391,948,965	137,476,145	30,207,637	-0-	35,232,784	-0-	594,865,531	143,805,585	(324,684)	738,346,432
Employee benefits	-0-	103,532,297	-0-	103,532,297	22,683,113	4,141,690	-0-	10,405,004	-0-	140,762,104	33,448,102	(54,190)	174,156,016
Supplies	13,800	253,018,079	-0-	253,031,879	20,523,789	189,637	-0-	22,580,305	-0-	296,325,610	46,159,233	(12,934)	342,471,909
Contract services	1,725,630	191,835,168	-0-	193,560,798	23,424,027	(278,869)	1,100	31,218,749	(860,678)	247,065,127	54,664,058	(125,940,380)	175,788,805
Repairs and maintenance	362,356	51,947,252	-0-	52,309,608	995,201	28,517	-0-	3,767,726	-0-	57,101,052	4,205,529	(63,789)	61,242,792
Depreciation	721,123	62,543,768	-0-	63,264,891	1,693,345	511,167	-0-	6,975,307	-0-	72,444,710	6,582,411	(23,660)	79,003,461
Interest	6,415,708	14,724,084	-0-	21,139,792	-0-	-0-	-0-	1,324,576	-0-	22,464,368	882,568	-0-	23,346,936
Utilities	188,641	14,381,647	-0-	14,570,288	1,497,814	71,101	-0-	1,691,585	-0-	17,830,788	2,922,449	(19,974)	20,733,263
Other	113,074	85,627,051	(633,829)	85,106,296	20,171,433	1,841,212	306,178	9,012,879	(6,955,992)	109,482,006	22,284,555	(271,998)	131,494,563
Total expenses	9,540,332	1,169,558,311	(633,829)	1,178,464,814	228,464,867	36,712,092	307,278	122,208,915	(7,816,670)	1,558,341,296	314,954,490	(126,711,609)	1,746,584,177
Income (loss) from operations	(63,356,580)	131,250,860	-0-	67,894,280	(72,483,545)	(15,513,342)	24,045,398	12,096,508	50,778,992	66,818,291	54,056,171	(40,043,401)	80,831,061
Nonoperating revenues (expenses)													
Investment return	16,776,649	8,247,988	-0-	25,024,637	34,084	1,722	-0-	505,997	-0-	25,566,440	1,465,764	(59)	27,032,145
Net unrealized loss on investments	-0-	53,887,988	-0-	53,887,988	-0-	-0-	-0-	534,126	-0-	54,422,114	-0-	(3)	54,422,111
Net periodic pension cost	-0-	(5,026,970)	-0-	(5,026,970)	-0-	-0-	-0-	-0-	-0-	(5,026,970)	-0-	-0-	(5,026,970)
Other	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Contributions, gifts, and bequests	-0-	1,302,053	-0-	1,302,053	-0-	-0-	-0-	-0-	-0-	1,302,053	-0-	-0-	1,302,053
Grants	-0-	(3,853,490)	-0-	(3,853,490)	-0-	-0-	-0-	-0-	-0-	(3,853,490)	-0-	-0-	(3,853,490)
Total nonoperating revenues (expenses)	16,776,649	54,557,569	-0-	71,334,218	34,084	1,722	-0-	1,040,123	-0-	72,410,147	1,465,764	(62)	73,875,849
Excess revenues over (under) expenses before other items	(46,579,931)	185,808,429	-0-	139,228,498	(72,449,461)	(15,511,620)	24,045,398	13,136,631	50,778,992	139,228,438	55,521,935	(40,043,463)	154,706,910
Excess assets acquired over liabilities assumed	50,928,285	53,688,474	-0-	104,616,759	-0-	-0-	-0-	-0-	-0-	104,616,759	204,000,000	(204,000,000)	104,616,759
Distributions to other entities	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(41,491,429)	(41,491,429)	-0-	-0-	(41,491,429)
Excess revenues over (under) expenses	4,348,354	239,496,903	-0-	243,845,257	(72,449,461)	(15,511,620)	24,045,398	13,136,631	9,287,563	202,353,768	259,521,935	(244,043,463)	217,832,240
Other changes in net assets without donor restrictions													
Benefit related changes other than net periodic benefit cost	-0-	14,864,393	-0-	14,864,393	-0-	-0-	-0-	-0-	-0-	14,864,393	-0-	-0-	14,864,393
Net assets released from restriction	-0-	2,522,402	-0-	2,522,402	-0-	-0-	-0-	-0-	-0-	2,522,402	-0-	-0-	2,522,402
Transfers/distributions	(431,093)	(58,072,654)	-0-	(58,503,747)	55,565,307	24,959,631	(1,979,930)	-0-	(37,053,377)	(17,012,116)	(7,546,598)	(3,169,274)	(27,727,988)
Change in net assets without donor restrictions	3,917,261	198,811,044	-0-	202,728,305	(16,884,154)	9,448,011	22,065,468	13,136,631	(27,765,814)	202,728,447	251,975,337	(247,212,737)	207,491,047
Net assets with donor restrictions													
Contributions, gifts, and bequests	-0-	1,608,602	-0-	1,608,602	-0-	-0-	-0-	-0-	-0-	1,608,602	-0-	-0-	1,608,602
Change in beneficial interest	-0-	83,624	-0-	83,624	-0-	-0-	-0-	-0-	-0-	83,624	-0-	-0-	83,624
Investment return	-0-	(114,588)	-0-	(114,588)	-0-	-0-	-0-	-0-	-0-	(114,588)	-0-	-0-	(114,588)
Net unrealized gain on investments	-0-	745,483	-0-	745,483	-0-	-0-	-0-	-0-	-0-	745,483	-0-	-0-	745,483
Net assets released from restriction	-0-	(2,522,402)	-0-	(2,522,402)	-0-	-0-	-0-	-0-	-0-	(2,522,402)	-0-	-0-	(2,522,402)
Change in net assets with donor restrictions	-0-	(199,281)	-0-	(199,281)	-0-	-0-	-0-	-0-	-0-	(199,281)	-0-	-0-	(199,281)
Change in net assets	$ 3,917,261	$ 198,611,763	$ -0-	$ 202,529,024	$ (16,884,154)	$ 9,448,011	$ 22,065,468	$ 13,136,631	$ (27,765,814)	$ 202,529,166	$ 251,975,337	$ (247,212,737)	$ 207,291,766
Net assets													
Beginning of year	105,608,967	1,467,545,810	(73,229)	1,573,081,548	17,293,387	(8,421,687)	66,792,343	50,098,007	(125,762,064)	1,573,081,534	65,627,506	(58,346,105)	1,580,362,935
End of year	$ 109,526,228	$ 1,666,157,573	$ (73,229)	$ 1,775,610,572	$ 409,233	$ 1,026,324	$ 88,857,811	$ 63,234,638	$ (153,527,878)	$ 1,775,610,700	$ 317,602,843	$ (305,558,842)	$ 1,787,654,701

See report of independent auditors on pages 1 through 3.

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

Board of Directors
Deaconess Health System
Evansville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Deaconess Health System (the System), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 24, 2024.

Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Board of Directors
Deaconess Health System
Evansville, Indiana

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
January 24, 2024